

Sustainability and Management Accounting

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Abstract: Studies on sustainable performance and management have been very sparse in the past yet with the new grown focus on corporate social responsibilities (CSR) issues in both corporate and research practice there is a rising interest in the topic. This paper reviews the literature in the intersection of management accounting and sustainability. We not only review the literature, but also offers some potential research topics. Some interesting topics in management accounting (Balanced-Scorecard/BSC, Multi-Task Incentive Contracting) are reviewed and discussed in this paper as well.

Key words: sustainability, management accounting, corporate social responsibility, balanced-scorecard, multi-task

JEL codes: G1, G3

1. Introduction

Sustainability and business-related issues are growing rapidly in importance. Causing pressure for investors and stakeholders to consider sustainability-related factors within their management control systems (MCS). These MCS are utilized to evaluate the performance of organizations and actions toward sustainability such as combating the impacts of climate change (Malina M. A., 2017). As the global economy expands rapidly toward what could be the carrying capacity of the planet the attention toward the sustainability of the larger ecosystem becomes more vital. This is not only beneficial from a moral standpoint but also can be used to ensure the long-term financial success of businesses (Joshi S. & Li Y., 2016). Managerial accounting tactics can be essential to assist businesses in moving in the right direction. The mechanisms can help executives realize and analyze their corporate social responsibilities (CSR) issues (Kim N. K. W. & Matsumura E. M., 2017). This form of business self-regulation aims to assist in goals towards sustainability and ethics. These pushes for sustainability and management accounting are to help toward the realization of how important the future is. For some the rapidly growing destruction of the Earth's ecosystem and climate change are the largest challenges facing the world today. We are essentially eating up the Earth's capital as if it were income with no assurance that it will be viable in the long term. Ultimately making the statement that economic capital is not nearly as important as nature's capital.

2. Literature Review

2.1 Review on Sustainability

Studies on sustainable performance and management have been very sparse in the past yet with the new grown

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focus on corporate social responsibilities (CSR) issues in both corporate and research practice there is a rising interest in the topic. These recent studies discuss the relationship between business practice and sustainability commitment. Some of these studies come from Latin America which seem to provide a more voluntary approach to sustainability (Correa-Garcia J. A., Garcia-Benau M. A., & Garcia-Meca E., 2020). What was found through the empirical research in Latin America was that controlled equity had a negative impact on the quality of the sustainability report. Business groups with a lower portion of minority shareholders due to a lack of information asymmetry throughout the company had lower quality standards and sustainability reporting. This is important to show the lack of transparency shown in large majority held businesses. This lack of transparency and complexity of shareholders and ownership structures provided research challenges for the data (Colli A. & Colpan A. M., 2016). For those worried about the future of the world and how businesses play a role in that this is disheartening. This lack of transparency on the side of majority held business groups could be seen as a moral dilemma which has been debated for a long time on whether firms have social responsibility beyond shareholder wealth instead of in terms of sustainability (Bowen H. R., 1953). Yet despite these initiatives multiple regulations in the country have arisen such as the mandatory reporting of all public companies in Europe of their Environment, Social and Governance (ESG) information in the beginning of 2017. With this several organizations are taking it on themselves to develop their own sustainable reports and standards to provide accurate and reliable data for all companies (Joshi S. & Li Y., 2016).

2.2 Review on Managerial Accounting

Advances in managerial accounting are vital to keeping business running smoothly and efficiently. There is a sense of innovation and creativity moving forward in creating sustainability models which highlight different values. Such as Epstein's Corporate Sustainability model which aims to realize and understand what creates great CSR performance and will guide managers with ways to integrate metrics into their operational decisions (Epstein M. J., Friedl M., & Yuthas K., 2008). These decisions can vary from manager to manager depending on their choosing of specific social, environmental, or financial goals. In the relation to financial goals, it can be seen that CSR expenditures can hurt short term financial targets. Despite this it has been seen to help companies in achieving long-term financial and strategic goals as well as long term social and environmental performance goals (Kim N. K. W. & Matsumura E. M., 2017).

3. Findings

3.1 Specific Case Examples

Many companies struggle on how to evaluate professionals' performance. In the financial section there have been different systems implemented to measure the success of managers. In the case of Citibank, the regional president decided to implement a performance scorecard system. Simons Robert L. & Antonio Davila (1997) help providing a scoring system to managers. Those performance measurements shown on the scorecard system were weighted heavier showing which were more important to the managers. In this case there is a large importance for customer satisfaction which the company holds very important.

This is not only seen in the financial sector and is seen all around the world. It is even seen in the government such as the Chinese pollution problem. When promotions are linked to the economic performance and visual environmental quality it forces the mayor to pay attention to factors for promotions (Pu Z. & Fu J., 2018). It has been shown that pollution that goes mostly unseen and is less eye-catching is not nearly as important to mayors.

The promotion of a Chinese administrative official is so dependent on their political resume it results in selective action from the mayors as the goal will be to be promoted and move out the location eventually anyway.

3.2 Multi-Task Incentive Contracting

The structure of the education system is something that is always up for debate. In the early 90's Holmstrom and Milgram wrote a theoretical paper in which it asks the question of if a more structured quantitative approach with a high GPA will lead to a higher salary, then why do they not structure school like this (Holmstrom B. & Milgrom P., 1991). This becomes a question of if creativity is worth it in individuals to focus on that instead of financial success.

Later on in our lives we have our performance measured in the workplace. There are multiple ways to measure this, but it begs the question of which provides the best results without being too costly. Being able to measure an employee's every parameter may seem amazing yet the costs associated with that skyrocket instead of looking at possibly just a few. With this the non-observed tasks seem to go by the wayside and only those employees with intrinsic motivation will put good effort towards them. By properly managing these it can lead to increased productivity and less waist seen through a general cost benefit trade off other management tactics.

3.3 Balanced Scorecard

Managers and researchers alike have searched for ways to improve current performance measurement systems. A balanced scorecard is a metric that helps improve the performance of companies' internal operations which then assist in their external outcomes. It does this by having measurement systems based on both financial and non-financial performance indicators. Helping companies get better results in the future when the business model is based with cause-and-effect relationships. As well as ensuring a good measurable strategy which aligns with the company's values. When implemented employees can see the benefits of strategic and non-financial tasks as well as engrain in them the company strategy. Despite these positives only a small number of organizations can overcome the pitfalls. Noting that less than 30% of companies found increasing non-financial performance measures would lead to an improvement in future performance. Which could be correlated to it being seen that most of the organizations don't set non-financial measurements which are appropriate and fair.

4. Discussion

First off, we want to highlight that moving forward promoting sustainability in our companies will be more important. Corporate social responsibility is rising on investors and companies' minds. To promote responsibility using corporate governance or managerial accounting tools should be used. This allows companies at a high level to enforce and promote corporate social responsibility. This will then have a trickle-down effect on the rest of the company boosting responsibility.

5. Conclusions, Limitations, and Future Research

Although corporate social responsibility is becoming a larger topic, there is limited quantitative research. This amount of research is growing. In the future, we believe it will show there can be plenty of benefits to companies' sustainability through managerial and sustainable accounting tactics. One limitation of our research could be found in our findings not encapsulating all the countries and businesses that could be affected as global warming and taking care of the environment is an issue for everyone to worry about. Having the time restraint of finishing this paper also provides a limitation to us being in college and not being able to work full time on research and writing

this paper at the same time. We would encourage future research to engage in a larger body of quantitative research once it becomes readily available. This could lead to providing more explanations to our perspectives and enhancing the analysis of the data we had.

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