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Management control systems and corporate social responsibility: perspectives from a Japanese small company

Masahiro Hosoda

Abstract

Purpose – Corporate social responsibility (CSR) has become part of daily business for small- and medium-sized enterprises (SMEs) in Japan. The purpose of this study is to explore how management control systems (MCSs) can support the translation of activities into CSR actions using a case study of a SME in Japan.

Design/methodology/approach – The case is based on an interview with a CEO of a SME in Japan. The paper contributes to the discussion on CSR and MCSs and investigates the integration of CSR activities in SMEs in Japan through MCSs.

Findings – The case company's formal control systems incorporate environmental and social aspects that are reflected in its top-down, stakeholder-centered approach into CSR through a formal CSR policy. An informal control system is evident and reflected in the CEO's emphasis on creating shared value by implementing CSR. An interactive control system, a type of formal control system, is useful in the interactions between CEOs and employees and in translating the opinions of stakeholders into CSR actions. Formal control systems can be supported by informal control systems in the implementation of CSR activities.

Originality/value – This research contributes to the management accounting literature by showing that formal and informal control systems can support the motivation of employees and the integration of stakeholders' opinions on the implementation of SMEs CSR activities in Japan. The MCS approach also contributes to SMEs in Japan that seek to address the demographic and economic challenges.

Keywords Corporate social responsibility, Management control systems, Japanese company, Small- and medium-sized enterprises

Paper type Research paper

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1. Introduction

Increasingly, corporations are expected to be socially and environmentally responsible within their communities (Eweje, 2006). An increase in awareness and sensitivity toward social and environmental issues is exacerbating the situation, and demands from various stakeholders are pressuring corporations to do more for the society (Eweje and Sakaki, 2015; Dobele *et al.*, 2014). Corporate social responsibility (CSR) is “a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with stakeholders on a voluntary basis” (Commission of the European Communities, 2001, p. 6). This study views CSR as an essential element of an organization's core business and not just as a strategy to gain legitimacy or manage reputation (Arjaliès and Mundy, 2013). This approach advocates that CSR embeds socially and environmentally responsible actions throughout the organization to enhance long-term value

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(Arjaliès and Mundy, 2013; Moon, 2007). CSR is an increasingly essential concept for large-sized enterprises and small- and medium-sized enterprises (SMEs) (Tantalo *et al.*, 2012; Arevalo and Aravind, 2011; Sweeney, 2007; Abreu *et al.*, 2005; Longo *et al.*, 2005).

Attention to CSR has intensified since 2003 in Japan (Fukukawa and Teramoto, 2009). Many large Japanese corporations face CSR issues in their day-to-day work and have designated managers as heads of CSR units responsible for the development and implementation of CSR initiatives and practices (Eweje and Sakaki, 2015). SMEs[1] in Japan have also integrated CSR as a core component of business. Haron *et al.* (2015) indicate that SMEs value integrity, ethics and social responsibility highly. Successful SMEs continue to uphold the ethical principle of always prioritizing the needs of the customer. SMEs in Japan also emphasize the preservation of traditional culture, contribution to society and value expert advice on ways to improve business (Haron *et al.*, 2015).

The purpose of this study is to explore how management control systems (MCSs) can support the translation of CSR into CSR actions using a case study of a SME in Japan. The case is based on an interview with a CEO of a Japanese *Sake* brewery. This paper contributes to the discussion on CSR and MCSs in Japan and how CSR activities are integrated into SMEs through MCSs. CSR has become part of daily business in Japanese SMEs; however, the role of MCSs in the implementation of CSR activities in SMEs in Japan has not been clarified. Thus, this study is timely.

MCSs have been conceptualized in various ways (Chenhall, 2003; Simons, 1995). MCSs have been presented as an operational package. Organizations may have numerous controls, and they all may be used to some extent to align individual activities with organizational goals (Malmi and Brown, 2008). Thus, MCSs represent the evolution of formal and informal mechanisms, processes, systems and networks used by organizations to convey key objectives and goals elicited by the management to assist the strategic process and ongoing management through analysis, planning, measurement, control and rewards and by broadly managing performance to support and facilitate organizational learning and change (Ferreira and Otley, 2009).

Although organizations have embraced CSR as a core component of business, little is known about the processes whereby MCSs contribute to the deeper integration of CSR within organizational activities (Arjaliès and Mundy, 2013). Thus, research on MCSs that consider sustainability or CSR is required (Gond *et al.*, 2012; Berry *et al.*, 2009; Otley, 2003). Prior case study research has assumed different perspectives:

- the use of formal and informal control systems in Japanese listed companies (Hosoda and Suzuki, 2015);
- the effects of formal and informal control systems in motivating socially responsive decision-making (Norris and O'Dwyer, 2004);
- sustainable leadership through formal control systems and organizational culture (Morsing and Oswald, 2009); and
- implementing sustainability strategies through formal and informal mechanisms (Riccaboni and Leone, 2010).

Crutzen *et al.* (2017) argue that SMEs may have different control patterns for the use of both formal and informal control systems in the management of sustainability issues. Research is, therefore, required to understand the role of MCSs in facilitating the management of CSR activities that, in turn, support the attainment of organizational objectives for SMEs in Japan. The MCS approach will provide new insight into CSR implementation in SMEs that address the demographic and economic challenges because this study shows how MCSs enhance regional revitalization as one aspect of CSR by integrating stakeholders' opinions.

The structure of this paper is as follows. Section 2 reviews the extant literature. Section 3 describes the research methodology. Sections 4 presents the findings. Section 5 discusses the findings and then concludes and suggests directions for future studies.

2. Literature review

This section describes the role and uses of MCSs for CSR activities. This section first outlines the theoretical framework of MCSs. Next, the relevance and application of MCSs to CSR activities are clarified. Finally, case studies are highlighted to investigate the use of MCSs in the implementation of CSR activities.

2.1 Theoretical framework of MCSs

The formal and informal aspects of MCSs are evolving with strategy implementation (Berry *et al.*, 2009; Ferreira and Otle, 2009; Sandelin, 2008; Chenhall, 2003). The primary components of formal control systems are financial controls such as budgetary control systems (Anthony and Govindarajan, 2007). In addition, non-financial controls that consider non-financial measures are also used (Anthony and Govindarajan, 2007; Bhimani and Langfield-Smith, 2007; Chenhall, 2003). These control systems include planning, performance measurement, evaluation, feedback and corrective action (Anthony and Govindarajan, 2007).

Information gained from formal control systems forms a basis for new strategies (Anthony and Govindarajan, 2007). Interactive control systems are “formal information systems managers use to involve themselves regularly and personally in the decision-making activities of subordinates” (Simons, 1995, p. 95). Interactive control systems seek to change or renew strategies through intra-organizational discussion (e.g. between superiors and subordinates, top management and business unit managers) by identifying potential threats and opportunities (Simons, 1995). Organizational learning is stimulated, new ideas are encouraged and strategies emerge as organization-wide responses to perceived opportunities and threats through the use of interactive control systems (Bisbe and Otle, 2004).

MCSs are also characterized by informal control systems that embody common values, beliefs and traditions that direct employee behavior (Falkenberg and Herremans, 1995). Informal control systems motivate employee ethical behavior and are enhanced by clan control (Norris and O'Dwyer, 2004), which “attains cooperation by selecting and socializing in a way that individual objectives substantially overlap with the organization's objectives” (Ouchi, 1979, p. 846). Informal control systems are congruent with formal control systems when they prompt behaviors aligned with organizational values, beliefs and traditions. This congruence of formal and informal control systems motivates members to implement strategy (Falkenberg and Herremans, 1995).

Otle (1999) argues that there is no universally applicable system of management control and that the choice of appropriate control systems depends upon circumstances surrounding an organization. Chenhall (2003) discusses size mostly measured by the number of employees as a contextual variable that affects the design of MCSs. Large size is associated with an emphasis on and participation in budgets and sophisticated controls. Informal control typically characterizes small firms (Sandelin, 2008; Collier, 2005; Chenhall, 2003). The case study of a small and developing company by Sandelin (2008) shows that informal deployment of cultural criteria in personnel selection and share-based incentives granted to employees homogenize the environment within the firm. Informal daily communication among managers and employees also supports decision-making (Sandelin, 2008). Thus, informal control systems can be a key element of MCSs in SMEs.

2.2 CSR and MCSs

CSR has been integrated as a core component of companies' business. Most companies issue CSR reports to highlight their contribution to stakeholders financially, environmentally and socially. In this context, researchers have noted that economic, environmental and social aspects should be incorporated into the formal aspect of MCSs (Gond *et al.*, 2012; Albelda, 2011; Perrini and Tencati, 2006). For example, Epstein and Roy's (2001) framework includes the details of the systems, structures and measures that are necessary to change organizational culture and processes to improve both social and financial performance based on the concept of the Balanced Scorecard (BSC). This BSC approach shows that environmental and social aspects could be drivers of both financial and social performance. Thus, environmental and social aspects should be integrated into a formal control process that includes planning, performance measurement, evaluation, feedback and corrective action. This integration of environmental and social aspects into formal control systems could translate CSR activities into day-to-day action.

Research has also recognized that the informality of a control system is an important factor in creating an organizational climate that motivates organization members to implement CSR activities (Crutzen *et al.*, 2017; Riccaboni and Leone, 2010; Durden, 2008; Norris and O'Dwyer, 2004). Comprehensive formal control systems could be supported by informal control mechanisms to implement CSR (Crutzen *et al.*, 2017; Norris and O'Dwyer, 2004), and, in turn, formal controls could fortify the establishment of informal control mechanisms (Crutzen *et al.*, 2017).

2.3 Case studies investigating MCSs in the implementation of CSR activities

Case studies have been adopted to reveal MCSs' functions in CSR implementation. For example, a case involving a UK company (Norris and O'Dwyer, 2004) shows that no environmental and social aspect was incorporated into formal control systems. Only informal control systems existed to implement CSR. If environmental and social aspects are not embedded in formal control systems, managers' decisions on financial goals alone will be prioritized during periods of heightened economic challenges, such as fierce competition with rival companies (Norris and O'Dwyer, 2004). In addition, in the case of a New Zealand company (Durden, 2008), neither formal nor informal control systems existed for CSR, and managers and employees were not motivated to implement CSR. Durden (2008) suggested that both formal measurement and informal control are key aspects in developing MCSs that incorporate social responsibility considerations. These case studies show useful function of formal and informal control systems for the implementation of CSR.

Case studies that show the function of formal and informal control systems for CSR implementation have been conducted. The case of Procter & Gamble (P&G) in Italy (Riccaboni and Leone, 2010) shows that both formal and informal controls systems translate sustainability strategies into action and modify them when a strategic change in a sustainable direction occurs. The case of Novo Nordisk A/S (Morsing and Oswald, 2009) shows that formal control systems such as BSC support the measurement and evaluation of sustainability practice. Organizational culture as an informal control system is necessary for managing sustainability practices through the leadership of the top management (Morsing and Oswald, 2009). In Japanese companies, *Hoshin Kanri*[2] of formal control systems typically serves environmental and social objectives and supports the successful implementation of CSR under the organizational climate dictated by informal control systems (Hosoda and Suzuki, 2015). These case studies show that mutual functions of formal and informal control systems can motivate members of organizations and enhance CSR activity implementation.

Recent case studies also find that the formal control systems are useful for integrating the opinions of stakeholders into control process and reporting. Arjaliès and Mundy (2013) and

Kerr *et al.* (2015) identify how interactive control systems incorporate the opinions of stakeholders such as investors, NGOs and communities so that managers can identify strategies overlooked internally and attract feedback on CSR strategy (Kerr *et al.*, 2015; Arjaliès and Mundy, 2013). Kerr *et al.* (2015) explain that the emphasis on stakeholder interaction is consistent with Simons'(1995) suggestion that managers are likely to have interactive control systems because of the importance of public and political opinion. Thus, the role of interactive control systems is useful in the interaction between managers and employees to renew their strategies and to incorporate opinions of stakeholders into CSR or sustainability actions.

Various control systems are used to motivate organizational members to implement CSR activities and to incorporate the requests of stakeholders into control processes. Little is known, however, about the processes whereby MCSs contribute to a deeper integration of CSR into organizational activities of SMEs in Japan. Crutzen *et al.* (2017) also argue that SMEs may have different control patterns for managing sustainability issues. The research question addressed in this study is therefore:

RQ. How do organizations use their MCSs to support the motivation of employees and the integration of stakeholders' opinions when implementing CSR activities in SMEs?

3. Methodology

3.1 Research method

This study uses a case study to explore how MCSs can support the translation of CSR into CSR activities in a Japanese SME. The case study presents the concepts through a real-world context. Case studies allow researchers to cope with technically distinctive situations with many variables of interest (Yin, 2014). The choice of this method is based on the observation that case studies are used to investigate how and why particular practices are adopted in accounting. Case studies also provide convincing explanations that facilitate theory development (Smith, 2011; Scapens, 2002). Additionally, with specific reference to CSR and MCSs, many scholars (Kerr *et al.*, 2015; Arjaliès and Mundy, 2013; Mersereau and Mottis, 2012; Riccaboni and Leone, 2010; Morsing and Oswald, 2009; Norris and O'Dwyer, 2004) use case studies.

3.2 The case company

Company A is a SME located in Tochigi Prefecture in Japan, approximately 100 km from Tokyo. The area where Company A is located is renowned for sites of historical and archeological interest, is a world-famous circuit facility and is known for its strawberry production. Visitors to the area can experience the fire festival, rice planting, a *Sake* production tour, strawberry picking and a *Soba* festival.

In 1829, an ancestor of the CEO of Company A built a brewery in Tochigi Prefecture. The company is located in Mashiko Town, which is one of the most famous places in Tochigi Prefecture. Employing 36 people, and with US\$10m in 2014 sales, Company A refers to SMEs in Japan. Company A brews *Sake* and *Shochu*, sells wholesale and retail liquor and beverages, produces cosmetics and deals in real estate. Company A is reputed for its contributions to the Tochigi Prefecture. Along with many other Japanese cities, the area is suffering from a degrading local economy because the age of the working population has declined and the Japanese industry is underperforming. Additionally, consumption of Japanese *Sake* in Japan has been decreasing owing to lifestyle changes. Accordingly, Company A is attempting to contribute to the local economy and enhance its brand by collaborating with other companies in CSR activities.

3.3 Data collection and analysis

Multiple sources of evidence were collected at the research site following what is generally described as data triangulation (Yin, 2014; Scapens, 2002). Primary data were collected during note-taking and interview transcription. Secondary data such as in-house documents were provided by the CEO, the company website and company brochures; publications on Company A were also used as data.

The interviews were conducted at Company A. The interview lasted 3 h on 3 July, 2015, 30 min on 13 July, 2015 and 1.5 h on 30 March, 2017. The total interview time is 5 h. The interviews focused on CSR activities, the use of MCSs and the integration of CSR and MCSs. The interviews are recorded and transcribed. The CEO of the company also visited the author's institution for about 2 h on 19 February, 2016, and shared opinions about Company A's business strategy. A notebook was used to collect data.

In addition, site visits were conducted on 31 July 2015, on 4 August 2015 and on 17 December 2016 to investigate how the company operates in the production and selling of its products to foreign and Japanese tourists and how the company cooperates with other local companies in CSR activities. Each site visits takes about 2 h and the total time is about 6 h. A notebook was used to collect data.

For the case analysis, a pattern matching (Yin, 2014) was adopted. The process was undertaken by comparing a pattern based on findings from the case study with a predicted pattern made before data collection. The comparison is provided considering formal and informal control of MCSs, linkages between the MCSs and motivation of employees, as well as the integration of stakeholders' opinions on the implementation of SMEs' CSR activities.

4. Findings

4.1 CSR at Company A

Company A had a formal environmental and a social policy at the time of this study. Table I indicates that CSR activities assumed a top-down approach centered on stakeholder groups. The CEO mostly valued employee relationships in the implementation of CSR. The CEO valued the education of employees and relationships with employees to encourage understanding and motivation among employees of the need to contribute to society, Company A and their own well-being. Additionally, the CEO was attempting to improve the quality of *Sake* and produce other liquor, beverages and products (e.g. cosmetics) to satisfy existing customers and customers who cannot consume alcohol. The CEO also focused on collaborating with local businesses to contribute to the local economy and the *Sake* industry.

As discussed in a previous research on CSR in SMEs, CSR is an essential concept in SMEs such as Company A in Japan (Haron *et al.*, 2015). CSR is incorporated into Company A's corporate policy. This reflects that Company A implements CSR activities by using non-financial controls with a formal CSR policy (Hosoda and Suzuki, 2015).

Table I Constituencies of CSR programs at Company A

Stakeholders	Programs
Employees	Dispatch to the workshop, support of qualification (e.g., <i>Sake</i> brewing) President and employee communication obtained through individual interviews
Customers	Improving the quality of <i>Sake</i> , producing other liquor, beverages and products (e.g. cosmetics)
Business partners	Supporting business partners at events
Local community	Implementation of cooperation projects with the prefecture breweries Participation in the chamber of commerce association and tourism association

For Japanese companies, environmental conservation activities are an important CSR item. However, the Company A CEO explained that environmental conservation is not an important CSR goal because the production of *Sake* does not produce a heavy environmental burden:

Sake production is an agricultural processing industry. Producing with Japanese rice is not likely to be an environmental burden. We return rice that has been milled to the field, milled rice that is further milled will be a raw material for *Shoucyu*. *Sake* lees called *Sake Kasu* in Japanese can also be sold. For bottles, we use a recyclable bottle. (CEO, 3 July 2015)

However, there are necessary future considerations such as the reduction of electricity consumption and the introduction of hybrid cars. Thus, the CEO is considering investment in environmental protection by acquiring government subsidies[3]:

Whether we are saving energy and generating electricity, we are not making sunlight, making LED lighting, or saving electricity without using electricity. After that, I wonder if there is a problem that we do not make a hybrid car [...] With government subsidies, we are working on environmental measures and support measures for new business; various things are involved in Abenomics[4]. (CEO, 3 July 2015)

The CEO encourages employees to understand the meaning of their work and contribution to provide motivation. A sense of shared values is central to CSR activities. CSR is part of the corporate philosophy. The CEO noted shared values among employees of Company A:

We are grateful for all we have, to create great impressions and joys in a cordial manner, to realize happiness physically and mentally for ourselves and others. (CEO, 3 July 2015)

The CEO and employees appreciate all they have, create great impressions and act cordially to pursue physical and mental well-being for themselves and other stakeholders. The CEO and employees consider and promote satisfaction among customers, family, colleagues, business partners and communities. The CEO and employees value good relationships, economic security and personal growth. They challenge the status quo and are uncomplaining. To enhance these shared values, employees chant Company A's management principles and read from a magazine that narrates principles governing business practices, human relationships and ethical behavior at a meeting each morning. A new year ceremony is also held to enhance communication among employees and motivate employees in their work. The CEO explained the shared values of Company A:

We live in nature's providence and the world's order and principles. Each of us is just an individual in the world. We owe what we are to someone else. We would like to express our sincere gratitude to all. We think and act in the interests of customer satisfaction, experience joy in our work, wish our family, colleagues, business partners, customers, local people, and ourselves a healthy and happy life, good relationships with our families, economic wealth and human growth, and to maintain a challenging attitude to break the status quo and obtain happiness without complaining. (CEO, 3 July 2015)

To create an organizational climate in which the CEO and employees can act in accordance with the organization's values, beliefs and traditions, Company A holds a ceremony once a year. It is an event for individuals, but it also aims to encourage teamwork beyond divisional boundaries and a positive attitude toward work among employees. This type of activity is used as clan control (Ouchi, 1979) that enhances cooperation by encouraging socialization so that individual objectives substantially overlap with the organization's objectives. The CEO of Company A explained:

In the company, a ceremony is held annually. Many companies talk about management plans, but I give commendations for people who worked hard for one year; employees who received recognition speak for three minutes and present their own initiatives. Then, I express the determination of each division and explain that I want to make a new *Sake* or find a new business

partner to inspire the feelings of our employees. Through these events, I attempt to raise awareness, teamwork, and unity in my company. (CEO, 3 July 2015)

The results show that the informal control system discussed by [Hosoda and Suzuki \(2015\)](#), [Riccaboni and Leone \(2010\)](#), [Durden \(2008\)](#), [Norris and O'Dwyer \(2004\)](#) is evident and reflected in the CEO's emphasis on creating shared value to implement CSR. The informal control system involves the creation of an organizational climate, in which managers and employees can act in accordance with the organization's values, beliefs and traditions ([Falkenberg and Herremans, 1995](#)). The informal control system seeks to foster employee commitment to an organizational climate aligned with the company's values when engaging in CSR. This MCS design of Company A can be affected by company size ([Anthony and Govindarajan, 2007](#); [Chenhall, 2003](#)). This is because large size is associated with an emphasis on and participation in budgets and sophisticated controls. In contrast, informal controls can be a key element of MCSs in small companies ([Sandelin, 2008](#); [Collier, 2005](#); [Chenhall, 2003](#)) such as Company A.

4.2 Interaction with employees and other local companies

As Japan's population declines, industries hollow out and prefectural economies suffer, community and prefectural revitalization are prominent on CSR agendas nationwide. Japanese companies are undertaking this revitalization by collaborating with local businesses and public organizations through the implementation of *Chihou Sousei*, a current policy of the Japanese Government ([Official Web Site of Prime Minister of Japan and His Cabinet, 2015](#)).

Tochigi is also suffering from a degrading local economy because the age of the working population has declined, and the Japanese industry has hollowed out. Additionally, consumption of Japanese *Sake* in Japan has been decreasing because Japanese lifestyles are changing. In defense of these threats, Company A is attempting to contribute to the local economy and enhance the company brand by collaborating with other companies in CSR activities. The CEO noted the following:

It seems that problems of population decline and hollowing out of industry are emerging. So, what we do is use regional resources. This is one strategic advantage; being able to use local resources that only local companies have access to. So, we use them to attract tourists, brand local products, promote the region, and attract customers. By doing so, I think companies can sustain business. As a result, I think that these activities are fulfilling CSR. (CEO, 3 July 2015)

To develop the Company A brand, the CEO sought to elevate the quality of Company A's *Sake* and to produce other liquors, beverages and products (e.g. cosmetics) during daily interactions with other distillers and customers. Company A incorporates ideas from customers and communities concerning new brands of *Sake* and new products and improving product taste and quality. Approximately six times each summer, Company A sponsors a *Sake* festival at which the CEO and employees meet customers and community residents to gain feedback on their *Sake* and *Shochu*. Company A hosts an annual Thanksgiving festival for people in the local community at which the CEO and employees have a chance to interact with people in the community. After each festival, the CEO and employees exchange ideas and opinions with the community.

Company A also incorporates ideas for regional development from local businesses. As chairman of the town's associations for tourism and commerce, the CEO meets with local businesses to discuss the promotion of Tochigi Prefecture and Mashiko Town. The group also discusses how to revitalize local businesses and the community. The CEO meets with other breweries to enhance regional revitalization by promoting and branding Tochigi *Sake*. He reviews such discussions during the morning employee meeting and monthly meeting. Additionally, an interview is held daily between the CEO and employees, in addition to the

monthly department head meeting, and ideas for launching new products and developing new local revitalization programs are shared with a mailing list using social networking sites.

These approaches show that the company uses interactive control systems to incorporate opinions from stakeholders as noted by [Kerr et al. \(2015\)](#) and [Arjaliès and Mundy \(2013\)](#). Interactive control systems generate new products and regional development projects by identifying potential threats and opportunities based on customers' and local businesses' opinions. Interactive control systems, a type of formal control system, can also fortify the establishment of informal control mechanisms ([Crutzen et al., 2017](#)). In Company A, daily communication between the CEO and employees through the use of interactive control systems enhances the creation of shared value to implement CSR.

4.3 Outputs of interaction with other local companies

In utilizing local resources, it is crucial that Company A cooperate with the local Mashiko pottery distributor association and its member distributors, hot spring hotels, farmers, tourism volunteer associations and travel agencies, and this cooperation is expected to contribute to the spin-effect of collaboration with other companies through local revitalization projects and the resulting expanded employment. These projects are designed to help local companies and communities and to expand employment by stimulating consumption of locally produced food and products. Through such collaboration, Company A engages in the promotion of two tourism activities: the *All of Mashiko Tour* and *Sakagura Tourism*. The CEO of Company A explained:

In the summer, we will host more than one *Sake* event, we have Thanksgiving once every five years. In addition, we develop travel programs by collaborating with the big retailers such as Mashiko pottery, hot spring hotels, strawberry farmers and so on [· · ·] We also work with the *Sake* breweries in the prefecture on a collaborative travel program called Sakagura Tourism. (CEO, 3 July 2015)

Promoters have acted amid a crisis as the age of Japan's working population declined, the Japanese industry hollowed out and the economies of Tochigi Prefecture and Mashiko Town were threatened. The *All of Mashiko Tour* introduces tourists to Mashiko's traditional industry, history, culture, nature, agriculture and lifestyle. Yearlong, tourists can make Mashiko pottery, visit inns, hot springs and Company A. They pick strawberries in winter, plant rice in the spring and enjoy a fireworks festival in the summer. Company A's CEO also developed the *Sakagura Tourism* project, collaborating with local breweries and businesses to attract Japanese and foreign tourists to Tochigi. Tourists can visit four *Sake* breweries and other tourist spots. Tourists receive privileges at each *Sake* brewery. Because of these projects and other events, 100,000 tourists now visit Company A and Mashiko annually.

Interactive control systems, a type of formal control system, are useful for interaction between the CEO and employees to renew strategies and incorporate opinions of stakeholders into CSR or sustainability actions. The successful case of Company A demonstrates an interactive control system in the form of tour programs with local businesses and shows that the interactive use of MCSs is likely to increase the visibility of new opportunities that can be used to combat threats surrounding companies ([Kerr et al., 2015](#); [Arjaliès and Mundy, 2013](#)) such as Company A.

5. Conclusions, implications and research issues

5.1 Conclusions

Little is known about the processes whereby formal and informal control systems contribute to a deeper integration of CSR within organizational activities of SMEs in Japan. The research question addressed in this study is therefore "How do organizations use their

MCSs to support the motivation of employees and the integration of stakeholders' opinions when implementing CSR activities in SMEs?"

The case shows that such systems can support the motivation of employees and the integration of stakeholders' opinions when implementing CSR activities.

Company A's formal control systems are reminiscent of the work of [Hosoda and Suzuki \(2015\)](#), [Riccaboni and Leone \(2010\)](#) and [Morsing and Oswald \(2009\)](#) who argue that environmental and social aspects of formal control systems are incorporated in a top-down, stakeholder-centered approach to CSR with a formal CSR policy. CEOs communicate the CSR policy to employees to implement each activity. In addition to formal CSR policy, informal control systems discussed by [Hosoda and Suzuki \(2015\)](#), [Riccaboni and Leone \(2010\)](#), [Durdin \(2008\)](#) and [Norris and O'Dwyer \(2004\)](#) are evident in the case study and reflect the CEO's emphasis on creating shared value to implement CSR. Such informal deployment of cultural criteria through share-based incentives for employees homogenizes the atmosphere within the firm. Formal control systems could be supported by informal control systems in the implementation of CSR activities ([Crutzen et al., 2017](#); [Norris and O'Dwyer, 2004](#)).

The emphasis on stakeholder interaction is consistent with [Simons'\(1995\)](#) suggestion that a CEO is likely to have interactive control systems because of the importance of stakeholders' opinions ([Kerr et al., 2015](#); [Arjaliès and Mundy, 2013](#)). Interactive control systems, a type of formal control system, are useful for interaction between CEOs and employees to renew strategies and for the incorporation of stakeholders' opinions into CSR or sustainability actions to combat threats surrounding a company. Communication through interactive control systems can also fortify the creation of shared value to implement CSR activities ([Crutzen et al., 2017](#)).

5.2 Implications

From a theoretical perspective, the aim of this research was to advance knowledge regarding the use of MCSs in SME CSR implementation in Japan. This research contributes to management accounting research by demonstrating that using formal and informal control systems can support employee motivation and integrate stakeholder's opinions concerning the implementation of CSR activities in SMEs in Japan.

The MCS approach also contributes to knowledge on business practices in the Japanese SMEs context. This study is particularly relevant for SMEs in Japan that seek to address the demographic and economic challenges Japan currently faces because it shows how MCSs enhance regional revitalization as one aspect of CSR by integrating stakeholders' opinions.

5.3 Research issues

Finally, it is important to note certain research issues that must be addressed in the future. First, only one SME in Japan was sampled; surveys using questionnaires and interviews with more SMEs in Japan are needed to expand and confirm the results of this study. Second, additional case studies are also required to explain the relationship between formal and informal control systems in detail over time. For example, there could be a substitute or a complementary relationship between formal and informal control systems ([Crutzen et al., 2017](#)). Thus, it is necessary to examine the further development of MCS patterns in corporate practice over time. Third, this case is explorative and focuses on small firms in Japan. Large multinational companies may have different control patterns for CSR implementation. Thus, a case study on a large firm is required to demonstrate how large companies use formal and informal control systems.

Notes

1. In Japan, SMEs in the manufacturing, construction and transport sectors are defined as establishments capitalized at US\$3m or less and employing less than 300 regular employees. In the wholesale sector, SMEs are defined as establishments capitalized at no more than US\$1m whose regular employees do not exceed 100. SMEs in the retail sector are establishments capitalized at less than US\$500,000 whose regular employees are less than 50. Finally, SMEs in the service sector are establishments capitalized at less than US\$500,000 whose regular employees are less than 100 ([National Association of Trade Promotion for Small and Medium Enterprises, Japan, 2016](#)).
2. *Hoshin Kanri* are “all organizational strategies for systematically accomplishing long and mid-term goals as well as yearly business targets, which are established as the means to achieve business goals” ([Akao, 2004](#), p. 47). *Hoshin Kanri* originated as part of total quality control during the 1960s ([Akao, 2004](#)).
3. For example, the program to promote the introduction of energy-saving measures aims to laterally expand the use of energy-saving measures by diagnosing the energy- and power-saving potential of SMEs and widely disseminating information on energy-saving case examples and technologies ([National Association of Trade Promotion for Small and Medium Enterprises, Japan, 2016](#)).
4. Prime Minister Shinzo Abe unveiled a comprehensive economic policy to sustainably revive the Japanese economy while maintaining fiscal discipline. The policy is called Abenomics ([JapanGov, the Social Website of the Government of Japan, 2017](#)).

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