

Management Control in the Face of Environmental, Social, and Governance Challenges : Conceptual Evolutions and Contributions of Theoretical Frameworks

Najoua Rhali ; Said Youssef ; Zainab Joukhrane

^{1,3}PhD student

^{1,2,3} LARPEG Laboratory

ENCG Casablanca

Hassan II University of Casablanca

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Abstract :

In order to address the increasing significance of environmental, social, and governance (ESG) challenges, this article examines how management control systems are evolving. This conceptual growth of management is examined ; control when addressing sustainability issues and carrying out research. Important theoretical frameworks such as institutional theory, legitimacy theory, and stakeholder theory are covered in these contributions. The need for a more thorough and integrated approach to management control that promotes long-term value development and complies with ESG standards is emphasized in this article. This study aims to provide insights and improve the scholarly conversation. For businesses who wish to ensure that performance evaluations align with sustainable development objectives.

Keywords : Stakeholder theory, institutional theory, sustainability reporting, environmental, social, and governance (ESG), and management control systems (MCS).

1. Introduction

Environmental, social, and governance (ESG) concerns have become central to strategic decision-making in the past decade, after previously being discussed only in passing. Businesses are now evaluated one more than just their revenue. They were also evaluated based on how well they could contribute to the resolution of more significant environmental and societal issues. The emergence of global regulations such as the European Corporate Sustainability Reporting Directive demonstrates this rising desire for transparency and accountability. This is an example of a global effort, like the United Nations Sustainable Development Goals. Investors see ESG performance as a sign of long-term strength, but consumers and civil society demands that organizations be held responsible for their behavior toward the

environment and society. This change has fundamentally changed. This is what success means for an organization. Still, a large part of Management Control Systems is still mostly focused on making money quickly and efficiently. Because ESG factors are multidimensional, forward-looking, and depend on the expectations of different stakeholders, it is hard to cover them all with traditional systems. Carbon emissions, employee satisfaction, and equitable governance require unique measurement methodologies and evaluative criteria, differing from financial metrics.

So, the main question of this paper is: **How can theoretical frameworks facilitate the adaptation of MCS to navigate ESG complexity?**

The goal of this post is to make you think about. How this change in management control might include ESG. This paper endeavors by integrating these elements. To go along with this talk about sustainable management. This article also gives policymakers and practitioners at the same time. This insights crucial to bridge performance assessment and sustained value generation.

2. ESG Issues and Their Implications for Management Control

2.1 Defining ESG and Its Components

The evaluation of an organization's overall efficacy and sustainability now relies heavily on the Environmental, Social, and Governance (ESG) performance factors. In addition to traditional economic indicators, these so-called "non-financial" characteristics are becoming more and more important for resilience and long-term competitiveness (Friede, Busch, & Bassen, 2015).

Reducing greenhouse gas emissions, increasing energy efficiency, handling waste, and preparing for the effects of climate change are among the main environmental problems. Manufacturing and aerospace firms, for instance, keep a careful eye on their carbon footprints throughout this range. International standards like ISO 14001 must be followed by the chain (Schaltegger, Burritt, & Petersen, 2017). Proactive environmental policies are associated with greater competitiveness and more than just regulatory compliance. increased credibility in stakeholders' views (Porter & van der Linde, 1995).

The social aspect includes the company's relationship with local communities, diversity and inclusion, labor management practices, and employee well-being. Growing social expectations need businesses to support social equity and development in addition to treating workers properly (Aguinis & Glavas, 2012). Employee engagement is strengthened by inclusive

and socially conscious policies, according to research ; and productivity, as well as improving the company's standing (De Roeck & Maon, 2018).

The structures, rules, and procedures that guarantee openness, responsibility, and moral behavior in businesses are referred to as governance. It addresses topics such minority shareholder rights protection, anti-corruption initiatives, and board composition (Shleifer & Vishny, 1997). According to Claessens and Yurtoglu (2013), robust governance frameworks are linked to better financial performance and lower risks from opacity or opportunistic behavior. There is a deep connection between these three dimensions. For example, poor governance can sabotage environmental efforts by discouraging investing in environmentally friendly technologies. Comparably, ignoring social issues can compromise long-term environmental plans, particularly if businesses disregard local community concerns or employee expectations (Eccles, Ioannou, & Serafeim, 2014). Therefore, a comprehensive strategy that promotes stakeholder trust, company continuity, and the long-term generation of sustainable value is the logical integration of ESG criteria.

2.2 Limits of Traditional Management Control Systems (MCS)

Although crucial, traditional management control systems (MCS) have historically concentrated on financial metrics like profits, ROI, and cost control, which are increasingly acknowledged to be insufficient to capture the multifaceted nature of environmental, social, and governance (ESG) performance (Kaplan & Norton, 1992; Otley, 1999). When ESG concerns are addressed using standard frameworks, a number of limitations become apparent.

The short-term mindset is still a big problem Focusing mainly on immediate financial gains, conventional frameworks frequently overlook the lasting impacts tied to sustainability efforts – think things like cutting carbon emissions or promoting fair treatment in society (as highlighted. By Marginson & McAulay, 2008). Companies zeroing in on quarterly earnings often miss the bigger picture: how their actions today shape tomorrow's environment and social fabric.

Second, difficulties in measurement are seen. Many aspects of ESG, such business culture, biodiversity impact, and employee well-being, are not readily measurable within the financial criteria that MCS has always prioritized (Grey 2010). Integration into control systems is made much more difficult by the absence of established and widely recognized measurements.

Third, a lack of overall vision Persists. Non-financial disclosures are frequently separated. From core decision-making centers, which reduces. Their relevance in shaping corporate strategy (Gond, Grubnic, Herzig, &

Moon, 2012). so, organizations often treat ESG initiatives superficially. Producing sustainability reports primarily to satisfy external stakeholders, rather than embedding these concerns within internal management processes and strategic controls (Adams, 2017).

Taken together, these limitations highlight the **misalignment** between traditional MCS and the broader requirements of sustainable business performance. To overcome this, firms must develop **integrated control frameworks** that account for both financial and non-financial drivers of value creation.

2.3 The Need for Broader Conceptual Frameworks

Viewed in perspective, a concerted effort to dentier these knowledge gaps is essential if organizations are to align conduite control with the broader imperatives of sustainability. Traditional approaches must evolve toward integrated systems that genuinely reflect ESG manière on the bilan sheet and within the decision-making process (Simons, 1995 ; Kaplan, 2020).

To achieve this, firms should first incorporate multi-dimensional indicators—such as air quality and émanation intensity for environmental manière, employee renouvellement for communautaire practices, and governance scores for accountability—into manière dashboards. By embedding such indicators alongside traditional financial metrics, conduite gains a more holistic view of value creation (Eccles & Krzus, 2018).

Second, organizations must link strategic annuaire with sustainability goals, ensuring that ESG considerations ascendant both resource fourniture and risk conduite. This alignment enables firms to identify long-term opportunities and vulnerabilities that are insignifiant to purely financial lenses (Arjaliès & Mundy, 2013).

Third, integrated systems should enhance stakeholder visibility, enabling diverse groups—employees, regulators, communities, and investors—to observe how the organization upholds their respective interests. This not only strengthens accountability but also clarifies and reinforces societal expectations of corporate behavior (de Villiers, Rinaldi, & Unerman, 2014).

Taken together, these steps highlight a conceptual marche of conduite control : from a narrow technical function oriented toward financial efficiency, to a broader mechanism for creating sustainable value that balances economic, communautaire, and environmental dimensions.

3. Conceptual Evolutions in Management Control

3.1 Integrating Sustainability into Management Control Systems

Companies are increasingly embedding Management Control Systems (MCS) with communautaire and ecological objectives in post-scriptum to traditional economic goals. Modern systems are thus no longer designed merely for efficiency in financial management ; rather, they represent a set of tools and technologies that enable organizations to balance economic, communautaire, and environmental objectives in a coherent manner (Gond et al., 2012 ; Crutzen, Zvezdov, & Schaltegger, 2017). This progression is demonstrated by two liminaire tendencies :

The first is the strategic integration of ESG goals. Businesses are starting to include sustainability goals into their long-term planning, annual budgets, and performance evaluation standards. For instance, multinational firms in the energy and automobile industries are increasingly allocating resources based on the anticipated results of community retention initiatives or emission-reduction objectives. According to Arjaliès and Mundy (2013), this integration turns ESG from a side issue into a crucial part of business strategy and decision-making.

Secondly, a more robust focus on the long term. Modern MCS are progressively moving away from a limited, short-term approach and toward addressing sustainability-related risks and possibilities in the future. This landscape represents the increasing understanding that addressing ESG concerns may be a source of competitive advantage as well as organizational resilience (Eccles, Ioannou, & Serafeim, 2014).

By incorporating sustainability into control frameworks, companies are better equipped to address stakeholder expectations while simultaneously creating éternelle value. In this way, the evolution of MCS illustrates a paradigm shift: from being primarily instruments of financial efficiency, they are becoming **strategic enablers of sustainable business models**.

3.2 New Tools and Indicators

To actualize the integration of ESG concerns into direction control, organizations are adopting a range of équipement and metrics that extend traditional accounting and control practices. These tools make it aléatoire to operationalize sustainability strategies, align them with financial objectives, and communicate progress to both internal and external stakeholders (Burritt & Schaltegger, 2010 ; Figge et al., 2002).

Expanded Balanced Scorecard. Originally developed by Kaplan and Norton (1992) to balance financial and operational objectives, the Balanced Scorecard

has evolved into a “Sustainability Scorecard” when extended with explicit ESG dimensions. This *mise à jour* allows firms to align their sustainability objectives with strategy execution, ensuring that environmental and communautaire concerns are embedded in day-to-day decision-making processes (Hansen & Schaltegger, 2016).

Key ESG Indicators. Companies now rely on a growing set of standardized indicators, ranging from greenhouse gas intensity and gender diversity ratios to employee well-being scores and governance ratings based on board independence or anti-stupre policies. These indicators provide measurable proxies for sustainable development and serve as benchmarks for both internal monitoring and external reporting to investors and regulators (Eccles, Krzus, & Solano, 2019).

Digital Platforms and Analytics. Emerging technologies such as big data, artificial intelligence (AI), and the Internet of Things (IoT) play a critical role in enabling real-time ESG monitoring. For example, firms increasingly deploy IoT sensors to track energy consumption or carbon emissions across général operations, integrating the results directly into gesticulation dashboards (George, Merrill, & Schillebeeckx, 2021). Such technological innovations enhance transparency and responsiveness, allowing managers to make evidence-based decisions.

Nevertheless, these advancements also venue significant challenges. Questions concerning data quality, standardization, and comparability remain unresolved across usines and regions. Moreover, there is a growing risk of “data-driven greenwashing”, whereby companies emphasize numerical measures of ESG gesticulation more as symbolic gestures than as indicators of substantive progress (Cho, Laine, Roberts, & Rodrigue, 2015). Thus, while ESG-oriented outillage extend the reach of direction control, their effectiveness depends on both robust measurement frameworks and a genuine commitment to sustainable value creation.

3.3 Integrated Approaches to Financial and Non-Financial Performance

Integrated control systems artefact financial and non-financial measures in ways that are not The growing recognition that financial results alone cannot gain the full scope of organizational contorsion has led to the emergence of integrated control systems. These systems artefact financial and non-financial measures in a manner that makes them increasingly interdependent and difficult to separate. Their purpose is to provide a

holistic framework that tasseaux sustainable value creation by reconciling economic, social, and environmental objectives (Adams, 2017 ; Simons, 1995).

Aligning incentives. One critical mechanism for integration lies in linking ESG gesticulation to executive compensation. By tying sustainability indicators to top direction`s pay packages, firms create cordial accountability for long-term goals such as emissions reduction, diversity enhancement, or community engagement. This alignment not only incentivizes managers to act beyond short-term financial returns but also embeds sustainability in the organization`s strategic orientation (Ioannou, Li, & Serafeim, 2023).

Supporting decision-making. Integrated dashboards provide a comprehensive view of gesticulation by merging traditional financial data with ESG-related indicators. Such dashboards enable managers to evaluate trade-offs, identify synergies, and balan competing objectives rather than treating them as mutually exclusive (Henri & Journeault, 2010). In this way, direction control systems evolve into platforms for strategic pourparler and continuous learning, helping firms adapt to changing stakeholder demands and regulatory expectations.

Enhancing stakeholder trust. Integrated approaches also strengthen organizational legitimacy by fostering transparency and coherence in reporting. When stakeholders observe that a company monitors, evaluates, and communicates both financial and ESG outcomes in a consistent manner, they are more likely to perceive the organization as genuinely committed to sustainable value creation (Eccles & Krzus, 2018). This credibility is increasingly décisif in a context where sustainability claims are under heightened scrutiny.

From this integrated perspective, conduite control is best understood as a dynamic process neither purely technical nor mechanistic, but rather a set of evolving practices that align organizational purpose with long-term societal expectations.

4. Theoretical Contributions

4.1 Stakeholder Theory

A company's long-term success depends on its capacity to balance the interests of all parties affected by its activities, according to Freeman's (1984) introduction of the Stakeholder Theory. These stakeholders include, but are not limited to, shareholders, employees, customers, suppliers, dialectal communities, regulators, and the general public. In contrast to shareholder-centric models that prioritize boosting financial earnings, this theory argues

that companies must generate value for a broader variety of actors in order to remain resilient and legitimate throughout time.

Stakeholder Theory suggests that conventional financial measures are inadequate for assessing organizational performance when used to Management Control Systems (MCS). Rather, MCS ought to integrate Environmental, Social, and Governance (ESG) metrics that capture stakeholder concerns and expectations. This method makes it possible for control systems to function as instruments for increasing monitoring effectiveness as well as channels for encouraging dialogue and responsibility. In reality, this has caused major shifts in a variety of businesses. For example, in response to endomager demands and pressure from non-governmental organizations (NGOs), food corporations now measure the environmental retentissement of farming methods, including water mode and biodiversity preservation. Financial organizations are incorporating governance ratings to reassure investors and regulators, while manufacturing companies are creating employee well-being indexes to address labor concerns. Organizations can link their plans with long-term sustainable value creation and transcend short-term financial goals by incorporating stakeholder priorities into control systems. Because of this change, MCS is no longer an outpost of merely economic control but rather systems that balance social, economic, and environmental movements in a way that takes into account the complexity of modern compromise contexts.

4.2 Legitimacy Theory

To maintain its "license to operate," an organization must behave in a way that is deemed consistent with the norms, values, and expectations of its broader community, according to Suchman's (1995) formulation of legitimacy theory. This legitimacy is not a set disposition that organizations must continually negotiate, particularly when society expectations are rapidly shifting, as is the case with Environmental, society, and Governance (ESG) problems.

This theory holds that, within the context of conduite control systems (MCS), ESG reporting serves as a strategic instrument for demonstrating adherence to environmental and communautaire standards rather than merely a method of expression. In order to meet legal obligations and social conventions, companies that are being scrutinized more for their governance structures, labor practices, or environmental impacts often employ ESG disclosures. However, legitimacy theory also draws attention to the risks associated with symbolic compliance. A prevalent phenomenon referred to as "greenwashing" happens when companies produce extensive sustainability reports or public commitments without making substantial changes to their

internal processes. While such symbolic steps may temporarily maintain legitimacy, they may eventually erode stakeholder trust when gaps between disclosure and practice are exposed.

To move from symbolic to substantive legitimacy, ESG concerns need to be specifically included into core control systems. This entails integrating ESG metrics into budgeting, performance, and reward procedures, transforming sustainability from a side project or PR-driven activity into a crucial component of business decision-making. When MCS are developed in this way, they help companies acquire not just external acceptability but also long-term credibility and durability.

4.3 Institutional Theory

DiMaggio and Powell's (1983) institutional theory describes how external environmental constraints influence organizational practices. This viewpoint holds that businesses implement particular procedures and structures not just to increase efficiency but also to establish credibility and stability in their institutional setting. This process is driven by three different kinds of pressures:

1. Laws, rules, and the sway of powerful interests are the sources of coercive pressures. For instance, in order to keep access to markets, multinational corporations might be compelled to follow environmental regulations like ISO 14001 or the European Corporate Sustainability Reporting Directive (CSRD).
2. Industry groups, social norms, and professional standards are the sources of normative pressures. These normative effects are reflected in several industries' sustainability certifications (such as Fair Trade and B-Corp), which encourage businesses to implement ethical practices.
3. When companies mimic their counterparts, especially during uncertain times, mimetic pressures arise. For instance, in order to demonstrate their credibility to their international clients, aerospace businesses in emerging markets may imitate the ESG practices of global leaders.

According to institutional theory, the design of ESG controls is not wholly up to the individual when it comes to management control systems (MCS). Instead, in order to guarantee their approval by investors, regulators, and other stakeholders, businesses match their systems with these institutional forces. This alignment, however, can have both beneficial and detrimental effects. It can hasten the spread of best practices, but it can also result in

isomorphism, when businesses embrace standardized procedures without questioning their applicability or efficacy.

Organizations must find a balance between innovation and conformity in order for MCS to be successful in the face of institutional challenges. This means adjusting ESG indicators to fit their unique operational realities and strategies while also adhering to external expectations. According to this viewpoint, ESG integration is a socially created phenomena that is influenced by intricate relationships between businesses and their institutional context rather than being solely a technological procedure.

Table 1 : ESG Integration in Management Control Systems: Theoretical Contributions

Theory	Focus	Contribution to ESG Integration	Implication for MCS
Stakeholder Theory	Balancing multiple stakeholder interests	Explains <i>why</i> firms should adapt to meet diverse expectations	Inclusion of ESG indicators reflecting stakeholder priorities
Legitimacy Theory	Securing societal approval and acceptance	Clarifies <i>how</i> firms align actions with social norms	Embedding ESG reporting to strengthen perceived legitimacy
Institutional Theory	Responding to regulatory, normative, and mimetic pressures	Shows <i>what forces</i> drive diffusion of ESG practices	Adapting control systems to external pressures and standards

5. Discussion

5.1 Convergences and Divergences Between Theoretical Frameworks

Table 2 : Convergences and Divergences Among Theoretical Frameworks

Aspect	Stakeholder Theory	Legitimacy Theory	Institutional Theory	Convergences / Divergences
Main Orientation	Normative (what firms <i>should</i> do)	Symbolic (how firms are <i>perceived</i>)	Structural (how firms are <i>pressured</i>)	Converge-t-on the need for broader performance focus
Primary Focus	Balancing stakeholder	Securing societal	Adapting to external	Diverge in emphasis:

	interests	approval	forces	purpose vs. perception vs. Force
Role in ESG Integration	Aligns control with stakeholder needs	Explains reporting for legitimacy	Describes diffusion of practices	Complementary perspectives
Implication for MCS	Include multi-stakeholder metrics	Embed ESG into reporting systems	Standardize systems to meet pressures	Together enable context-sensitive, adaptive systems

5.2 Implications for Practice

Moving beyond merely formal compliance with ESG standards using ESG activities only to meet external expectations to gradually integrating the substance of ESG standards into all elements of organizational decision-making and management is the biggest challenge facing ESG experts. Several crucial steps form the foundation of this evolution:

- Integrating ESG indicators into planning, budgeting, and performance measurement:** It is not enough to simply separate them from financial performance indicators. To achieve this, management makes strategic decisions based on ESG data and bases its performance assessment on sustainable development goals. In this way, we ensure that issues such as the environment and social responsibility are not neglected; they become essential components of success metrics and are rewarded accordingly. For example, incentives linking executive compensation to carbon reduction targets or other ESG objectives produce tangible results. Use technology to improve the reliability of ESG data, without over-reliance on superficial indicators: Big data analytics, IoT sensors, and blockchain technologies have enabled major advances in the accuracy and traceability of ESG information. However, we must also ensure that our technological efforts produce relevant indicators, rather than a multitude of indicators without strategic implications. Companies must prioritize, in order of priority, indicators that measure significant impacts for their sector and their stakeholders' priorities.

- **Adapt management control systems to sectoral and regional functions:** ESG requirements are not uniform; their perception varies depending on the sector concerned. A manufacturer like the energy sector, for example, faces a different environment than one whose products are services. In a similar vein, industrialized nations have stronger moral and historical traditions, but emerging nations are subject to more oppressive influences from international legislation. By modifying control techniques as outlined above, businesses may stay sensitive to local situations while adhering to international standards. Therefore, ESG experts can base a management control system (MCS) on these factors. An MCS of this kind will transcend window dressing and provide a constructive contribution to long-term value generation, guaranteeing the organization's durability and the community's confidence.

5.3 Implications for Research

Future studies would follow a number of intersecting lines of investigation to further understand how ESG is incorporated into MCS:

- **It is necessary to create hybrid control models:** Conceptual and empirical research is required to create and use hybrid control frameworks that take into account social, economical, and environmental factors. These models might be used to study how businesses balance social responsibility and environmental stewardship, and if sacrificing one has an effect on strategy alignment across different company divisions, decision-making, and gesture assessment at all levels of management.
- **The impact of contextual factors:** Government laws, cultural norms, and industry characteristics all have an impact on ESG integration. Future studies should look at how these factors impact ESG-inspired MCS design and efficacy. Studies that compare different businesses or institutional contexts will yield insightful information about optimal practices vs problems unique to a certain environment.
- **Empirical research in underrepresented fields:** Since most published research comes from wealthy nations, we don't fully understand how ESG may be used in nations with less robust regulatory enforcement systems and distinct socioeconomic issues. Research in these fields may contribute to the theory by offering useful insights for the global application of ESG.

Table 3 : ESG Challenges and Management Control Responses

ESG Challenge	Traditional MCS Limitation	Evolved Control Response
Long-term environmental risks	Focus on short-term financial goals	Integrate climate scenarios into planning
Social impact measurement	Lack of non-financial indicators	Use diversity, equity, and well-being metrics
Governance transparency	Fragmented reporting	Adopt integrated ESG dashboards and assurance

6. Conclusion

This article looks at how management control systems (MCS) are changing as a result of environmental, social, and governance (ESG) concerns. Financial and non-financial reporting tools must be used in order to integrate ESG criteria. Sustainability dashboards, made possible by digital dashboards, provide quantitative indicators to monitor the ESG data considered; yet, mastery of these technologies alone is required. However, how businesses react to new institutional and public pressures will determine how successful integration is. Stakeholder theory states that by emphasizing ESG factors, the silhouette appropriately depicts the stakeholder's path. Generally speaking, there are five different levels of labeling that progressively approximate the two dots on the Earth's surface that we are all familiar with. First point: Stakeholder, legitimacy, and institutional theories offer significant arguments for incorporating ESG criteria, which sum up the study's conclusions. Institutional theory highlights the factors that encourage the spread of ESG practices, legitimacy theory demonstrates how businesses seek social acceptance, and stakeholder theory focuses on why they react to different expectations. With these viewpoints, management systems can offer a strong foundation for reconsidering control systems in the age of sustainable development.

This essay has practical ramifications despite its conceptual nature: businesses need to increase data reliability, adjust control mechanisms to local or sectoral specificities, and include ESG indicators into their strategic planning and reward systems. Future studies should produce a new generation of co-integrated models, verify these hypotheses empirically, and investigate how content management systems (CMS) built with ESG standards affect stakeholder trust and long-term performance.

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