Abstract

A good reputation regarding social and environmental responsibility has benefits such as attracting and retaining high-quality employees, reducing environmental incidents and improving employee safety. Health improves productivity and lowers operating costs, enhancing the employee’s image with customers and with socially-conscious investors with direct implication on market value and incomes (Atkinson, Kaplan, Matsumura, Young, 2012, pp: 33). As a result, cost accounting and cost control literature increasingly discusses and debates upon business sustainability.

The value contribution of this paper comes from a critical review of cost control functions, showing the need and opportunity to step up as a business sustainability tool. Also, the paper is describing the link between cost control and business sustainability.

The article stops at the conceptual level. Describing a successful tool for business sustainability, it needs an empirical research in order to identify all of its systemic aspects. Also, this paper is opening up a field of empirical research in management.

Keywords: Cost control, performance, value creation, business sustainability

1. Introduction

Sustainability is gaining increasing public attention and attracting greater debate. Also, during the last decade, and especially in the last few years, company stakeholders’ expectations are including more and more social and environmental aspects, while the primary company target remains financial performance, which is increasingly affected by social and environmental performance. A number of studies have been carried on in this direction, measuring the impact of business sustainability over financial performances (Eccles, Ioannou, & Serafeim, 2012; Lee, Pati, & Roh, 2011).
A good reputation regarding social and environmental responsibility has many benefits, such as attracting and retaining high-quality employees, reducing environmental incidents and improving employee safety and health, improving productivity and lowering operating costs, enhancing a company’s image for its customers and its socially conscious investors, with direct implication on market value and incomes (Atkinson, Kaplan, Matsumura, Young, 2012, pp: 33). As a result, cost accounting and cost control literature is increasingly incorporating business sustainability within its content.

Sustainability in terms of business is a business strategy that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model (Berns, Townend, Khayat, Balagopal, Reeves, Hopkins et al., 2009). Business sustainability performance should not take away from the financial one. They should go along together, because business sustainability does not necessarily mean more costs, or less income. Rather, it means that, in addition to setting certain financial goals to be reached, companies should set social and environmental ones as well. However, there are situations where business sustainability and financial performance interfere with each other, in which case a company has to choose between a non-sustainable process or resource, and an ineffective one.

Business sustainability can be reached by integrating social and environmental goals to an existing business strategy. In addition, we maintain that some specific tools are indispensable to achieving business sustainability.

The main objective of this research is to reveal, at a conceptual level, the link between cost control and business sustainability, and also, to show how the tool of cost control can be used for business sustainability through the alignment of company and community goals.

2. Cost control particularities

The main function of cost control is to identify and explain variances in terms of costs and revenues. Horngren (Horngren, Datar, Rajan, 2011) created this diagnostic control system with the purpose of measuring whether and how well a company is performing compared to its expectations. However, cost control has more functions than this. Existing literature describes a series of particularities of cost control (Atkinson, Kaplan, Matsumura, Young, 2012; Horngren, Datar, Rajan, 2011), such as employee motivation and goal congruence, respectively strategy evaluation.

2.1. Waste reduction

We use the term ‘waste reduction’ referring to the decrease in unnecessary consumption and to the improvement in efficiency of the business processes. As it was shown earlier, the main function of cost control is to identify and explain variances in terms of costs and revenues, with the goal of maintaining consumption within planned values. This has implications in waste reduction. Furthermore, it shows how well resources are used during the production processes, respectively if consumption is within the projected values, but also encourages employees to find ways to improve efficiency.

In the same manner, cost control can show to the management how good the company technologies are, comparing with best ones on the market. Showing, on the same time, the benefits of improving processes and, or renewing technologies.

2.2. Motivation and goal congruence

Trough cost control, companies motivate managers to achieve goals by holding them accountable and rewarding them for meeting these goals (Horngren, Datar, Rajan, 2011). It is typical for managers to give more attention to the aspects they are monitored for, and which determine their remuneration. Thus, an important function of cost control is driving managers’ motivation.
Horngren (Horngren, Datar, Rajan, 2011, pp:776) points out that “goal congruence exists when individuals and groups work toward achieving the organization’s goals—that is, managers working in their own best interest take actions” that align with the overall goals of top management. In order to reach an organization’s strategic objectives, all organizational resources need to be working together, creating synergies and surpassing the competition. In order to achieve this, it is necessary for company goals to be aligned with employee ones. In order to develop this alignment, it is often enough to link the company’s objectives to the manager’s objectives.

2.3. Evaluating strategy

Certain variances sometimes signal managers that a strategy is wrong or ineffective. A company seeking to achieve value creation simply by reducing costs and improving financial revenues may find this insufficient for long-term value creation – causing top management to consider reevaluating the strategy.

3. How cost control works for business sustainability

Kaplan (Atkinson, Kaplan, Matsumura, Young, 2012, pp:33) contends that “investing in the environment and in communities need not be for altruistic reasons alone.” This can be true on a short term, but we believe that long-term advantages regarding revenues and stock prices are related to business sustainability measures. A number of studies deal with this issue, measuring the impact of business sustainability over financial performance (Eccles, Ioannou, & Serafeim, 2012). Firstly, it was shown that, in terms of stock market returns, companies ranking high within the responsibility continuum had an abnormal stock market performance that was 4.8% higher than the companies with low responsibility, on a value-weighted basis. At the same time, the intensity of business sustainability seems to be significantly and positively associated with most market-based performance indicators (Pati, & Roh, 2011). This reveals the fact that a relationship between business sustainability and performance measurement indicators exists in a positive way.

The main objective of the research is to reveal the link between cost control and business sustainability, and also, to show how the tool of cost control can be used for business sustainability through the alignment of company and community goals.

- Waste reduction

The importance of waste reduction is best noted as “the less wasteful an individual, community, or country becomes, the more sustainable it becomes” (Lindsey, 2011). Cost control’s most important goal is waste reduction.

Moreover, it has been pointed out that wastefulness can reduce the ability of current and future generations to reach their full potential (Lindsey, 2011). Similarly, mindful consumption is regarded as a key factor for reaching business sustainability (Sheth, Sethia, & Srinivas, 2010). Under the condition of limited natural resources, it is easy to imagine the implications of waste reduction over a sector, industry or country. Also, waste reduction must be the primary concern of a business that wants to implement sustainable development.

In the given case, financial and sustainability goals are perfectly aligned. We recommend that companies fighting for waste reduction and improved efficiency of resources make their efforts known as efforts for business sustainability. The purpose of this is to gain a better public image.

- Motivation and goal congruence

Motivation and goal congruence are specific to cost control. Through these specific functions, a company can reach business sustainability by introducing sustainability measures and goals, and by holding managers accountable and rewarding them for meeting these goals. In this case, a company should develop a business
sustainability strategy in order to include social and environmental measures to the existing financial performance ones.

Nevertheless, some authors are advocating for a series of measures regarding social performance to be integrated in a balanced scorecard - respectively, to create periodical reports which would include social and environmental indicators (Atkinson, Kaplan, Matsumura, Young, 2012, pp:34; Horngren, Datar, Rajan, 2011, pp:826).

- Strategy evaluation

The feedback generated by the implementation of cost control questions the correctness of the strategy. In a fast changing environment, the key success factor is frequent change within the business sector, industry or country. Building long-term competitive advantage is one of the primary concerns of business management. As it was previously shown, business sustainability is a positive approach that leads to the creation of competitive advantages and more value creation. Moreover, addressing sustainability issues is critical to the long-term existence and thriving of companies (Porter & Kramer, 2006). Thus, it is necessary for companies to employ a long-term, comprehensive approach in order to develop a good public image. By doing so, a company is attracting and retaining high-quality employees, is reducing environmental incidents and improving employee safety and health, is improving productivity and lowering operating costs, and is enhancing its image with customers and socially conscious investors – all of this having direct implications on market value and incomes.

4. Conclusions

As a conclusion, we note that promoting a better public image has numerous benefits, among which market trust and better value creation. Nowadays, there is no better way to improve a company’s image than through business sustainability. Cost control, through its various functions, can lead to business sustainability by reducing waste, motivating employees, and unifying company efforts to achieve desired goals – permanently questioning the business strategy in order to achieve the best results. Companies that are not using business sustainability to improve their business image can choose to do so by implementing its first step: Reframing the Company's Identity (Eccles, Miller Perkins, Serafeim, 2012).

At a conceptual level, the link between cost control and business sustainability is presented in Table 1.

<table>
<thead>
<tr>
<th>Element</th>
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<th>Business sustainability</th>
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</thead>
<tbody>
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The positive contribution of this paper comes from a critical review of the cost control functions, showing the need and opportunity to use cost control as a business sustainability tool. Thus, it describes the link between cost control and business sustainability.

The paper stops at the conceptual level. Describing a successful tool for business sustainability needs empirical research that can identify all its systemic aspects. This article is opening up a field of empirical research in management.

References