

The Role of the Management Control System in Supporting ESG-Focused Transformation in Financial Intermediaries: A Case Study of an Italian Bank

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Abstract

This paper investigates how environmental, social and governance (ESG) issues are declined within the management control system (MCS), focusing on an Italian bank. Deepening the role that management control tools can play in supporting banks in facing the challenges posed by the ESG-focused transformation is pivotal. This is even more important if considering that national and international supervisors are engaged in disseminating a series of initiatives to promote the adoption of practices focused on sustainability issues among intermediaries: on this topic, for example, in April 2022, the Bank of Italy issued a first document of Supervisory Expectations on Climate and Environmental Risks, containing non-binding indications regarding the integration of climate and environmental risks into governance and control systems, business model and corporate strategy, organizational system and operational processes, in the risk management system and in the market disclosure of supervised banking and financial intermediaries. Due to the explorative nature of this research, the work is based on the qualitative analysis of an in-depth case study (Eisenhardt & Graebner, 2007; Miles et al., 2014). The selected case is an Italian bank with many recognitions over time about its engagement on ESG-focused transformation. Our investigation aims to deepen the role of MC tools in promoting sustainable development and realizing economic, social, and environmental purposes. This study can be considered original for two reasons. First, it contributes to extending the literature regarding the role of MCS in supporting the implementation of sustainable strategies, with a focus on banks. Second, it unveils the benefits and critical areas of the MCS in sustainable-oriented management.

Keywords: ESG, bank, management control system

1. Introduction

Literature is rich in contributions that affirm the decisive role of the financial system to the growth of the economic system; the interest in the search for a virtuous relationship between the two dimensions, real and financial ones, has returned, in recent times, to assert itself following the effects of the last financial crisis, which imposed a rethinking on the contribution of the financial system in supporting the real economy. In addition, the outbreak of the Covid 19 pandemic has given further impetus to research about the role and the path by which the financial system can support the economy: the spread of the Covid-19 pandemic has caused a slowdown in the world economy, a worsening in social and environmental conditions, pushing a new way of doing business, where sustainability issues are embedded into the company's business model, as variables able to create value, both within and outside the organization, for the involved stakeholders. As a consequence, the need for a nexus between financial development and economic growth based on sustainability profiles has become increasingly affirmed. This lead, within the organizations, to the dissemination of skills, will and tools that support not a simple "change", but a series of cultural evolutions. The logic of economic, social and environmental sustainability has prompted companies to review their management planning and control system with a sustainability perspective, emphasizing the importance of not focusing only on the pursuit of profit, as the sole objective, but considering social and eco-sustainable goals within their strategy (Marchi, 2020). In the financial sector, the orientation towards business sustainability has, over time, also been driven by the spread of the so-called environmental, social and governance criteria (ESG) in credit and investment processes. The ESG dimension, due to the particular nature of banking and financial activities, is extremely relevant also in relation

to risk management practices. Moreover, with the approval by the Council of the European Union of the Corporate Social Reporting Directive (CSRD), the entry into force in 2023 of the first updates relating to the Standards of the Global Reporting Initiative (GRI) and the UN 2030 agenda, it is possible to glimpse the beginning of a path that will lead organizations having to plan, control and report their environmental, social and governance performance (Venturelli et al., 2018).

This study aims to investigate how sustainability issues are declined within the management and control system (MCS), focusing on Italian banks. In particular, we posed the following research question: (Rq) *What is the role of MCSs concerning bank sustainability-oriented management?*

The work is based on the qualitative analysis of an in-depth case study (Eisenhardt & Graebner, 2007; Miles et al., 2014). The selected case is an Italian bank founded in 1983 as a firm specialized in factoring services; hereinafter, some important events, such as the transformation into a bank, the listing on the stock exchange, the entry into the NPL sector and some acquisitions, have marked the evolutionary path of the intermediary. This bank has been chosen for three main reasons. First, for the bank's sustainable orientation which is traceable in some awards: it is the first Italian bank certified by Winning Women Institute to have achieved excellence in the field of gender equality; it is among the top twenty most climate-conscious companies in Italy (Corriere della Sera and Statista ranking, 2022). This assumes that, in the bank's business model, the integration among economic, social and governance issues already exists. Second, for the company's experience in traditional credit activities. This assumes that the company's planning and control system has been shaped to effectively measure the achievement of goals, both enriching the performance measurement system, which will have to assume a logic that is always more multidimensional, and by enhancing the management information system, which will have to feed itself with reliable data and information. Third, the bank is the first Italian challenger bank to have joined the Net-Zero Banking Alliance, the initiative promoted by the United Nations that aims to accelerate the sustainable transition of the international banking sector to achieve net zero emissions by 2050.

The study extends the literature regarding the role of MCS in supporting the implementation of sustainable strategies, with a focus on banks. It highlights the benefits and critical areas of the MCS in sustainable-oriented management. Both aspects are analyzed considering the case of an Italian bank; this is relevant because: the sector in which a firm operates can affect the degree of implementation and sophistication of sustainability management control tools (Benjaoran, 2009; Chand & Dahiya, 2010); despite both the significant position occupied by the banking industry in nations' economies and the importance of management controls for banks, it remains a need for researchers to pay adequate attention to exploring control issues in this sector (Gooneratne & Hoque, 2013; Kunz & Heitz, 2021).

2. Literature Background

The principles of sustainable development should be considered as a way to promote a new value system through changing strategy, organizational structures, tools and measures. In this context, it can be useful to rethink the planning and control systems, as pivotal management mechanisms which, in addition to supporting the processes for defining objectives and analyzing company results, contribute to directing the behavior of the organization (Felden & Castellano, 2021). In fact, the awareness of sustainable issues, at the company level, can be expanded thanks to the right assessment and representation of phenomena such as socio-environmental and governance variables.

Therefore, for banks this should result in the embeddedness of risk culture into firms' management control systems (Kunz & Heitz, 2021). In this context, the management control system can assume a key role (Marchi, 2020; Corsi & Arru, 2020; Cavicchi et al., 2022).

Literature review is presented distinguishing the contributions into two strands, the first one focused on management control system and the second one to the role of management control system in promoting sustainability-oriented management. Generally, the term MCS is used interchangeably with other words such as management accounting (MA), management accounting systems (MAS) and organizational controls (OC) (Chenhall, 2003). According to Chenhall (2003, p. 129), "MA refers to a collection of practices such as budgeting or product costing, while MAS refers to the systematic use of MA to achieve some goal. MCS is a broader term that encompasses MAS and also includes other controls such as personal or clan controls. OC is sometimes used to refer to controls built into activities and processes such as statistical quality control and just-in-time management". Specifically, management control systems include "external information related to markets, customers, competitors, non-financial information related to production processes, predictive information and a broad array of decision support mechanisms, and informal personal and social control" (Chenhall, 2003; p. 129). Therefore, the MCS can be considered a bundle of information, financial and not,

required to achieve the planned goals and ensure effective communication of the way in which the company creates and distributes value among its stakeholders. According to Anthony (1965, p. 17), management control is “the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives”. Specifically, this Author distinguished planning and control systems into three operational areas: strategic planning, management control and operational control. Strategic planning is defined as the process of “deciding on objectives of the organization, on changes in these objectives, and on the policies that are to govern the acquisition, use and disposition of these resources” (Anthony 1965, p. 16). Therefore, the process of strategic planning aims at providing the company, at the top management level, with forecasting and final accounting tools to build competitive and growth strategies and monitor their implementation. The focus is on the effectiveness and efficiency of strategic choices with a medium-long-term perspective. In addition, operational control “is the process of assuring that specific tasks are carried out effectively and efficiently” (Anthony, 1965, p. 18). This control aims at monitoring the performance of operating variables at the level of corporate functions. Strategic planning and operational control are linked by management control such as a high-level monitoring system of economic, financial and management variables aimed at driving the activity toward the achievement of the objectives established in the budget. The perspective is short-term. Although Anthony’s work was one of the first to be developed, it received many critics: the main discontents have derived from the narrow view of control mainly based on financial and accounting data, for the separation of management control from the strategic and operational ones (Otley et al., 1995; Merchant & Otley, 2007) as well as the fact that Anthony does not consider that strategies and management control evolves over the time (Otley et al., 1995; Mintzberg, 1979). As a consequence, in the accounting and control literature many definitions of management control systems emerged (Strauß & Zecher, 2013). According to Becker et al. (2011), a management control system (MCS) comprise the systematic use of management accounting, known as the management accounting system (MAS), which helps firms achieve their goals by providing information necessary for the decision-making process regarding planning and control. Specifically, according to the Chartered Institute of Management Accountants (CIMA), managerial accounting is “the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources. Managerial accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies, and tax authorities” (CIMA, 1996). Therefore, MAS takes part in the broader management control system, which also comprises external information related to markets, customers, competitors, and non-financial information (Becker et al., 2011).

In this context, some of the most recent frameworks, in the accounting and control literature, are proposed by Malmi and Brown (2008) and by Bedford and Malmi (2015). According to Malmi and Brown (2008), management control system operates as a package and it includes five categories of controls: planning, cybernetic, rewards and compensation, administrative and cultural controls. Planning controls consist of the firm’s organizational goals setup and of the standards to be achieved in relation to what is forecasted. This type of control allows for driving effort and behavior expected from company members and controlling the assigned activities. The cybernetic controls allow quantifying a specific task with respect to standards of performance or targets to be met; this comparison activates a feedback process able to provide information useful to correct the variances concerning mistakes made in the planning phase (Green & Welsh, 1988). Tools such as budgets (Bunce et al., 1995; Hansen et al., 2003), financial measures (Ittner & Larcker, 1998), non-financial measures and, finally, hybrids, that contain both financial and non-financial measures, are pivotal in the realization of this control. Hence, this control influences the planning. Rewards and compensation regard “motivating and increasing the performance of individuals and groups through attaching rewards to control effort direction, effort duration, and effort intensity” (Malmi & Brown, 2008, p. 292). Therefore, these activities are implemented with the intent of increasing the commitment of the company’s members to the tasks to be undertaken, and the time devoted to the activity’s realization. Administrative control systems refer to corporate governance structure, organizational design and structure, and the sum of policies and procedures devoted to monitoring, accountability, and guiding the firm’s members toward achieving organizational objectives. Finally, cultural controls shape the context, in terms of values, beliefs and social norms, within which people carry out their activities (Malmi & Brown, 2008).

Bedford and Malmi (2015) examine MC systems’ configurations by adopting a configurational approach. According to the Authors, controls include categories such as planning, measurement, compensation, structure, policies and procedures, and socio-ideological. Specifically, planning refers to a firm’s ability to develop “long-term goals (ends) and patterns of action to achieve these goals (means)” (Santini et al., 2022, p. 839). Measurement system refers to diagnostic and interactive performance controls (Simons, 1995). The diagnostic

controls are based on formal information able to support managers in setting standards, and measuring the outputs and deviations; while the interactive controls rely on high personnel involvement, from the top managers to the employees, in the decision-making process through processes of information sharing all over the organization (Simons, 1995). Compensation is seen such as ex-ante and ex-post control (Flamholtz et al., 1985). The ex-ante control refers to performance-based rewards able to inspire and incentives effective and efficient behavior. The ex-post control regards the role of compensation in providing feedback on the consequences generated by the adoption of past behaviors. Structure “concerns the specification of roles and the patterns of authority and communication within an organization” (Bedford & Malmi, 2015, p. 8). Policies and procedures refer to control mechanisms aimed at specifying how the tasks have to be undertaken, and the boundaries to respect. When the actions to perform are known, the control is exercised by monitoring compliance with standardized rules and procedures; in contrast, with non-routine tasks and uncertain context, the control is expressed by the manager's discretion which identifies acceptable conduct and implements formal approval procedures (Malmi & Brown, 2008; Bedford & Malmi, 2015). Finally, socio-ideological controls refer to mechanisms that “persuade people to adapt to certain values, norms and ideas about what is good, important, praiseworthy, etc. in terms of work and organizational life” (Alvesson & K  reman, 2004, p. 4).

Research on management control in the banking sector covers a broad spectrum of topics including long-range planning practices, activity-based techniques, performance measurement, management accounting change, and non-financial performance, among others. However, despite the important role of the banking system in a country's economy, relatively fewer studies have been devoted to banking and financial institutions, making it an interesting and important ground for exploring management control systems (MCS). Management control is also pertinent for banks in light of the significant challenges that they face, due to continuous regulatory innovations and competitive pressures (Gooneratne & Hoque, 2013). The need for management control was less of a priority for banks up to the 1970s, when banks were operating in a stable environment concentrating on a narrow range of activities, which made limited demands for information (Billings & Capie, 2004). The development of MCS in banks over the years has been therefore closely linked to profound changes and new possibilities manifested by a complex, interrelated series of components at the macro level and their micro responses since the late 1980s. Capital requirements regulations and the 2008 financial crisis have, therefore, highlighted the importance of effective MCS for banks: Rikhardsson et al. (2021) explore the use of management controls in the context of the 2008 financial crisis, referring to the typology of controls in Malmi and Brown (2008). Their results underlined that management controls in dealing with the aftermath of the crisis is a mix of both organic and mechanistic forms of control in a complex structure, designed by internal actors or required by external actors. This evidence supports Bedford and Malmi (2015) findings, that complex hybridizations of organic and mechanistic control structures are required to manage organizations under complex conditions such as a crisis.

In the management control literature, it is recognized that a management control system can play an essential role in promoting sustainability-oriented management by changing the firm's direction and aligning the activities undertaken with the firm's sustainability objectives (Traxler et al., 2020). In fact, when it comes to the relationship between sustainability and MCS, researchers face the relationship under two different, but complementary streams of research (Felden & Castellano, 2021). The first avenue for research, known as management control systems for sustainability, regards “how and to what extent management control systems can support companies in the achievement of sustainability strategies” (Felden & Castellano, 2021, p. 5); the second one, recognized as the sustainability of management control systems, aims “to deepen the analysis on the technical enhancement in management control systems, which are needed following to the adoption of sustainability as well as other forms of social strategies” (Felden & Castellano, 2021, p. 5). However, most of the studies refer to the concept of sustainability control systems (SCSs) because the traditional MCS is seen to be limited in its ability to “address the interests of a broad range of stakeholders other than shareholders and to handle environmental and social issues as well as their interrelationships with financial ones” (Ditillo & Lisi, 2014, p. 27). SCSs comprise tools such as “environmental/sustainability management accounting and control (such as environmental budgeting, environmental/sustainability performance evaluation systems, eco-control or sustainability balanced scorecard)” (Gond et al., 2012, p. 209). However, SCSs should not use these tools independently, but their contribution to the integration of sustainability within the firm's strategy is expressed only when they inform MCSs. Otherwise, the risk is that these tools remain peripheral and decoupled from the core company's activities; therefore, MCSs and SCSs should be integrated based on organizational, cognitive and technical dimensions (Gond et al., 2012). However, the integration should be based on a holistic approach comprising, not only the technical properties of MCS and SCS but also the organizational and cultural dimensions (Ditillo & Lisi, 2014). Despite these aspects, the integration can fail whether the sustainability strategy is not linked with corporate objectives identified by the planning process (Arjali  s & Mundy, 2013) and

when economic and financial goals are seen as a priority over the pursuit of sustainability (Narayanan & Adams, 2017; Ditillo & Lisi, 2014).

Many Authors (Riccaboni & Leone, 2010; Arjaliès & Mundy, 2013) sustain that MCSs can contribute to the integration of sustainability into business strategies by implementing processes that promote innovation, communication, reporting and the identification of threats and opportunities. This effect can be amplified by promoting integrated thinking within the company; in turn, companies will be stimulated to effectively integrate the economic and sustainability dimension within the business model (Cavicchi et al., 2022; Dimes & de Villiers, 2021). From a practical point of view, Corsi and Arru (2020) find out that sustainability-oriented companies pay more attention to the sustainability background (such as the number of certifications owned, the reporting standards used, features of the disclosure, etc.) than the tools of sustainability management control (such as budget, performance indicators, balanced scorecard, benchmarking and variance analysis, cost accounting etc.). However, the reason why companies implement those tools is that recognize their ability to enable the integration of sustainability into corporate strategy as well as promote a sustainable culture all over the company (Arru & Corsi, 2020). Notwithstanding the growing interest in enhancing the theoretical foundation and the practical approach to a firm's sustainability, studies providing a comprehensive investigation into the role of MCS in supporting the integration of sustainability into firms' corporate strategies and operations, are scarce (Gond et al., 2012; Battaglia et al., 2016; Ghosh et al., 2019; Asiaei et al., 2021).

In the banking sector, some studies analyze the way in which banks approach the issue of sustainability and the motivations influencing the adoption of their strategies (Busch et al., 2016; Gangi et al., 2018; Zimmermann, 2019). To the best of our knowledge, however, there are no in-depth studies specifically devoted to the implementation of sustainability-oriented management control tools, while some papers addressed related topics, such as incorporating sustainability criteria into credit risk management (Weber et al., 2010; Weber, 2012).

The implementation and development of a corporate sustainability strategy presuppose the use of practical management control tools capable of describing and monitoring non-financial information, as well as decision-making processes guided by strategic planning that allows the company to achieve simultaneously economic, social, and environmental goals (Crutzen et al., 2017; Johnstone, 2019; Corsi & Arru, 2020). This study aims to shed light on the approach adopted to build a management control system with the aim of fostering a firm's commitment to sustainability: the banking context is particularly significant, as banks play a pivotal role in the economy by providing financial intermediation services.

3. Method

The information was gathered using AIDA database (Bureau van Dijk) and official website of the bank, to obtain sustainability-topic related documents. On bank's website financial statements are available from 2002 to 2021; non financial statement is available for 2021; last updated business plan (2022-2024), corporate governance reports (2011-2021) and last updated code of ethics (2022) are also available. Data have been analyzed by content analysis (Krippendorff, 2012) and with the theoretical reference to the model of Malmi and Brown (2008). More precisely, we performed a two-step analysis: at a first level, we deepened the analysis of the bank's commitment to sustainability by content analysis of the collected documents; at a second level, we brought the information in the categories of the management control package as in Malmi and Brown (2008). Moreover, sources triangulation is employed to avoid inconsistencies in the data (Miles & Huberman, 1994).

4. Results

4.1 Presentation of Case Study

Alpha is a listed firm established in 1983 as an operator specialised in factoring services, which became a bank in 2002. It is a part of a group, with 1,849 employees and it is well established in Italy, with commercial offices and branch offices in various regions. Outside Italy, the bank is active with its subsidiaries in Poland and in Romania.

4.2 Corporate Purpose and Business Model

"[...] it aims to offer real support to businesses and through services and products of excellence which have a positive income on the economy and create value on a local level" (source: bank's website and Aida database). It declares the following *Values*: integrity, transparency, excellence, expertise. The business model is *"solid, profitable and sustainable and is characterised by a high degree of specialisation and diversification"* (source: bank's website); the main aspects of the business model are: innovation, rapidity, flexibility, specialist areas. This design aims to generate sustainable profit, self-financing, growth and, at the same time, distribution of attractive dividends. The themes of sustainable profit and creation of shared and territorial value are central.

4.3 Sustainability Strategy

Bank's website has a section devoted to sustainability; the section is therefore composed of six sub-sections, addressing the following area: sustainability strategy; bank's impact lab; environmental; social; governance; non financial statement. With its sustainability strategy, the bank aims to take care of the projects of small and medium-sized enterprises and its customers, through a work to create value for people and communities, generating a tangible and positive impact, to build a more sustainable and inclusive future. This preposition is then declined in some statements, affirming that only by integrating business strategies with social and environmental objectives, the bank can achieve its mission, which sees itself committed to achieving a positive impact on the real economy and creating value for the territory.

The bank has a *Sustainability plan* with the following declared main characteristics: “consistent with the 17 United Nations Sustainable Development Goals; structured according to the ESG framework; fully integrated into (...) Business Plan”. The Business plan is for the period 2022-2024; it aims to consolidate bank's leadership in businesses with the highest growth and profitability opportunities: commercial and corporate banking for small and medium enterprises and non-performing loans, where the bank has a leading position in the small-ticket unsecured segment. Over the three years, the bank would become an increasingly digital, efficient bank, open to new partnerships, oriented towards sustainable growth. The Business plan was presented with a “climate positive event”. For each objective of its sustainability strategy, priority actions have been identified in line with the SDGs contained in the UN 2030 Agenda for Sustainable Development. Table 1 shows bank's commitments in environmental, social and governance goals.

Table 1. Bank's Sustainability commitments and actions

Area	Commitments	SDGs	Actions (no.)
Environmental	Zero net issuance in the loan portfolio by 2050, with membership of the Net Zero Banking Alliance	7, 13, 17	8
	Support the energy transition of SMEs	8, 9	
Social	Diversity & inclusion projects	3, 10, 11	10
	Support the financial reintegration of families	10	
	Invest in the growth of bank's People	4, 5	
Governance	ESG Governance	16, 5	2
	ESG Rating		

Source: authors' elaboration. Sdgs: 3 – good health and well-being; 4 – quality education; 5 – gender equality; 7 – affordable and clean energy; 8- decent work and economic growth; 9 – industry, innovation and infrastructure; 10 – reduced inequalities; 11 – sustainable cities and communities; 13 – climate actions; 16 – peace, justice and strong institutions; 17 – partnership for the goals.

Referring to the environmental issue, the bank wants “to play a leading role in the sustainable transition”; it realizes its “commitment by supporting the energy transformation of companies and aiming to eliminate (its) emissions”. “[...] contributing to the sustainable transition means reducing direct environmental impact and supporting SMEs in their path of innovation and growth” (source: bank's website).

About the social area, the bank aims to “participate in the social life of (its) territories. In a relationship of continuous dialogue with people and institutions, (it) carry out projects that can contribute to the development of more inclusive and collaborative communities, in which diversity is a value and culture a tool for sustainable growth” (source: bank's website). The bank has a model that “puts people first and foremost, takes into account the well-being and growth of (our) employees at all times, and intends to promote the local area with virtuous partnerships and projects with a high social impact.” (source: bank's website).

About governance, the bank has a Sustainability Committee to guide the strategy and consolidate the corporate culture: “Sustainability drives our growth strategy and drives business development.” (source: bank's website). The Sustainability Committee has a mainly investigative, proactive and advisory role on the evaluation and decision-making process of the bank and the group on ESG issues. Bank's ESG Governance model is composed of a management committee (introduced in 2022) and dedicated structures, to ensure strategic direction and the sharing of common objectives. Environmental, social and economic decisions are taken by the Chief Executive Officer and the Board of Administration for the respective areas of expertise. Moreover, the bank wants to improve the level of ESG ratings: it has also obtained an ESG rating from MSCI ESG Rating provider. Collected data have been, then, categorized into five types of controls, such as planning, cybernetic, reward, compensation, administrative and cultural controls, according to Malmi and Brown (2008). Table 2 shows the theoretical framework of Malmi and Brown (2008).

Table 2. Description of MCS package

<i>Elements</i>	<i>Description</i>	<i>Components</i>
Planning	Ex-ante form of control; first it sets out the goals of the functional areas of the organization thereby directing effort and behaviour; second, it provides the standards to be achieved in relation to the goal, making clear the level of effort and behaviour expected; third, it enables congruence by aligning goals across the functional areas of an organization, thereby controlling the activities of groups and individuals	Action planning—goals and actions for the immediate future, usually a 12-month period, are established; it has a tactical focus. Long-range planning—the goals and actions for the medium and long run are established; it has a more strategic focus
Cybernetic	There are five characteristics of cybernetic control. First, there are measures that enable quantification of an underlying phenomenon, activity or system. Second, there are standards of performance or targets to be met. Third, there is a feedback process that enables comparison of the outcome of the activities with the standard. This variance analysis arising from the feedback is the fourth aspect of cybernetic control systems. Fifth is the ability to modify the system's behaviour or underlying activities	Budgets, Financial measures, Non-financial measures, Hybrids that contain both financial and non-financial measures such as the Balanced Scorecard (BSC)
Reward/Compensation	Motivating and increasing the performance of individuals and groups through attaching rewards to control effort direction, effort duration, and effort intensity	Attaching rewards and or compensation to achievement of goals
Administrative	Administrative control systems are those that direct employee behaviour through the organizing of individuals (organization design and structure), the monitoring of behaviour and who employees are made accountable to for their behaviour (governance); and through the process of specifying how tasks or behaviours are to be performed or not performed (policies and procedures)	Organizational design and structure, Governance structures within the firm, Procedures and policies
Cultural	The values, beliefs and social norms which are established influence employees behaviour	Value-based controls, Clan controls, Symbols

Source: adaptation from Malmi and Brown, 2008.

With reference to *Planning*, the collected documents show a high commitment of the bank in planning activities. With regards to long-range planning, characterized by a strategic focus on impact, the business plan outlines a long-term vision fully consistent with the mission: the bank “*will continue to offer excellent products, focusing on digitalization and innovation to better support businesses and people, and making sustainability a lever to create value. Generating a tangible impact on the real economy, supporting Italian entrepreneurship, promoting financial and social inclusion: these are the broad priorities that guide the group's strategies*” (source: bank's website). Goals are clearly presented, also concerning ESG commitments: according to the Sustainable Development Goals in the United Nations Agenda 2030, the bank is committed to concrete actions, also through strategic partnership, to achieve the following objectives: 3 – good health and well-being; 4 – quality education; 5 – gender equality; 7 – affordable and clean energy; 8- decent work and economic growth; 9 – industry, innovation and infrastructure; 10 – reduced inequalities; 11 – sustainable cities and communities; 13 – climate actions; 16 – peace, justice and strong institutions; 17 – partnership for the goals. The action and the long-range planning are coordinated and functional with each other; this is expressed by the fact that: “*each milestone is a new starting point for continuous growth*” (source: bank's website).

Regarding the *Cybernetic control*, the bank uses budget, financial, and nonfinancial measures. This identifies company's willingness to integrate sustainable and economic aspects into its business model. The materiality analysis is an important tool for identifying the most important sustainability issues to be monitored, thanks to integration between the requests of external stakeholders and corporate strategies. The materiality analysis process is aimed at identifying the most relevant social, environmental, economic and governance issues for the group and the interested parties, considering their impact on the business and on the stakeholders themselves. The materiality analysis process is in four phases: identification of relevant issues; prioritization of the subjects identified; definition of the materiality matrix; validation of the materiality matrix. The internal relevance is defined through meetings with top management and the main contact persons of the subsidiaries, in order to assess their strategic importance for the bank and the possibility to generate impacts. As regards external relevance, the group has analysed the needs of all stakeholder categories, also through new listening methodologies such as web listening, to give voice to customer expectations, in particular of SMEs.

With reference to *Reward and Compensation*, the bank has “*adopted a remuneration system that can attract, retain and motivate highly qualified resources, in compliance with the principles of financial sustainability and sound and prudent risk management*” (source: bank’s website). Moreover, the bank indicates the “focus on the person” as an additional direction of development of the bank, alongside innovation and sustainability.

Regarding *Administrative control*, it is possible to find rich information regarding governance structure, organizational design and policies and procedures in the corporate governance section of the bank’s website: “*Proper governance is the prerequisite for effective business management. We adhere to the purposes and indications of the Corporate Governance Code and our governance system is in line with the principles and the recommendations established by the Supervisory Body, Code and best practices of the market. Our goal is to always ensure the fair division of responsibilities and powers, through a correct balance between management and control.*” Many are the Policies and Procedures control implemented to specify and support company's sustainable orientation. The bank has also a sustainability manager.

Finally, with reference to the *Cultural control*, the bank's commitment to compliance with the corporate value system by internal and external interlocutors is relevant; the code of ethics that the bank has adopted and the ESG rating are clear indications of this engagement.

5. Discussion

This study tried to examine how sustainability issues are declined within the MCS, analyzing an Italian bank. Literature about management control in the banking sector is quite sparse and there is still no significant evidence with regard to the specific issue of management control systems for sustainability.

ESG for banks is a very important issue both as for the entity itself and as a lender: in the first case, attention to ESG aspects translates into strategic decisions and, then, actions; in the second one, it concerns the integration of ESG factors into financing and investment processes.

We posed the following research question: (Rq) *What is the role of MCSs concerning bank sustainability-oriented management?* The banking case is relevant, among others, because this particular type of firm is subject to pressing regulatory obligations, by the supervisory authorities, that make the role of management control systems decisive to the processing of the compulsory requested data/information. Banks are required to produce very substantial reporting about their activities - although the principle of proportionality applies, which provides for less stringent requirements for banks with limited size and operational complexity – and they can be pioneers in designing effective management control tools for setting, monitoring and achieving sustainability goals.

The analyzed case shows that sustainability, in all its forms, is considered a lever for creating value and a key driver of development, with tangible impacts on people, environment and community. Precise objectives and commitments in the three dimensions – Environmental, Social and Governance - are defined in bank’s sustainability plan, and then integrated in its business plan. It was possible to verify the presence of all five types of control as in the MCS package by Malmi and Brown (2008). Bank’s sustainability strategy, goals and achievements are publicly communicated; the alignment of the strategy with the identified Sustainable Development Goals is clear. However, the analysis should be made more robust through carrying out interviews with bank’s representatives. Although a high level of sophistication of management control systems seems evident, it would be useful to deepen some specific aspects, such as the type of indicators used, the timing, methods and tools for the analysis of deviations and the definition of corrective actions. Moreover, it would also make it possible to deepen the integration of ESG criteria into bank’s business model and business plan and how these aspects are translated and stressed into specific indicators. This single case study can be helpful for experimental purposes, considering that it is used as a “prelude case” or pilot case (Yin, 1994).

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