

## Creating a better Climate through Cultural Control

*A case study on how a sustainability-oriented SME implements sustainability control through informal and formal management control systems*

David Berggren (24993)      Gabriel Lindén (24989)

### Abstract

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SMEs make up a significant portion of the emissions in the EU, and given the deepening climate crisis, it is vital to investigate how these firms manage sustainability. Therefore, we have conducted an in-depth case study of how a sustainability-oriented SME in the clothing industry implements sustainability activities using formal and informal management control systems (MCS). Previous research has emphasized the importance of investigating formal and informal MCS regarding sustainability (Durden, 2008; Norris & O'Dwyer, 2004). Thus, the theoretical framework of this study (Malmi & Brown, 2008) includes both formal and informal controls. The research method of choice was based on semi-structured interviews. This study contributes to the extant literature on MCS and sustainability by showing that an SME can effectively implement sustainability through its MCS with strong cultural and informal controls with support from less developed formal controls. The cultural controls were mainly created by having a strong and clear purpose and values, hiring people who shared their values, strengthening their values through socialization processes, and having a CEO who enforced and lived according to the values. Additionally, it was found that strong cultural controls acted as a barrier to implementing formal control systems.

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**Keywords:** Management control systems, sustainability control, SMEs, cultural control, formal and informal management control

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# 1. Introduction

## 1.1 Background

More than 99% of firms in the EU are SMEs, according to the European Commission (European Commission [EC], n.d.). It is impossible to know precisely how much these SMEs pollute, but estimates from the OECD in 2018 say that 60%-70% of industrial pollution in the EU is from SMEs (Koirala, 2018). From these statistics, it becomes apparent that SMEs will play an essential role in combating climate change. This is reflected in the significant demand for organizations to become more sustainable (Riccaboni & Luisa Leone, 2010).

According to a report from the European Commission, 89 percent of SMEs in the EU are taking actions to become more sustainable and more resource-efficient (European Commission [EC], 2022). The report is based on a survey and outlines various actions these SMEs undertake. These actions range from reducing energy and water usage to reducing waste, increasing recycling, and more. It is clear that SMEs are responsible for a significant impact on the environment and that many of them are working to reduce this impact. However, the effectiveness of their action and the systematic approach to reducing their impact can be difficult to assess. Therefore, it is interesting to investigate how SMEs can ensure that they systematically work with sustainability in an effective manner.

Contrafatto and Burns (2013) point out that social and environmental accounting and reporting practices are increasingly important. Research has shown that in order to systematically work with sustainability and social concerns in the long run, it is important to integrate it into the firm's management control systems (MCS) (Durden, 2008; Norris & O'Dwyer, 2004; George et al., 2016). We will use the definition of MCS that Malmi and Brown (2008) used. Malmi and Brown (2008) defined *management controls* as "all the devices and systems managers use to ensure that the behaviours and decisions of their employees are consistent with the organisation's objectives and strategies". Unless a firm integrates sustainability into its MCS, sustainability reporting and sustainability endeavors remain an image enhancement exercise, according to Durden (2008). However, Gond et al. (2012) point out that the knowledge of how sustainability is integrated into a firm's operations is limited. Furthermore, SMEs, which are important in transitioning to a sustainable economy, have largely been overlooked in this field of study (Durden, 2008).

Throughout this line of research, it has been emphasized several times that companies need to incorporate formal and informal control systems to effectively control for sustainability (Durden, 2008; Norris & O'Dwyer, 2004; Arjaliés & Mundy, 2013; Riccaboni & Luisa Leone, 2010). These formal and informal controls need to support each other, according to Norris and O'Dwyer (2004), otherwise tensions between the informal cultural control systems and the formal control systems may arise.

## 1.2 Research gap and research question

As the above-mentioned research has emphasized the importance of integrating sustainability into both formal and informal control systems, this study will use the framework of Malmi and Brown (2008), which captures formal and informal aspects. Crutzen et al. (2017) used this framework to *identify* which of the components in Malmi and Brown's (2008) framework are practiced with regard to sustainability in a set of larger firms. Sundin and Brown (2017) conducted a case study that investigated *how* a large investment trust incorporated elements of the framework of Malmi and Brown (2008) into their sustainability practices. As seen from the discussion above, we need to increase our understanding of how SMEs can effectively incorporate sustainability into their formal and informal MCS. Therefore, we will perform an in-depth case study of *how* a sustainability-oriented SME integrates the different elements of the Malmi and Brown (2008) framework in their MCS.

Our primary research question is as follows: *How does a sustainability-oriented SME control sustainability through its management control systems?*

The secondary research questions are: *How and to what extent do the formal and informal management control systems affect the sustainability-oriented behavior of the firm? What is the relative importance of formal and informal management control systems?*

## 1.3 Contributions and disposition

The main contributions of this thesis are how cultural control is created in an SME and the relative importance of informal and formal MCS in controlling for sustainability. We found that control was primarily exercised through informal controls and cultural controls. The case company's CEO, values, and purpose were of paramount importance in creating cultural

controls. Furthermore, the hiring and socialization processes were also significant in producing their culture. However, the culture was also the foundation for tension between formal and informal controls.

Section 2 will go through previous research and the theoretical framework. In section 3, the method will be explained. The findings will be presented in section 4, and then the analysis and contribution will be presented in section 5. Lastly, section 6 will explain our conclusions and give some notes on limitations and future research.

## 2. Literature and Theory

### 2.1 Literature Review

#### 2.1.1 Sustainability control and accounting

Social and environmental accounting and reporting practices are increasingly important (Contrafatto & Burns, 2013). Developing and implementing sustainable accounting practices can be complex (Contrafatto & Burns, 2013). The profit-driven focus of most firms partly fuels this complexity, and the relative degree of this focus is critical in how sustainability practices must be developed and implemented (Contrafatto & Burns, 2013). According to Contrafatto and Burns (2013), future organizations will need internal reporting and control systems to make sustainability decisions and include sustainability in planning and strategy development. Contrafatto and Burns (2013) found that a firm could significantly change to become more sustainable, but in profit-first organizations, this can only happen so far as sustainability supports profitability. Meaning that implementation and organizational change may be different than what Contrafatto and Burns (2013) found in an organization with different motivations.

#### 2.1.2 Formal control of sustainability

Gond et al. (2012) write about how MCS and sustainability control systems can be integrated in theory. The level of integration of sustainability into MCS and the degree to which these are handled in an interactive manner determines the extent to which sustainability influences a firm's strategy and activities. Gond et al. (2012) build on Simons' (1995) levers of control framework, which has a narrow definition of MCS that excludes informal control. Simons'

(1995) theoretical perspective also leads to questions about how sustainability integration works.

Arjaliés and Mundy (2013) expanded upon the theoretical framework of Gond et al.'s (2012) study and investigated how firms manage CSR activities and strategies. Arjaliés and Mundy (2013) conclude that firms use various MCS to manage CSR and sustainability activities. However, in many cases, firms find it challenging to integrate those parts of sustainability and CSR which cannot be measured. These measurement issues can cause the aspects easiest to quantify to be the focus rather than those issues which are most material (Arjaliés & Mundy, 2013). Arjaliés and Mundy (2013) also found that some firms do not have formal control systems to manage sustainability and CSR activities. Arjaliés and Mundy (2013) stress the use of and importance of MCS to communicate with employees regarding sustainability, and MCS are crucial to gain commitment to CSR strategy and goals.

George et al. (2016) studied how a large oil company had integrated sustainability into its control systems over time with the aid of the framework of Gond et al. (2012) and the framework of Ferreira and Otley (2009), which is concerned with performance management systems, and New Institutional Sociology theory. George et al. (2016) stated that their sustainability performance increased as the firm integrated sustainability into its control practices. This argument was expanded upon by George et al. (2016) by reasoning that “if a company is established with a mission to contribute to society and protect the environment” at the beginning of its life cycle, it will find a better balance between economic, environmental, and social profit.

The case firm of George et al. (2016) did not have a shared understanding of what was meant by sustainability and its importance, which has been pointed out to be of significant value in successfully incorporating sustainability into operations (Durden, 2008; Norris & O'Dwyer, 2004). Furthermore, sustainability was primarily a concern for the sustainability department, and the communication and sharing of knowledge was very limited between the other departments and the sustainability department (George et al., 2016). George et al. (2016) pointed out that the lack of socialization processes and hiring employees who shared sustainability values proved to be a significant barrier to further incorporating sustainability into the firm's operations. The firm tied a part of its reward system to sustainability metrics. However, sustainability aspects were not integrated into all the perspectives of their

scorecard, which partly contributed to sustainability being neglected in decision-making (George et al., 2016).

One significant change in the case firm's sustainability focus resulted from the sustainability department convincing top management to commit to their work with sustainability (George et al., 2016). To ensure a systematic approach to this, a formal committee was set up that kept the most senior members of the organization in contact with the sustainability endeavors of the firm. The importance of the CEO and top management in implementing and controlling sustainability activities is something that has been found by many researchers (Contrafatto & Burns, 2013; Beusch et al., 2022). Beusch et al. (2022) found that senior management could increase employees' feelings of responsibility for sustainability by engaging in dialogues with lower management.

Beusch et al. (2022) expanded upon the framework of Gond et al. (2012) by including all four levers of Simon's (1995) framework. Beusch et al. (2022) conducted a longitudinal study of a multi-international industrial corporation headquartered in Sweden. The aim of Beusch et al.'s (2022) study was to explore how their case company's integration of sustainability into its MCS would "support or hinder the development and implementation of an integrated sustainability strategy".

Beusch et al. (2022) noted that most sustainability conversations happened within the functional departments rather than across them. Additionally, values regarding sustainability differed across management and even within senior management. A greater part of senior management thought that the financial, social, and environmental perspectives were integral to business success. The other part of management thought that one should work on sustainability to make incremental progress to improve profitability. According to Beusch et al. (2022), interactive controls ensured that these different points of view did not result in sustainability initiatives being marginalized.

### 2.1.3 Importance of informal and formal controls

Durden (2008) found that social responsibility was almost entirely absent in his study of the MCS of an SME in New Zealand. The case firm did not have any clear social responsibility goals. There was no clear understanding of measuring and reporting on social responsibility

or monitoring MCS related to social responsibility. The conclusion that Durden (2008) reached was that if firms aim to achieve stakeholder-relevant goals, it is essential to report on relevant stakeholder information and integrate this information into their internal practices via MCS, otherwise social responsibility initiatives were mainly a publicity exercise. Moreover, Durden (2008) concluded that for a firm to incorporate social responsibility as a general concept into its considerations, both formal and informal controls are critical. Norris and O'Dwyer (2004) and Riccaboni and Luisa Leone (2010) reached the same conclusion as Durden (2008). Further, they (Norris & O'Dwyer, 2004; Riccaboni & Luisa Leone, 2010) argued that these formal and informal controls need to support each other. Otherwise, tensions between the informal cultural control systems and the formal control systems will arise. These tensions between informal systems, which promoted socially-responsible decision-making, and the formal systems that promoted financially focused decision-making were at their strongest when the firm experienced a "more commercially challenging environment" (Norris & O'Dwyer, 2004). Norris and O'Dwyer (2004) found that informal controls dominated socially responsive decision-making. However, Durden (2008) found that formal controls (which also happened to be financially focused) dominated informal controls when there was a conflict between social and financial goals.

Riccaboni and Luisa Leone (2010) found, in their study of informal and formal MCS in Procter & Gamble, that the informal controls integrated sustainability principles into the organization's shared values and beliefs (Riccaboni & Luisa Leone, 2010). The inclusion of sustainability into values and beliefs was through internal communication and initiatives by top management (Riccaboni & Luisa Leone, 2010). Additionally, Riccaboni and Luisa Leone (2010) found that sustainability could act as an excuse for growth. If a firm's products become more sustainable, then growing sales may feel less problematic from a sustainability point of view.

### 2.1.5 Using Malmi and Brown (2008)

Crutzen et al. (2017) appear to be one of the first to explore sustainability by using Malmi and Brown's (2008) 'Management control systems as a package' framework, which consists of several areas of management control practices. Crutzen et al. (2017) used a sample of 17 large firms in which they interviewed sustainability managers from each company. Moreover, (Crutzen et al., 2017) only investigated whether certain aspects of the different control mechanisms in the package were employed and neglected the extent to which they were applied.

Crutzen et al. (2017) noticed that in their sample of firms, none used elaborate formal and informal control practices. Additionally, Crutzen et al. (2017) point out that this may be since incorporating MCS with regard to sustainability is a new phenomenon and that in time firms will develop MCS which use elaborate formal and informal aspects as they reinforce and complement each other. One reason for having highly developed informal control systems for sustainability but less developed formal control systems for sustainability is the difficulty in quantifying sustainability aspects (Crutzen et al., 2017). One limitation that Crutzen et al. (2017) recognize with their study is that they have excluded SMEs from their sample.

Sundin and Brown (2017) conducted an in-depth case study on how a large Australian firm integrated environmental aspects into its MCS. They did this with the aid of the framework of Durden (2008) and Malmi and Brown (2008) and agency theory. Sundin and Brown (2017) expected that managers' actions would be determined by what they were held accountable for. Thus, if there were a trade-off between sustainability and financial aspects, there would need to be monitoring and incentivizing mechanisms to compel the organizational members to choose a sustainable course of action.

## 2.2 Theoretical Framework

*T. Malmi, D.A. Brown / Management Accounting Research 19 (2008) 287–300*

<b>Cultural Controls</b>						
Clans		Values			Symbols	
<b>Planning</b>		<b>Cybernetic Controls</b>				<b>Reward and Compensation</b>
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
<b>Administrative Controls</b>						
Governance Structure		Organisation Structure			Policies and Procedures	

### 2.2.1 MCS Definition

There are many different definitions of what MCSs are. The definition used in this study will be the one Malmi and Brown (2008) use, which is the origin of the general theoretical framework we use to analyze MCS. They define *management controls* as “all the devices and systems managers use to ensure that the behaviours and decisions of their employees are consistent with the organisation’s objectives and strategies”. This definition is not necessarily the same as other academics use, but it will be used for this study.

Malmi and Brown (2008) also separate what they call MCS from decision-support systems or information systems. Decision-support systems are similar to MCSs in that they both can gather information. The critical difference between the two is that MCSs employ that information directly to impact employees’ behavior without managers needing to intervene. In contrast, decision-support systems need direct intervention and actions by managers to affect their employees’ behavior. A financial metric can inform an employee and support a manager’s decisions. However, it does not inherently tell employees how to respond to the information. Some guidance connected to the metric, such as a target, is necessary to enable the employee to adjust their behavior without management intervention, in which case it is treated as an MCS.

Malmi and Brown (2008) found that previous research showed that several aspects, formal and informal, were important in controlling the organization's behavior. Thus, Malmi and Brown (2008) created a package of MCS that is based on the aggregate findings of previous research. Malmi and Brown (2008) did not define the collection of MCS as a single large MCS because they thought that the collection of MCS were not employed as a single unified MCS. Instead, they were introduced by various interest groups at different times. Hence, Malmi and Brown (2008) termed it as a package of MCS. The package of MCS that Malmi and Brown (2008) created consists of five perspectives, of which cultural control is the only informal perspective. Each aspect is described below.

### 2.2.2 Planning controls

Planning directs behavior by setting out goals for the organization and its members. Connected to these goals, standards and expectations are required. These standards and goals help clarify what organizational members should do and the amount of effort and time spent on each goal. Planning helps the organization coordinate actions and ensure members' actions align with the goals. Planning can be either short-term operational goals (action planning) or long-term goals (strategic planning). Planning can concern financial and non-financial goals. The purpose of planning is twofold. Firstly, it creates a time-bound course of action to follow. Secondly, it can create organizational commitment to these plans by involving employees in the planning process.

### 2.2.3 Cybernetic controls

Malmi and Brown (2008) use the definition of cybernetic controls that Green and Welsh (1988) also use. Cybernetic controls measure performance and compare that performance to predetermined standards/targets. Then if the performance is not adequate compared to the standards, the system will make this clear and correct this by changing the system or the underlying behaviors (Green & Welsh, 1988). For this to be an MCS and not simply an information system, behaviors must be connected with targets. The system must hold employees accountable for inadequate performance so that they can regulate themselves in response, and a manager's intervention is not required (Malmi & Brown, 2008).

There are four main types of cybernetic control systems: budgets, financial measurement systems, non-financial measurement systems, and hybrid measurement systems. Budgeting's

primary purpose in control is to decide on “acceptable levels of behavior” and evaluate performance relative to that. The financial measurement systems can be connected to the budget, but this system is narrower and simpler. An employee is held accountable for a financial measure like ROI or EVA. Non-financial measurement systems are similar in use to financial measures, but the measure is not financial. Often non-financial measures are said to be leading performance indicators (Malmi & Brown, 2008). Hybrid measurement systems include both financial and non-financial measures. One example of a hybrid system is the balanced scorecard (Malmi & Brown, 2008).

#### 2.2.4 Rewards and compensation controls

Reward and compensation controls are simple. The idea is to motivate employees to improve their performance by rewarding them for performing well. Often these rewards are monetary rewards connected to cybernetic controls, but this does not have to be the case. The rewards can be connected to any activity managers want to create stronger incentives for and motivate employees to work harder. Malmi and Brown (2008) mean that there are three ways rewards can impact performance:

1. Effort direction: what tasks and activities are done
2. Effort duration: how much time is spent on an activity
3. Effort intensity: the amount of attention used on an activity

#### 2.2.5 Administrative controls

Malmi and Brown (2008) divide administrative control systems into three parts. Each part borrows from previous research on management control systems. They call the first part organizational design and structure. This part relates to how employees and groups of employees are organized. Malmi and Brown (2008) mean that since the organizational structure is something managers can change, it should be seen as a control system. Malmi and Brown (2008) base this partly on the work of Abernethy and Chua (1996), who saw that the organizational structure affected those whom organizational members interacted with and the relationships they formed.

The second part is the governance structures within the firm. Malmi and Brown (2008) used the work of Abernethy and Chua (1996) once again for this concept. Governance structures are the board’s structure, its members, and the firm’s management teams. The governance

structures will affect what is discussed in meetings where agendas and deadlines are set. For example, in a functional organization, the presence or absence of certain heads of functional departments at meetings can significantly impact the organizational agenda.

The last part is the policies and procedures of the organization. These are formal and explicit ways that managers specify behaviors allowed within an organization. Malmi and Brown (2008) aggregate the work of a few researchers, including MacIntosh and Daft (1987) and Simons (1987), for this concept. Standard operating procedures (Macintosh & Daft, 1987) are written rules, procedures, policies, and operating manuals that guide and tell managers and employees how they can and cannot act. They outline what employees should and should not do.

#### 2.2.6 Cultural controls

Malmi and Brown (2008) define cultural controls as the values, beliefs, and social norms influencing employees' behaviors. This is the only form of informal control in Malmi and Brown's (2008) framework. They also distinguish that these are only control systems when used to influence behaviors deliberately. Malmi and Brown (2008) divide cultural controls into three aspects based on three other researchers' previous work.

The first is value-based controls based on Simons' (1995) belief systems. These are explicit values that senior managers use to influence employee behavior to be in line with these values. Examples of these include vision statements, credos, and purpose statements. These values impact behavior in multiple ways. Organizations may recruit individuals who share the same or similar values as those of the organization. In organizations, there will also be socialization processes that change and affect employees' values to align with those of the organization. It is also possible for employees to use these values to guide their actions even though they disagree with them simply because that is what is expected of them.

The second cultural control is symbol-based controls. Malmi and Brown (2008) interpret symbol-based controls as organizations using "visible expressions" to create the desired culture. One example of Malmi and Brown (2008) is to create an open plan office to create a culture conducive to communication and collaboration.

The final part is called clan control and is based on Ouchi (1979). Clans are groups of individuals within an organization who share a subculture within the broader organizational culture (Malmi & Brown, 2008). These clans will instill, reinforce, and even spread specific skills and values to each other and other organizational members through socialization processes. Socialization processes can be job training or other company events.

Organizations can create goal congruence by creating commitment or monitoring behavior (Ouchi, 1979). One way of creating commitment is to align the values and beliefs of the employees with the organization's values and beliefs by recruiting the right people and training them. Then, there is little need for monitoring practices. In contrast, a bureaucratic control system creates goal congruence by prescribing and monitoring behavior.

Further, Ouchi (1979) argues that one should emphasize different forms of control based on how the control unit is characterized along two dimensions - social and informational requirements. Social requirements refer to a "set of agreements between people which, as a bare minimum, is necessary for a form of control to be employed." Informational requirements refer to how the organization can specify and measure the desired behavior and output of the organizational members. However, if it is difficult to measure employees' behavior and output or the means-end relationship is hard to establish, then adequate behavior should be determined through social processes and not formal rules (Ouchi, 1979). In clan-based controls, "the information is contained in the rituals, stories, and ceremonies which convey the values and beliefs of the organization" (Clark, 1970). Further, Ouchi (1979) suggests that evaluation should be based on social processes and not predetermined rules when an organization uses clan-based controls. For clan-based controls to be successful, it is required that the organizational members share the values and beliefs to a high degree.

## 3. Method

### 3.1 Research Design

We used a qualitative method to answer our research questions. More specifically, it was a case study at one company where we performed ten semi-structured interviews with different employees at the firm.

Qualitative research in accounting is well suited to answering questions that attempt to understand and examine the role of accounting in various types of organizations, according to Lee and Humphrey (2006). Shown in this quote: “Qualitative research methods are particularly well suited to studies that seek to understand the origins and role of accounting in its specific historical, social and organisational context”. This paper examines how management control systems are used to control sustainability activities in a particular organizational context. In this case, a qualitative approach is conducive to a deeper understanding of how a firm controls sustainability activities. The suitability of qualitative research to answer such questions can also be seen in previous research on similar subjects, which is often qualitative (Durden, 2008; Norris & O’Dwyer, 2004).

According to Ruddin (2006), there is a general misunderstanding that individual case studies cannot be generalized and that case studies cannot contribute to science. While it is true that case studies cannot be used to make statistical inferences, they can be used to make case inferences (Ruddin, 2006). The purpose of this study is not to make statistical inferences; therefore, a quantitative method would not have been appropriate. According to Ruddin (2006), formal generalization is far from the only way to contribute to science. This paper aims to gain a deeper understanding of how firms in specific organizational contexts control sustainability practices. Ruddin (2006) argues that case studies’ purpose is to generate a deeper understanding and reflect reality better than quantitative studies: “Cases generate precisely that concrete, practical, and context-dependent knowledge “(Ruddin, 2006). Therefore, a qualitative case study is a good way of answering the research question.

### 3.2 Data Collection

This paper is a case study of a single firm based on semi-structured interviews with several employees at the case company. Semi-structured interviews are a widespread method for data collection in qualitative accounting research (Lee & Humphrey, 2006). Interviews are a suitable data collection method for studies attempting to answer many different kinds of research questions in many different areas of accounting (Lee & Humphrey, 2006). The interviewees each had different jobs and backgrounds. Due to this varying expertise and area of knowledge, the interview guide was adapted to fit each interviewee better. However, some core questions were present in every interview guide. We adapted the questions during the interview rather than strictly following the guide.

In semi-structured interviews, it is also essential to be aware that we, as interviewers, are an important part of the interview (Qu & Dumay, 2011). It is not just about the interviewee and the questions. The people who ask the questions will share in the interview and co-create the material. Qu and Dumay (2011) write: “Different interviewers will evoke different responses from the same interviewee given the way questions are asked and probed”. Therefore we must be aware of this when we conduct the interview and later analyze the material. We also must be aware of the interviewee and realize that we cannot take everything they say for granted or at face value. We do not believe there is a considerable risk of the interviewees outright lying, especially since the company will be anonymous (hereafter, the pseudonym GarmentCo will be used). However, their perceptions may be biased. However, the research question concerns how control is exercised and how employees perceive or think reflect management control systems. Therefore this is not necessarily a problem. Interviews are even an ideal method of studying such phenomena.

We conducted most of the interviews in person at GarmentCo’s office. However, two interviews had to be conducted online through Microsoft Teams since the interviewees were not available to meet in person. Most of the interviews were in English since we preferred this as researchers. However, all the interviewees were allowed to conduct them in Swedish if they felt uncomfortable speaking English for any reason. This was to avoid making the interviewees uncomfortable and their answers less nuanced. Similarly, the interviewees requested that we send them our interview guide before the interview. We conducted ten interviews, which were on average 50 minutes long. For an overview of the interviews, see appendix 2.

The case firm’s name will be replaced with a pseudonym, and employees’ names will also be anonymous. Titles will be used since we believe they are relevant. Since the company’s and employees’ names are anonymous, we do not think there should be a problem with using the titles. All the interviews were recorded on a device that was not connected to the internet and then transferred to Handelshögskolan’s OneDrive per GDPR.

The case firm was chosen since it matched well with the requirements of the research question. That is, it is an SME with a strong sustainability focus. The individuals interviewed at the firm were chosen based on their positions. People from various functions were

interviewed to get a broad view of the MCS and sustainability control at the firm. People from different hierarchical levels were chosen to give a more nuanced view of how MCS were used to implement sustainability control by managers and how day-to-day activities were affected by this. The data collection was augmented by material from the firm's website, such as the firm's value statement and external sustainability reports. Some data was also based on observations made at the firm's offices, mostly office layout and decor.

### 3.3 Data Analysis

Notes were taken during the interviews, and summaries were written based on those. Later, the interviews were listened to, and meaningful quotes were transcribed verbatim. Then we categorized the written material into the different perspectives of this study's framework (Malmi & Brown, 2008). Subsequently, we went through an iterative process where we selected to keep the parts we deemed most relevant in relation to the extant literature and how this study could contribute to it. Several topics could fall under different aspects of the framework. Thus we moved around the material throughout the process depending on what point we thought most appropriate.

It is worth mentioning that the framework of Malmi and Brown (2008) was developed for conventional and not sustainability MCS. Thus, Crutzen et al. (2017) "approached this limitation by investigating whether social and environmental issues are considered in the different control mechanisms of the package. In addition, we investigated the extent of the integration to which management control was deployed in managing sustainability issues." This line of reasoning was the basis for how we chose to categorize sustainability under the various parts of Malmi & Brown's (2008) framework.

During the transcription process, it became evident that the words do not necessarily communicate the meaning effectively, as tonality and other non-verbal cues are not captured by the interviewee's choice of words. We kept this in mind during the selection and analysis of quotes so that the meaning of the interviews was not distorted.

## 4. Findings

### 4.0 Introduction to GarmentCo

As mentioned previously, the subject firm of this case study will be kept anonymous, but to contextualize some of the findings, we will provide a brief background of the firm.

GarmentCo is a relatively small firm with less than 100 employees in the outdoor clothing industry, and it is an established company with an established brand. GarmentCo has a strong brand focused on sustainability, which has been the case since its founding.

### 4.1 The connection between financial and sustainability performance

There did not seem to be much tension between the financial and sustainability aspects.

GarmentCo says its primary motivation is not financial performance or growth. Instead, many employees expressed that the main concern for performing well on the financial side was to increase their impact on sustainability. Several respondents stated that they wanted to set an example for the rest of the industry by showing that it is possible to be sustainable and make a profit. Many employees said they believe it is better for the environment if more people buy their products since fewer people are buying products that are harmful to the environment. From that perspective, growth, financial performance, and sustainability go hand-in-hand. This is exemplified in the citation below:

“One of the tricky things with [GarmentCo] and the mission that we are on is that on the one hand we want to sell and perform on the other hand we want people to buy less. How do you balance that? My response to that: We will always need garments to wear, when we are outdoors especially. So then the companies who are the best at manufacturing these clothes for the best of nature should be the ones selling the most and taking a larger portion of the market. If [GarmentCo] had a larger market share that would mean that as a share of the market the more durable clothes would increase” (COO)

### 4.2 Cybernetic controls

#### 4.2.1 Key performance indicators and measures

GarmentCo has many financial, non-financial, and sustainability-related measures. For example, the supply and production team has traditional lead time and cost measures.

However, they also have sustainability measures such as the recyclability of products and the share of carryover styles between seasons.

However, according to multiple employees in the firm, the non-sustainability measures outnumber the sustainability ones. One reason the controller gives for this is that they have issues creating sustainability measures that capture the phenomena of interest. The controller also said they are currently working on a few projects, which they believe will enable them to quantify some material sustainability aspects more easily. The CFO also wanted more measures in general, in contrast to the COO, who wanted to focus more on specific KPIs. They both had different motivations for wanting to pursue their favored option.

“We already have a lot of KPIs in the company... we have great KPIs but they are all over the place. We need to put it together a bit more, make it more condensed and in the right place at the right time.” (COO)

The COO wants clarity so everyone can act quickly and make better decisions. To do this, he wants to narrow down on a particular set of KPIs, create more clear targets for those and also make clear how these impact the long-term goals and strategy of the firm. The CFO wants to gain external legitimacy and prove to other stakeholders how sustainable they are. The CFO believes that they do many things that they do not measure and, therefore, cannot prove to outsiders that they do. According to the CFO, showing this performance to external stakeholders by measuring more and having better KPIs could benefit the firm. The CFO says they do not need these measurements and KPIs to control sustainability and ensure that employees act sustainably.

That being said, the CFO also said that the long-term goals are not always adequately translated downwards into the firm through measures and KPIs and that they should do this more. Both the CFO and COO agree they need to translate the long-term strategies and goals of the firm downward to make decision-making more straightforward and better. They agree that there is a need for more “clarity” regarding which KPIs are important and which ones should receive more focus.

One sales manager said: “We go through the KPIs on every monthly meeting, for example, so everyone knows how we are tracking against the sustainable KPIs as well”. Almost everyone

at GarmentCo's office attends these meetings, and they go through KPIs and measures related to financial concerns and sustainability. These KPIs are not the main drivers of sustainability control. The following quote supports this:

"I think we also need to be a bit more data-driven in our decisions.... To build our decisions on facts and not gut feeling. Not saying that everything is built on gut feeling, but on a scale of gut feeling and data-drivenness, we are more towards the gut feeling side... That is something I think can improve, and is an opportunity to make smart decisions" (COO)

Essentially, there seems to be an extensive amount of measures and KPIs, both related to the financial side and sustainability. These are used to control sustainability but are not the main drivers of control. Instead, what is called "gut feeling" is used, this is not necessarily bad according to the people who work there, but there is a belief that they could use better KPIs and could redesign their system to be more effective. Many employees who believe this are relatively new in the company, and at least according to those employees, they were employed precisely to rework these systems. It may be the case that the firm felt that as it grew, it needed more formal controls in the form of, for example, KPIs to control sustainability. This can be seen in these two quotes:

"It's good if you can balance that [data-driven decisions] with the gut feeling as well. If you only base your decisions on data you often go wrong as well. You need to put some gut feeling and some good logic on top of it... The balance now should be more towards the data, more informed decisions." (COO)

"If all employees share a common base of values then the need for KPIs is not the same. There is no need to make sure that someone is thinking of sustainability in this company. Instead everyone does it genuinely. The need for KPIs has perhaps not existed until now." (CFO)

This belief that there is a lack of clarity has not necessarily been the case for all employees. For example, the Head of Design and a sales manager do not seem to experience this lack of clarity in how their long-term goals relate to their short-term goals. With that said, these managers are given much freedom in operating and controlling their own departments. There are some formal controls, but generally, they can choose what KPIs they use and what plans

they make. They seem to believe they understand how the long-term sustainability vision and strategic goals should be translated into short-term actionable plans even though top management may not share this view that they always understand this. Here it should be noted that it would be unlikely that an employee would admit that they do not understand how they should translate GarmentCo's goals into short-term plans and actions.

Some employees seem to think that since GarmentCo has worked with sustainability and becoming circular for many years, since its inception, it has developed much human capital related to sustainability work. According to the sustainability coordinator, this human capital is hard to quantify, but it does exist, and it decreases the need for some cybernetic controls.

#### 4.2.2 Budgets

When asked if they have a sustainability budget, most employees say they do not need an explicit sustainability budget since sustainability is an integral part of everything they do. According to multiple employees, everything they do should be sustainable, all of their activities have the intention of being sustainable, so there is no need for an explicit sustainability budget that dedicates money to sustainable projects. This quote shows this belief at GarmentCo (translated from Swedish):

“Everything we do should be sustainable, we should not spend a single krona on PFAS or harmful textiles, or factories which do not deliver a certain salary or level of human working conditions. The starting point of everyone is that everything we spend should have a positive purpose” (CFO)

### 4.3 Planning

#### 4.3.1 Short-term planning

The “process calendar” is a tool used to plan all activities. It contains their activities and the deadlines, which the activities are planned around. The calendar maps activities in the organization and shows how they are interlinked. All the departments have process calendars, but they are all linked and integrated. This is especially important since GarmentCo is relatively small. Due to a lack of manpower, there is a large need for everyone in the organization to help across functions. According to the Head of Design, the process calendar

is one way GarmentCo interacts with internal and external stakeholders. The Head of Design explained that the clothing industry is coordinated around what they call seasons. Essentially brands produce items for the fall/winter season and the spring/summer season every year. GarmentCo, however, does not work in this way since: “We believe in what we say is meaningful innovation. We don’t create ‘new’ for the sake of newness. We launch products when they are ready” (Head of Design). However, they are a tiny part of a vast industry, and they still have to plan much of their work around these seasons since, for example, this is when it is easiest to work with suppliers. Therefore, the process calendar and short-term planning naturally revolve around these seasons, even though GarmentCo, for sustainability reasons, does not believe in seasonal collections.

The Head of Supply also emphasized that sustainability is not a separate part of their work. The manager further stated that they do not have separate meetings where they discuss plans for sustainability and operations. “If we work with future seasons, then we have a common plan that we need to switch out all those materials [non-sustainable materials], and we have a calendar for when we need to do that, for how we will do that. It is a part of the entire process, it is what we work with” (Translated quote from Head of Supply). They do not have explicit practices to control sustainability in their short-term planning since they believe they integrate sustainability into their short-term planning.

#### 4.3.2 Long-term planning

GarmentCo has a lot of long-term strategic plans and goals related to sustainability. These goals and plans are primarily related to sustainability, not financials. GarmentCo has extensive sustainability goals for 2030 and multiple decades into the future. For example, one goal for 2030 is to become 100 percent circular, which according to one employee at the firm, is a one-of-a-kind goal. According to this employee, other firms have not set as high or visionary goals. This illustrates that these long-term goals and plans also play a role in cultural control by spreading and translating values. Whether or not the goal is one of a kind is not important as long as the employees view them as ambitious, visionary, and unique. We will expand on cultural controls in a separate section.

## 4.4 Reward and compensation

### 4.4.1 Financial Incentives

According to the CFO, top management has financial incentives tied to three or four KPIs each year. These KPIs have a requirement to be quantifiable. To the degree that sustainability can be quantified, e.g., the percent of circular products sold, they can be sustainability KPIs, but they are often geared towards financial performance.

The Controller also suggested that as they developed better KPIs and measures regarding sustainability, they would likely introduce financial incentives linked to these sustainability measures. Right now, financial incentives are not widely used to incentivize sustainability activities. The COO agreed with this general sentiment and said that as long as financial incentives were tied to the right thing, they could be very effective.

### 4.4.2 Other rewards

Some rewards are not directly tied to sales or KPIs in the way that a bonus is. They have yearly performance evaluations where good performance can lead to higher salaries and verbal praise. GarmentCo also uses rewards to reinforce and strengthen the sustainability culture at the firm. One example is if an employee decides to take the train somewhere instead of flying, they will be rewarded with extra vacation days. They reward people for biking instead of driving to work by paying for bike maintenance and repairs. They reward employees for traveling more sustainably even though it may not directly impact their work. This is a way to strengthen the cultural controls of the firm and reinforce its values.

## 4.5 Administrative controls

### 4.5.1 Organizational structure

People in different departments work very closely with each other, and the boundaries between the departments are thin. The Head of Design means this is mainly due to the company's size. GarmentCo is not very large, so it has always been necessary for people to help other departments, and it has always been relatively easy, according to the employees. The fact that they are small has meant that there has not been much need for formal organizational and administrative work to coordinate the different departments, according to some interviews. Instead, employees can move relatively freely and informally between

them. The firm also has a low level of formal hierarchy, and many people described it as a “flat organization”. As can be seen in these quotes:

“It’s easy because it is a flat structure, you can go up to someone, we are not that many, in that sense there is no bureaucracy that it needs to go through to, you know, so it’s very easy of course” (Sales personnel)

That being said, they quite recently added a Sustainability Coordinator who works with coordinating and making it easier to work with sustainability everywhere in the organization. As GarmentCo wants everyone to feel responsible for sustainability, they initially wanted to avoid any department or person having special responsibility for sustainability. However, the Sustainability Coordinator said that the company realized that they needed someone to help coordinate and facilitate the sustainability endeavors of the various departments without making anyone feel less responsible. The fact that they need a person to coordinate the departments’ efforts may indicate that the flat organization does not have such extensive collaborative efforts across the departments as previously claimed by the Head of Design.

The following quote by a sales personnel combined with what the COO and CFO said about wanting to add more formal controls shows there is a push for more formal control: “so those kinds of stuff [having a CFO and COO] can hopefully create structure and then kind of the more entrepreneurial and creative can grow free”. The CFO and COO said they are relatively new at GarmentCo, and part of the reason behind hiring them was to add more structure and formal controls. At the same time, the COO said, “I think one of my challenges will be to not destroy that amazing culture with just putting a hierarchy on top of that and super strict regulations around how we form decisions”. This quote indicates that it may be complicated to add formal controls in reality. In contrast to the push for additional formal controls, several respondents said they do not need additional structure and formal controls.

#### 4.5.2 Policies and Procedures

GarmentCo has a tool they call the List of Design Requirements (not the actual name). This checklist is based on four design philosophies (1. Less is more. 2. Circular materials. 3. Extending product lifetime. 4. Product as a service). These design philosophies are connected to how sustainable the product is and the quality of the product. They then have several questions that they ask themselves regarding each product. These questions are tied to the

product's lifetime, how easy it is to repair and how versatile it is. The design team uses the requirement list whenever they create products, and the purpose of it is to think about sustainability in a holistic way. The checklist is one of the first steps in designing any product at the firm, and during the entire process, they keep using the checklist to ensure that the product ticks all the boxes in it. According to one sales manager, if a product does not tick all the boxes, they do not introduce it to the market. As stated earlier, it is also used to make employees reflect on the sustainability of their actions and is an expression of the culture that GarmentCo has. This will be expanded on in the section on cultural controls.

GarmentCo is developing a tier system to rank its wholesale customers from tier zero to tier three based on how good of a customer they are from a financial and non-financial perspective. A tier zero customer is someone GarmentCO wants to work with, and they are often on the smaller side but can have a considerable influence globally. A tier three customer is someone whom the firm largely wishes to avoid. Customers may be tier three due to their brand, positioning, size, price, and general activities. According to one sales manager, a customer may be categorized as tier three if they care more about price and quantity and less about the product's quality or sustainable content. Tier three customers may push prices in order to increase sales. Staying away from tier threes could be motivated by a desire not to damage their brand and could be simply due to economic reasons. According to the sales manager, this is part of the reason, but GarmentCo also feels they cannot work with customers who promote such unsustainable consumption practices.

## 4.6 Cultural Controls

### 4.6.1 What is their culture?

A recurring sentiment expressed among the interviewees is that the apparel industry is producing economic profits at the expense of the environment. However, this is different at GarmentCo according to, for example, a sales manager who said, "you are part of a movement, part of something which has a goal beyond just making money". The GarmentCo website expresses that the firm's reason for existing is to help people reconnect to nature by providing them with products that do so. Ultimately, the products they produce should not even "borrow" resources from nature but instead give back to nature. Several employees seemed to share this viewpoint when discussing the firm's purpose.

According to the sales manager, the reason to exist originated in the founders' "heritage as climbers and skiers were connected to nature". One interpretation of this would be that this helped them feel that the purpose "is not only something which is nice to have, it is grounded [in culture]" as the Head of Supply puts it. Furthermore, the Head of Supply pointed out that the purpose is not "subordinated to anything else". This aligns with a sales manager's remark that the firm's purpose is the "foundation of their culture". Most interviewees stated that their culture and purpose were "in their DNA", suggesting that it is an integral part of what they do. The Head of Design also stressed how different GarmentCo was from other firms. He seemed to think that there were fundamental differences between why GarmentCo and other firms existed. According to them, GarmentCo did not exist to make profits like other firms.

"We want to be bold, and push the limits, and go beyond... Is this project 'going to push the limits enough?', and things like that. I think its always with this mindset that we have to prioritize for the projects that are going on" (Sustainability coordinator)

This quote shows how the sustainability coordinator believes the cultural controls were used quite heavily and effectively when deciding what to do. Whenever deciding on what projects to pursue with their limited resources, they would use the core values as a framework to aid in this decision. For example, they would ask themselves if a project would push the existing boundaries and if it was something new and innovative. If that were not the case, they would not do the project. This is a concrete example of how cultural controls can be used actively (rather than unconsciously affecting thoughts and opinions) in decision-making.

"Give it our best, push the limits, and enjoy the process, and this kind of positive mindset. To bring hope and 'how can we do this', but that is always the leading words and the goals. As you can hear it is very closely in the DNA" (Sustainability coordinator)

The above quote shows how widespread the official values of GarmentCo are. "Give it our best, push the limits, and enjoy the process, and contribute to the world" (rephrased) are the four core values of the firm, and this quote is just one example of the employees explicitly saying these core values. Essentially all the employees used these in their language without it being brought up by the interviewers. These phrases could be used in response to the interview setting where the employees feel these phrases are how they should communicate and portray the firm. However, they were used so frequently and casually that this seems

unlikely. It seems likely that the employees believe these phrases reflect the firm. The core values have been ingrained and spread to the employees in different ways, as explained in the section below.

#### 4.6.2 Cultural practices

##### **The CEO**

Many employees said that the CEO is the reason and driving force behind the sustainability focus. One employee said she does this by engaging in sustainability issues and participating in debates and panels. She has instilled the values in everyone and made sure they permeate everything they do. The CEO has done this by enforcing and living in accordance with the values, as seen in the company value statement and core values. The belief in the CEO can be seen in this quote:

*“I would say that it mostly or entirely depends on the kind of DNA that is in the culture that comes directly from the CEO.[...] I think it is up to her as a person being the control. ‘This is what we should do and not do’. When we have been doing bad stuff she has been the guiding star ‘this is what we could do and not do’. It’s very much person-driven and culture-driven and kind of created by her” (Controller)*

Several other interviewees emphasized the importance of the CEO and the CEO’s commitment. When asked how they make sustainability uncompromisable, the CEO pointed out, “It feels important for each individual in the company. And the thing is that it is also something that the management team is committed to.”

##### **Hiring processes**

In order to maintain a strong sustainability-oriented culture, hiring people who share their values is essential. The CEO stated that “when people join [GarmentCo], they know exactly which company they want to work for. So it’s not like someone needs to be informed about the values when they start and then try to act accordingly. *It’s more like they want to join because of who we are.*” This quote is in alignment with what one sales manager said:

*“But I also think that everyone that comes and wants to work for [GarmentCo] is well aware of the values and that is why you want to be here. I mean that is at least the way it was for me. You know I have been selling things for a lot of years and just got sick of selling things for the sake of it and wanted to be somewhere where you don’t compromise on anything. For me, it was either change career and not sell products or just go to [GarmentCo] and do it right.”* (Sales manager)

The first step in the hiring process is communicating their purpose and values and trying to attract and find employees who share them. One employee suggested that people who are not genuinely interested in sustainability will not feel 'at home' working at a company with GarmentCo's values, and they will seek some other place of work.

The CEO said they have little formal structure regarding their recruitment processes and do not have an HR department. During the hiring process and the initial onboarding phase, the firm uses its value statement and the List of Design Requirements to communicate its values and to help the new employee to adopt GarmentCo’s holistic thinking. According to the Head of Design, this thinking is in stark contrast to the industry paradigm. The Head of Design said the List of Design Requirements “summarizes a lot of what we are trying to do. It’s kind of a crash course”. The Head of Design means there is a considerable difference between how people are schooled to think in this industry and how GarmentCo thinks. The List of Design Requirements helps display this difference to others and show them GarmentCo’s business philosophy.

The CEO said that “people appreciate it [the values] so that way it becomes natural to follow them or live by them. And I think that many might feel like it’s their values as individuals, so it’s not only when they work at [GarmentCo], but this is how they live their life. So it becomes much more natural.” This quote and the paragraphs above indicate the importance and emphasis the firm places on finding people who share its values and that this is essential to maintaining its culture and values.

### **Meetings**

The CEO mentioned that GarmentCo has two formal and recurring practices in which they reflect on their values. Firstly, they have monthly meetings for everyone working at the

office. During these meetings, the CEO mentioned that they are “revisiting our plan, how it is going, then it becomes a given to also go into values and culture and so forth.” There was no structured way these discussions revolving around sustainability were done. Secondly, once per year, employees have one-on-one meetings with the managers to reflect on whether the firm’s values are understood and feel relevant and right.

### **Socialization events**

Many employees mentioned their social activities, where sustainability was a key part. A few employees mentioned their lunch lectures, though it was unclear how often they occurred. They brought in an external person for the lunch lectures to speak about something connected to sustainability or nature. This did not necessarily have to be connected to the company’s products or operations. The purpose was to educate people and to strengthen culture. One example was when a bicycling organization had a lecture about biking. They also have regular workouts and yoga sessions. These are clear examples of socialization processes used to spread and reinforce the firm’s culture. The workouts and yoga sessions may not explicitly be about sustainability. However, according to the employees, they are about physical activity and mindfulness, which is another part of the firm’s values. They do not just want to connect to nature but also to each other. The lunch lectures are tied to sustainability.

Another socialization event that spreads and reinforces the values of GarmentCo is the bi-yearly hangouts. Everyone participates in the hangouts. These activities vary each time, but they are always connected to nature, for example, they often go on hikes, and they have also gone rock climbing. The CEO explained that when they plan these activities, they always use the four core values as the basis. They incorporate “contributing to the world” by having activities where they “show gratitude to each other or nature” (CEO). “Give it their best” is incorporated by doing something, for example, physically challenging. “Push the limits” is incorporated by doing new things they have not done before and would not normally do. Lastly, “enjoy the process” is incorporated simply by doing something fun. By integrating these values into their activities, the CEO attempts to reinforce these values further in the employees. The values are reinforced through explicitly formulating and discussing them and implicitly acting in line with them.

## **Symbols**

GarmentCo says they want sustainability to be part of everything they do. One symbol GarmentCo uses to create a culture where sustainability is integrated into everything they do is the quote they frequently use to describe themselves, which can also be found in their office: “We have no sustainability work. Just a lot of work.” This can be interpreted as an expression of their thinking and a way of communicating and strengthening their culture. They should not consider sustainability as another perspective, but sustainability should be so deeply integrated into their operations that it is not distinguishable from their work. It should be what they do. This is a way of using language to internalize the values and basic assumptions. Similarly, quotes from their core values could also be found in meeting rooms around the office written on whiteboards. Another interesting aspect of their use of language is that several interviewees mentioned things similar to what the COO said: “[GarmentCo] has been very true to the core when it comes to sustainability. Which is sort of in the DNA of the company”. DNA is an interesting word choice as it implies that it is inherent and an inextricable part of something. This is an expression of the values, strengthening the view that sustainability is an inseparable and integral part of the GarmentCo to the employees.

## **5. Analysis**

### **5.1 The importance of informal/cultural controls vs. formal controls**

Informal controls such as culture may be a broader control system that affects the entire organization. The formal control systems are mainly used by specific functions, departments, or individuals. The CEO said that they use values, that is, culture, to control actions and decisions and provide clarity regarding what to do and how to do it. The CFO and COO may perceive basing decisions on the culture and values as basing decisions on gut feeling. Additionally, they believe there is no causal analysis to establish linkages between actions and results. Everyone agrees on the end goals, but how to get there may be unclear.

Essentially, the culture makes it very clear what the goals and intentions of the organization are. Employees should strive to impact sustainability positively and reconnect people to nature; everything they do is for this purpose. This can be seen in the organization's values and long-term goals. However, the culture does not necessarily clarify what actions lead to achieving the organization's goals and strategies. There may be a lack of more formal control

systems like KPIs and targets that translate long-term strategies and plans into short-term actionable information, possibly due to a lack of information or knowledge on how to quantify these sustainability issues. Using informal control systems instead of formal control systems to control sustainability due to difficulties in quantifying sustainability is in line with earlier research and seems quite common (Crutzen et al., 2017; Durden, 2008). GarmentCo used some sustainability measures. However, they pointed out that these did not perfectly capture the phenomena of interest. Arjaliés and Mundy (2013) also found that firms often used measures that were easy to quantify and that this could lead them astray from what was material. GarmentCo, however, did not seem very focused on its current measures. The measures were primarily used as reference points in discussions of internal communication.

Many employees do not seem to perceive a lack of clarity and appear confident about what they should do. As mentioned in the cultural controls part, the sustainability coordinator said that the culture and values were used actively in decision-making. This would indicate the effectiveness of the cultural control systems in driving sustainability activities.

However, the COO and CFO said that the organization's long-term goals were not appropriately translated downwards into more short-term goals and actions. One explanation for why some employees feel confident in what they should do in the short-term to achieve long-term goals, and the COO and CFO view it differently, is the broadness of the goals. The broadness of the goals means many different things could be construed as working towards the goals. Therefore, many employees may not have the same interpretation of what needs to be done as top management. This can create a feeling among top management that the departments are not translating GarmentCo's goals correctly.

Several employees indicated that formal controls could not replace informal cultural controls but could augment them and make them more effective. They believe SMEs can rely on developed informal control systems without much dependence on formal controls. However, as the firm grows, which GarmentCo says they have ambitions to do, management cannot be involved in everything, and it is necessary to add formal controls on top of the culture. This seems to be the reason for the push toward more formal controls. This aligns with Crutzen et al.'s (2017) argument that as firms mature, their management control systems concerning sustainability will likely incorporate elaborate formal and informal aspects. However, one aspect which distinguishes GarmentCo from the firms that Crutzen et al. (2017) studied is

that GarmentCo has controlled sustainability from the start and, to a great extent, does not separate between “ordinary” and “sustainability” management control systems. In contrast, the firms in Crutzen et al.’s (2017) study appeared to have incorporated developed sustainability control systems after the firms had operated for a significant period.

Norris and O’Dwyer (2004) concluded that formal MCS were quite important for socially responsible decision-making. This study clearly shows that GarmentCo has formal MCS that supports sustainability. Nevertheless, they are not the main drivers of sustainability in GarmentCo. However, in contrast to our study Norris and O’Dwyer (2004) studied a large firm which could be the source of the different results. Especially as GarmentCo had exceedingly strong cultural controls, the need for formal controls may be lower in such cases. In this case, the strong informal controls regarding sustainability could support more formal sustainability controls. This could indicate that there is support for more extensive formal sustainability controls than the current low level of formal controls, as Norris and O’Dwyer (2004) concluded they need to support each other. This would explain why many top managers want to increase the number of formal sustainability controls.

Durden (2008) found that social responsibility was absent in the formal MCS, which was not the case for GarmentCo. In this case, there existed formal controls which incorporated sustainability. Durden’s (2008) finding that formal controls dominated informal controls when there was a conflict was not the case in GarmentCo. The employees did not see a conflict between sustainability and financial performance. However, due to their strong culture and values, they reported that they would never do something unsustainable if there were a conflict for any strategic issues. Formal controls did not seem to dominate the informal controls.

However, the issue is more complex than just formal versus informal controls. Many of the control systems were used both to impact behavior directly and to affect the culture. For example, the List of Design Requirements contains formal sustainability requirements for product development but is also used to create culture in the hiring process. However, even in this case, the cultural aspect of control is the more potent control mechanism.

It is also fascinating that there seems to be this attempt to create more formal controls and structure in the firm. At the same time, many employees have expressed that they do not need

these formal controls. The desire to add more formal controls has primarily, but not only, come from top management. However, the people whose job is to expand these formal controls, often in top management, have almost expressed fear of doing it or at least overdoing it. The firm has already added a more formal structure by hiring a COO and CFO. More formal controls were justified by saying they were for external purposes, for legitimacy.

One explanation could be that the strong cultural controls at GarmentCo have created a widespread belief that they do not need specific formal sustainability controls. This seems clear from how employees describe sustainability as part of everything they do; therefore, they do not need explicit sustainability budgets. It also explains why existing formal controls for sustainability are not used more. This belief may also hinder the adoption of new and more extensive formal controls for sustainability. GarmentCo may resist adding new controls for sustainability as they do not believe it is necessary. This could explain top management's carefulness in expressing how much more formal control they need and why they need it. In order to gain internal support for adding more formal controls, top management needs to find alternative ways of justifying them, like their need for external legitimacy, or they need to say that they will still be subordinate to informal controls. The strong cultural controls may have created an organizational climate rejecting formal sustainability controls. This could indicate that some employees think that saying the firm needs more formal controls for sustainability is equivalent to saying that they would not have acted sustainably without the formal controls. Top management may feel it is challenging to prescribe more formal controls for sustainability since employees may interpret this as saying they are not acting sustainably enough.

Riccaboni and Luisa Leone (2010) found that the formal and informal controls should support each other to avoid tensions. In this case, tensions between formal and informal control systems have arisen. Norris and O'Dwyer (2004) also found tensions between the formal and informal control systems concerning sustainability control, just like in this case, the informal cultural control dominated concerning sustainability. The tensions, in this case, are slightly different. In this case, the tensions are about the mere existence of formal controls, whether for sustainability or not. In Norris and O'Dwyer's (2004) case, tensions were between financially focused formal control and sustainability-focused informal control.

The difference may be because GarmentCo did not have as developed formal controls as the firm of Norris and O'Dwyer (2004), which was a large multinational firm.

To summarize, historically, cultural controls have been used primarily and, according to the employees, quite effectively to control sustainability activities at this SME. However, there seems to be a belief among some senior managers that as the firm grows, they need more formal controls. This explains why they are currently taking steps to increase the number of formal controls and the usage of existing ones. The findings of this study differ slightly from Norris and O'Dwyer (2004). This may be partly explained by this case study being done at an SME. This study is generally in line with Norris and O'Dwyer (2004) and Durden (2008), who found that both formal and informal controls are essential for sustainability control. In this case, the informal controls have been primarily used historically, but there are still formal controls that are being expanded upon. Additionally, there is a possibility that the cultural controls at the firm act as a barrier to new and existing formal controls.

## 5.2 How is cultural control created?

The cultural control at GarmentCo was based on a wide variety of things. The values and the purpose of the firm were key. These values were reflected in the value statement and the List of Design Requirements. These had control effects on the employees by explicitly spelling out the values to the employees and were used during GarmentCo's hiring process. However, there were various other ways these values were spread throughout the firm.

The CEO was critical in creating the culture, according to the employees. This is in line with Contrafatto and Burns (2013), who found that the CEO played an integral part in the push for sustainability and implementing sustainability control systems. George et al. (2016) came to a similar conclusion in their case; when top management committed to sustainability, this led to a significant change in the firm. The CEO was the origin and the reason that the firm valued sustainability so highly. The CEO was crucial in setting examples and acting as a symbol to instill the importance of the values and culture in the employees. Contrafatto and Burns (2013) found that sustainability activities were only prevalent if they supported financial performance for the classic profit-maximizing firm. In this case, it seemed the other way around. At least the employees said it was different at GarmentCo. Financial performance was only valued as long as it supported and enabled more sustainability activities. Despite the

different organizational contexts, the findings seem to align. This was due to the strong culture which valued sustainability. Although, as the CFO pointed out, they would ensure that all revenue-creating projects are profitable in their projected calculations.

GarmentCo's hiring processes were also one of the most important factors in creating a strong culture. By only hiring people who shared values with those of the firm, these values were made easy to spread and reinforce across the organization. Paying significant attention to recruiting candidates who share the organization's values is deemed one of the most critical activities for a firm mainly dependent on clan-based control (Ouchi, 1979). Ouchi (1979) explains that this decreases the monitoring needed to ensure goal-congruent behavior.

The difference in size compared to the firms investigated by (Beusch et al., 2022; George et al., 2016) enables our case company to rely on hiring processes in a different way to overcome contrasting opinions regarding sustainability. Since GarmentCo is so much smaller, each hire is relatively more important, and it is potentially easier to find someone that perfectly fits into the organization. Also, the lack of more standardized hiring processes could mean that the process is more intimate and that potential employees' values become clearer.

The socialization activities that spread, reinforced, and developed the values were vital to the cultural controls. Due to the hiring processes, the employees shared very similar values, and these socialization activities reinforced them and further unified them around the firm's core values. The employees were explicitly included in activities where the values were reflected upon and updated. This seemed very important to create a sense of ownership of the values in the employees and gain commitment from them.

Another important thing for the cultural controls was that the employees perceived the firm as unique. They viewed their work as different from the work of other firms, and this uniqueness had been the case since the firm's founding, according to the employees. This created a high degree of motivation and caused the employees to be even more committed. It is difficult to say if the employee commitment would have been as strong if the employees thought they could do similar things at other firms.

That GarmentCo was founded on these sustainability values means that according to George et al. (2016), it should have an easier time balancing financial performance with

environmental and social performance. We do not have data on how GarmentCo performs on sustainability, so what we can say regarding this is limited. Nevertheless, based on the interviews, it seems more like GarmentCo risks its financial performance rather than anything else. Founding the firm based on these sustainability values above all else has created a culture where the financial performance may have to be protected rather than the sustainability performance. The CFO said that they ensured that all projects were profitable. This could be construed as some employees undertaking sustainable but not profitable projects if there are no controls to prevent this. The strong values may create a risk of sacrificing financial performance for sustainability. This is problematic for the firm since financial performance is still a goal and is crucial to its survival.

In conclusion, the firm has a strong purpose and vision, as well as values that support the purpose and vision. According to several employees, the management team, particularly the CEO, is highly committed to the purpose, vision, and values. By portraying themselves in a genuinely believable way as having a purpose that transcends economic profit, they can attract and retain employees who share their beliefs and values. Additionally, they have various social practices in which employees reflect on their values either explicitly or implicitly. These factors create an organization where people feel that the values and purpose are relevant and up to date and that they are a part of them. This is the foundation for cultural control, the primary determinant of their sustainability orientation. However, strong sustainability values may lead to accepting poor financial performance since this is viewed as subordinate to sustainability by many employees in the organization.

## 6. Conclusions

### 6.1 Contributions

This study contributes to the existing literature regarding how firms use management control systems to control and manage sustainability. More specifically, it contributes to how a sustainability-oriented SME can control and manage sustainability. One contribution is regarding using formal control systems versus informal or cultural control systems in SMEs. Previous research has found that both are important to control sustainability for firms, not specifically SMEs. However, in the work of Durden (2008), it was found that for sustainability control, informal MCS dominated. This case study found that cultural controls

were the primary sustainability control method. However, it was to a different degree than in the case of Durden (2008), where sustainability was completely absent from the formal MCS. In this case, there were formal MCS regarding sustainability, for example, KPIs, formal policies and rules, long-term strategic planning, and short-term action planning. However, they were not the primary method of controlling sustainability. However, the issue here is more complex as these formal MCS cannot be completely separated from the cultural controls. It was found that many control systems were used both to impact behavior directly and to change and affect employee thoughts and opinions.

Another contribution was regarding the tensions between formal and informal control systems. Such tensions existed in previous research (Riccaboni & Luisa Leone, 2010; Norris & O'Dwyer, 2004). However, the tensions were slightly different in this case. In this case, the strong cultural and informal controls acted as a barrier against formal sustainability controls. There was a desire for more formal controls from management, but the strong culture made it difficult to implement such controls. Cultural controls are created and reinforced over a very long time. They are difficult to change, and there needs to be careful consideration regarding their direct and indirect effects today and in the future.

The final contribution relates to how culture was crucial to the firm's management control system. Firstly, it was observed that the firm was founded based on a powerful purpose and vision, which appeared to be the basis from which the firm did its business. To follow their purpose and vision, the senior management's commitment, particularly the CEO, was very important and viewed as the driving force behind the culture, which is similar to the findings of (Contrafatto & Burns, 2013; George et al., 2016). The apparent gathering under a shared vision and purpose in which sustainability and reconnection to nature should be the starting point for all of their endeavors seems to have been a necessary ingredient to viewing sustainability and "ordinary" business operations as inseparable from each other. In this way, the management control practices for sustainability seem to be integrated into the regular management control practices of the firm and not an additional perspective which is "nice to have". In order to strengthen the values and culture of the firm, it was important for the firm to communicate who they are, hire people who share the firm's values, and engage in socialization processes where organizational members explicitly and implicitly reflect on the values.

## 6.2 Limitations

One limitation of this study is that the theoretical framework used (Malmi & Brown, 2008) was developed to analyze “ordinary” management control systems, not those concerned with sustainability. There may be aspects of sustainability control that are different from traditional management control systems, and this framework may therefore miss these aspects. However, in our opinion, this is not problematic. We believe the framework, by its nature, is quite broad. The framework aggregates different research that incorporates a wide range of different controls. The key here is that it incorporates an informal and cultural perspective and the more traditional formal control perspectives. There is also some precedent, though not extensive, for using the framework for sustainability purposes (Crutzen et al., 2017; Sundin & Brown, 2017).

GarmentCo had been basing its operations on sustainability from the start, which may increase the difficulty in generalizing the contributions for other kinds of firms that wish to implement management control systems related to sustainability after having operated for a significant period. On the other hand, this sheds light on firms founded with sustainability as a core part of their business. These kinds of firms are likely to be even more common going forward as climate change is becoming increasingly important to address.

One limitation of the interview method is that one cannot be sure that the interviewees are truthful or correct. They may want to paint themselves or the firm in a more positive light. We have tried to be aware of this as researchers and ensured the participants that the firm will be anonymous to combat this. We have not taken everything expressed for granted and still believe the material is useful since it reflects underlying thoughts and opinions. Additionally, observing the organization during meetings and daily work would have been valuable as culture can sometimes be easier for an outsider to observe than for an insider to put into words. However, attending any meaningful meeting was not possible due to time constraints.

## 6.3 Further research

Future research could investigate companies with a strong foundation in their purpose, especially firms founded based on a purpose beyond economic profit. How does the background of the employees, particularly the founders, affect and strengthen the purpose? If

people have had a connection to nature, how does this affect their striving to work for nature? Could this be used retrospectively by introducing people to specific environments to strengthen their commitment to a vision? Additionally, it is interesting to distinguish between companies that have implemented control systems towards sustainability from the beginning and those that have implemented control systems later on. Does the implementation process and relative weight and complexity of formal and informal control systems differ in those cases? What seems to work in the different cases? How is the integration of sustainability affected in the long run when such concerns are incorporated from the beginning of a company's life?

Further research on the interactions and tensions between formal and informal control systems is necessary. The finding in this study that the informal systems act as a barrier to the formal ones needs to be studied in other organizational contexts. Other researchers have documented tensions between formal and informal systems (Riccaboni & Luisa Leone, 2010; Norris & O'Dwyer, 2004), and concluded that the systems need to support each other. More specifically, it would be interesting to study how SMEs with strong informal controls regarding sustainability can introduce and develop supportive formal control systems without ruining the informal control systems. How can they do this without creating excessive tension between the informal and formal control systems? This would be particularly interesting to study through a longitudinal study during the rapid growth and early maturity phase when formal controls become much more relevant.

## 7. References

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## 8. Appendix

### 8.1 Appendix 1

Management control systems as a package (Malmi & Brown, 2008)

*T. Malmi, D.A. Brown / Management Accounting Research 19 (2008) 287–300*

<b>Cultural Controls</b>						
Clans		Values			Symbols	
<b>Planning</b>		<b>Cybernetic Controls</b>				<b>Reward and Compensation</b>
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
<b>Administrative Controls</b>						
Governance Structure		Organisation Structure			Policies and Procedures	

### 8.2 Appendix 2

Overview of the interviews

<b>Title</b>	<b>Date</b>	<b>Location</b>	<b>Time</b>
Controller	19th of October	Company Head Quarters	01:07:23
Sales personell	20th of October	Company Head Quarters	00:43:29
Head of Supply	24th of October	Company Head Quarters	00:40:33
CFO	26th of October	Company Head Quarters	00:57:06
CEO	27th of October	Online	00:52:09
COO	28th of October	Company Head Quarters	00:51:50
Sustainability coordinator	31st of October	Company Head Quarters	00:42:37
Head of Design	31st of October	Company Head Quarters	00:27:09
Sales manager	1st of November	Company Head Quarters	00:57:01
Sales manager	2nd of November	Online	01:00:23