

# Embedding sustainability agendas within organizations: A performance measurement and management control perspective

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## 1. INTRODUCTION

I recently finished co-editing a research handbook on performance measurement for management control with my colleague Anne Lillis (Lillis & Grafton, 2024). Our aim in compiling the Handbook was to provide a comprehensive overview of the state of knowledge in management accounting on the topic of performance measurement. We invited leading contributors to the performance measurement literature to write on topics in which they have deep expertise. The chapters they produced facilitate management accounting researchers' access to relevant studies, theoretical perspectives and methods that inform performance measurement topics. The chapters also motivate researchers to extend the performance measurement research agenda. In reflecting on the themes arising from contributions to the Handbook, sustainability stood out as a key business imperative driving the current practice and research of management accounting. Many contributors to the Handbook pointed to the growing pervasiveness of sustainability agendas within organizations and the need for future performance measurement research that allows us to understand the implications of these agendas.

Contributors to the Handbook are by no means the first management accounting academics to note the extent to which sustainability will shape the performance measurement and broader management accounting research landscape in the years to come (see for example, Cheng et al., 2023). And I am certainly not suggesting that the management accounting literature is bereft a focus on sustainability. Indeed, management accounting researchers have made important and substantive contributions, for example, to our understanding of aspects of sustainability reporting. Interfacing with research in financial accounting on sustainability reporting and disclosures, this body of research examines issues including triple bottom line reporting of economic, environmental and social performance outcomes under the reporting guidelines of the Global Reporting Initiative (GRI).

However, studies that consider the use of performance measurement specifically, and management control more generally, to manage a focus on sustainability objectives within organizations, are few and far between. We know much less about how sustainability agendas inform an organization's strategy and requisite strategic capabilities,

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and subsequently how organizations use performance measurement and control mechanisms to most efficiently and effectively achieve sustainability objectives and best improve the performance outcomes of the organization.

Within the Handbook (Lillis & Grafton, 2024), the suggested future performance measurement and control research agenda relating to sustainability was broad. Contributors highlighted a range of important topics to pursue. To name but a few, these included: broadening our definitions of 'success' or 'value add' within firms to capture better the impact of sustainability agendas (Eyring & Van der Stede, 2024); reconsidering the conceptualizations of strategy we employ in management accounting research to account for contemporary sustainability imperatives (Grafton, 2024); examining the design of strategy maps and balanced scorecards to best manage sustainability objectives and initiatives (Humphreys, 2024); and furthering our understanding of attributes of performance measures that encourage a longer-term time horizon that is required for the majority of sustainability initiatives (Bouwens, 2024).

Picking up on the sustainability themes that arose within the Handbook, my objective in this editorial is to present some thoughts on ways in which organizations' sustainability agendas are likely to influence the practice and research of performance measurement and control in the years ahead. It is impossible within the confines of a short editorial to comprehensively review the current management accounting literature on sustainability or to set out a comprehensive future research agenda, particularly in light of the pervasiveness with which sustainability will likely influence our discipline. Rather, my more modest intention is to highlight current imperatives driving a focus on performance measurement and management control for sustainability (i.e., imperatives to embed sustainability within strategy and strategic processes within organizations) and to explore how future research in management accounting may usefully examine the intersection of sustainability, strategy, performance measurement, and management control (i.e., the formulation and implementation of sustainability strategies within organizations).

## 2. THE IMPERATIVE TO EMBED SUSTAINABILITY IN STRATEGY AND STRATEGIC ORGANIZATION PROCESSES

The social, market, and regulatory pressures driving organizations to consider issues of sustainability are not new and continue unabated (see, Grewal & Serafeim, 2020; Cheng et al., 2023). As organizations have responded to these pressures, a corpus of literature considering sustainability as a variable of interest has arisen in most disciplines studying organizations. This includes finance (e.g., green financing that looks at the design of financial products and services to encourage organizations to adopt sustainable practices), supply chain management (e.g., studies that consider how to make environmentally and socially sound sourcing and purchasing decisions within organizations), and economics (e.g., the analysis of renewable energy use within organizations). Similarly, the disciplines of psychology, law, organizational behavior, and marketing (I could go on) study aspects of sustainability within organizations. Accounting is no exception. Financial accounting research, for example, has focused intensively on issues of sustainability disclosures. And in management accounting, as noted previously, there is also a strong history of research examining triple bottom line sustainability reporting. At the heart of all these literatures lies the notion that sustainability initiatives, broadly defined, drive long-term value creation within firms.

While research beyond sustainability reporting in management accounting is scarce, the sustainability discourse in accounting does acknowledge the implications of environmental, social, and governance (ESG) imperatives for an organization's strategy, operations, and decision making. For example, that sustainability reporting standards, such as those devised by the GRI and International Sustainability Standards Board (ISSB), impact also on practices and processes within firms. Calls to embed sustainability as a central tenet of strategy and strategic processes within organizations are growing, both in practice and research.

The Sustainable Development Goal (SDG) Impact Standards, an initiative of the United Nations Development Program (UNDP), exemplify calls for organizational practices that embed sustainability imperatives. The SDG Impact Standards look to move the sustainability agenda beyond the measurement of sustainability performance and the development of sustainability reporting standards. There are four sets of Impact Standards geared towards: enterprises, private equity funds, bond issuers, and development finance.

*[The SDG Impact Standards] provide the framework to support organizations to make better decisions by placing sustainability*

*and the SDGs at the heart of value creation and central to purpose. They guide businesses and investors to decide which impacts are important and relevant. This in turn informs organizations on how those impacts should be managed. When there is insufficient data to make a decision, the SDG Impact Standards can guide organizations on managing risks. They also help to align incentives across an organization, ensuring governance practices reinforce commitments and intent (SDG Impact n.d.).*

The SDG Impact Standards for Enterprises (UNDP, 2021) are of particular interest to management accounting researchers. They are intended to provide practical guidance as to how organizations can embed sustainability in their strategy, governance, and management practices (UNDP, 2023). They are decision-making standards, designed to be applicable to organizations of all sizes, in all sectors and industries, and in all geographies (UNDP, 2021). These standards provide a practice imperative to embed sustainability agendas within firms and an attendant research imperative to investigate ways in which performance measurement and control mechanisms can facilitate this most efficiently and effectively.

The SDG Impact Standards for Enterprises promote embedding sustainability imperatives within the purpose statements and strategy of an organization and setting ambitious and relevant goals aligned with this strategy. They speak further to management practices centered on supporting and evolving a sustainability strategy. This includes all elements of performance measurement

and management control within firms, from the design of roles and responsibilities, diversity and inclusion practices, and organizational culture, through decision-making processes, monitoring and incentive mechanisms, performance measurement, and risk management. In relation to governance, the standards point to the importance of both formal and informal governance mechanisms that define expectations of behavior, decision-making parameters, and accountabilities.

Bespoke training on implementing SDG Impact Standards is available from UNDP trainers. And more broadly, we see global tertiary institutions designing programs to uplift skills within organizations to enable them to meet the requirements of both new reporting (e.g., ISSB) and practice (e.g., SDG Impact) standard requirements. Such programs are aimed broadly at all roles (financial, risk, sustainability, strategy, etc.) and levels (employees, mid-management, executives, and boards) within organizations. Program content is comprehensive covering how sustainability intersects with financial and other business objectives to influence decision making, designing resilient sustainability strategies, setting meaningful targets for sustainability strategy implementation, and identifying data needs for sustainability strategy evaluation, amongst other topics. The development of these training programs speak further to the imperative to embed sustainability in organizational processes and practices.

### 3. SUSTAINABILITY, STRATEGY, PERFORMANCE MEASUREMENT, AND MANAGEMENT CONTROL

The opportunities for management accounting researchers to examine the sustainability agenda within organizations, beyond sustainability reporting, are plentiful. Some examples of ways in which we can further our understanding of how performance measurement and management control can best embed sustainability imperatives within organizations, include:

#### 1. Advancing our conceptualizations of strategy to incorporate sustainability

Sustainability initiatives are undoubtedly reshaping business strategies in practice. Environmental, social and governance factors are now core to strategic business objectives and the long-term planning of organizations. In response, we will need to advance our conceptualizations

of strategy within the management accounting literature. For example, while we acknowledge the potential for ‘emergent strategy’ we still largely study strategy as ‘...the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals’ (Chandler, 1962, p. 13). It is likely that strategies embedding sustainability imperatives will require a more nuanced understanding of emergent strategies. Sustainability imperatives often have longer-term horizons and payoffs and are likely to require refocusing at relatively frequent intervals in response to environmental and social changes. This entreats us to rethink our focus on strategy as a largely static choice, something a firm has, rather than something a firm does. What new demands will be placed on strategic

planning functions to accommodate the need for rapid changes to strategy to ensure its resilience? How might performance measurement and control systems influence the emergence of sustainability strategies?

It would also serve our discipline to evaluate whether the early conceptual typologies of strategy developed by Miles and Snow (1978) and Porter (1980, 1985) that are deployed widely in management accounting studies remain fit for purpose. How can we best classify and study strategies driven by sustainability imperatives? And relatedly, what strategic capabilities are necessitated by such strategies? How can performance measurement and control mechanisms drive the development of new strategic capabilities that may be required?

## 2. Sustainability metrics for decision-facilitation and decision-control

Performance measurement is inextricably related to embedding sustainability within the strategy, operational processes and practices, and decision making of organizations. It is imperative that we continue to research how sustainability objectives can best be captured in performance measures and performance measurement systems. As well as seeking to understand further how attributes of performance measures impact sustainability outcomes via their decision-facilitating and decision-influencing roles within firms.

In the era of big data, organizations have ever-increasing amounts of information on sustainability dimensions of performance. While organizations now have volumes of performance measurement data relating to sustainability, it is incumbent to evaluate the quality of this data and the associated implications of data quality for decision making within firms. The amount of data also raises questions as to performance measurement frameworks that can meaningfully organize this data for sustainability performance management within organizations. The Balanced Scorecard (BSC) is a well-researched performance measurement framework, yet there remains much we need to know about how the BSC (and underlying strategy maps) can best incorporate sustainability objectives for both decision-facilitating and decision-influencing purposes. Researchers have begun to investigate the effectiveness of using separate sustainability perspectives within scorecards vis-à-vis the integration of sustainability objectives and measures

in the traditional perspectives of finance, customers, internal business processes, learning and growth (for a brief overview see, Humphreys, 2024).

We also have much to learn as to the type of performance measures that can best embed sustainability strategies within firms. For example, an important attribute of performance measures to this end, is their time horizon. Many sustainability-related strategic priorities require managers to adopt longer-term decision horizons. Bouwens (2024), notes that we currently know little about how firms prioritize the type and number of metrics to use, or the weights that should be assigned to these metrics, for sustainability-aligned decision making. Most extant research focuses on short-term performance measures and it is hard to overstate the importance of better understanding how performance measures can both facilitate and incentivize a longer-term decision focus. Relatedly, future research could consider how heuristics and biases in the use of performance measures, or combinations of measures, may deter (or encourage) managers to think longer term.

## 3. Management control for sustainability-aligned strategy implementation

I noted earlier that it is impossible to present a comprehensive agenda for future research at the intersection of sustainability, strategy, performance measurement and management control within this editorial. Management control, as studied in the management accounting literature, is a broad and diverse set of mechanisms organizations can draw on for both strategy formulation and implementation. It is impossible to do justice to opportunities for further studies of sustainability and management control here but I would be remiss not to allude briefly to just a few of the fruitful ways we can examine how management control mechanisms may help embed a sustainability agenda within firms. There is scope to further understand how a broad range of controls facilitate and sustain a focus on sustainability objectives. This may include studying everything from informal controls such as firm values and norms and organizational culture, through formal controls such as organizational structures (and more broadly the use of teams and the role of cross-functional collaborations), budgeting processes, risk management, talent development, performance reviews,



and incentive compensation schemes. Not to mention the need to study packages of management controls and management control systems. Or the importance of studying further the use of management controls (interactive or diagnostic, enabling or coercive, etc.) in embedding sustainability imperatives in decision making within organizations.

Specific research questions examining management control for sustainability-aligned strategy implementation could include how organizations can best embed sustainability imperatives within activity-based management exercises across the value chain. Such exercises have important cost implications for firms. Relatedly, we can revisit cost/benefit decision models in wide use, to examine how organizations incorporate non-financial costs and benefits of sustainability initiatives. Technology investments and replacement costs required to embed sustainability initiatives are highly likely to outweigh the short- to medium-term direct benefits to the company. How do organizations acknowledge this in capital expenditure decisions and design strategic asset investment models that promote longer-term perspectives? How do we calculate and include ESG costs? How is Social Return on Investment calculated and embedded in decision making within organizations? On a completely different tangent, another important line of enquiry will be to understand the role of incentive compensation schemes in promoting sustainability-aligned/informed decision making. Is the use of incentives compatible with implementing sustainability strategies?

## 4. CONCLUSION

There are undoubtedly headwinds that will challenge both the practice and research of embedding sustainability within an organization's strategy and decision-making processes. The regulatory landscape for sustainability will continue to change and evolve and organizations will need to respond rapidly to ensure compliance. Internal and external stakeholder expectations will be diverse and stakeholders will scrutinize all aspects of an organization's decisions and sustainability performance. And aligning sustainability with performance measurement and management practices will not be straight forward. For example, the challenge of promoting and incentivizing longer-term decision horizons requires much greater reflection. However, there are also tailwinds that will provide important opportunities for organizations (and researchers of organizations). Perhaps most importantly,

4. Settings in which studying performance measurement and control for managing sustainability outcomes will be important

Finally, I would like to mention briefly the scope for future research to study the use of performance measurement and control mechanisms to embed sustainability agendas in a range of organizational settings. There is much sustainability research in large, private sector firms, especially within industries with particular environmental sensitivities (e.g., industries with water intensive production processes or above average carbon emissions). While research in such settings is and will undoubtedly remain important, there is also much to be learned in exploring wider organizational contexts. Responsibility for ESG outcomes and the achievement of SDGs rests with all organizations. Understanding how all firms, of all sizes, in all geographies, be they public or private, government or non-governmental, can best manage for sustainability outcomes through the use of performance measurement and control, will be important. Moreover, as will broad conceptualizations of sustainability outcomes (Eyring & Van der Stede, 2024). To capture how sustainability strategies translate into outcomes and impact, and the effectiveness of performance measurement and management control in facilitating this, will require conceptualizations of value beyond the financial outcomes we traditionally study. Studying the non-financial metrics firms used to capture value and impact from sustainability initiatives will be imperative.

technological advances are set to offer robust data management systems that allow organizations to efficiently and effectively collect, analyze and report on performance measures for sustainability-aligned strategy formulation and implementation. And advanced analytics can help forecast trends and scenarios, track progress and inform data-driven sustainability-aligned decision making within organizations. For researchers, this will open up new research possibilities into the effective design and use of these systems to embed sustainability in the strategy and strategic management practices of organizations.

Irrespective of the prevailing head and tail winds, embedding sustainability agendas within firms is a contemporary imperative for organizations. The integration of sustainability within strategy, management practices, and governance mechanisms not only addresses

ever-growing social, market, and regulatory pressures but also positions organizations for long-term value creation. Management accountants are uniquely positioned to leverage their expertise in measurement and control

to effectively support sustainability-aligned strategy formulation and implementation. Hopefully, this editorial will play a small part in informing a future research agenda that explores these issues.

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