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Finding the Point of Balance

A case study on how a Swedish listed manufacturing company employs management control systems to balance circularity and profitability.

By

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Thank you for the last two years, Adieu fellow scholars!

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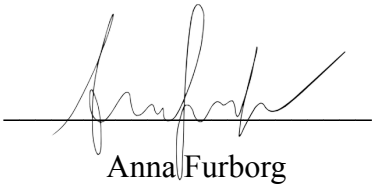

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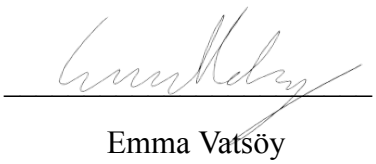

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Abstract

An economic paradigm shift towards a circular economy is occurring within organisations due to regulations and increased stakeholder pressures and motivators creating the need to meet the demands of circularity whilst trying to remain profitable. For an organisation to balance contradictory objectives, steering of employee behaviour and actions through management control systems is necessary. Whilst much research has focused on the interaction of circularity and profitability, little empirical knowledge exists regarding how organisations can employ management control systems to work with this dilemma. This thesis therefore aims to enhance the understanding on which management control system practices and activities are important and challenging whilst balancing circular and financial objectives. To achieve this aim a case study of a Swedish listed manufacturing organisation through twelve interviews has been carried out. The data gathering and analysis has been guided by 'Management Control Systems as a Package' by Malmi and Brown (2008) related to relevant academic literature on circular economy. Based on the conducted case study the thesis concludes that the most important management control system practice is the organisational design creating a foundation for internal communication and collaboration. Further, the research concludes that the most challenging management control system activity is breaking down long-term circular objectives in the short-term as well as their lack of measurability, consequently leading to a slightly higher prioritisation of profitability. The study contributes to the academic literature of empirical studies and exemplifies how organisations can employ management control systems to balance circularity and profitability.

Keywords: *Management Accounting, Management Control Systems, Circular Economy, Profitability*

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1. Introduction

With an ever growing problem of climate change it is argued that businesses should embrace a paradigm shift in their approach and thinking (IPCC, 2019; Porter & Kramer, 2019; Schaltegger, Bennett & Burritt, 2006) and that it is necessary to move from a linear approach of doing business towards a circular economy taking into consideration the limited resources of the planet, hereafter CE (Bocken, Short & Evans, 2014; EMAF, 2013). This change is strengthened through legislation of regulations (European Commission, 2015) and increasing stakeholder pressure and motivators on organisations to transition their business approach (Baah, Jin & Tang, 2020; Hernández-Arzaba, Nazir, Leyva-Hernández & Muhyaddin, 2022; Jabbour et al. 2020; Rodrigue, Magnan & Boulianne, 2013; van Langen et al. 2021). A solely profit-driven approach by organisations will give them trouble to take on the complex challenge of solving sustainable and social issues such as the shift towards a CE (Montabon, Pagell & Wu, 2016). However, without financial profitability an organisation cannot survive and any possible circular contribution would remain unrealised (Beusch, Frisk, Rosén, & Dilla, 2022). This tension is not only unavoidable, but also a substantial dilemma for organisations (Du, Pan & Zuo, 2013; Kuo, Lu & Ganbaatar, 2022; Starkey & Crane, 2003).

An organisation is dependent on their employees to achieve their objectives which requires effective steering and management (Merchant & van der Stede, 2007) and is an especially complicated process within sustainable development (Lueg & Radlach, 2016). To succeed with balancing the at times contradictory objectives of circularity and profitability, making people work towards these objectives and steering their behaviour and actions becomes important to achieve goal congruence, which can be done via management control systems, hereafter MCS (Anthony, 1965; Malmi & Brown, 2008; Simons, 1995; Tessier & Otley, 2012). Managers can with the help of different practices and activities within these control systems steer behaviour and actions of their employees (Malmi & Brown, 2008). Within this study *practices* refer to established or common ways of doing things, reflecting wider organisational norms and principles and *activities* refer to specific tasks or acts carried out within practices in order to fulfil a particular objective. The focus of this research is to identify these MCS practices and activities for balancing circularity and profitability within a case study.

1.1. Background

Within sustainable development CE is an economic paradigm explaining a new approach that takes into consideration our planet's finite resources (Bocken, Strupeit, Whalen & Nußholz, 2019; EMAF, n.d.). It has a regenerative approach of materials so as to decouple continued growth from extracting resources. The EMAF (n.d.) explains that there are three core principles within the CE; (1) eliminate waste and pollution, (2) circulate products and materials and (3) regenerate nature. In more detail the elimination of waste and pollution concerns creating ways to avoid negative impacts from economic activities, and is often connected to the word reduce. Here the often discussed carbon footprint plays a vital role within companies sustainability strategies (see e.g. Aktiebolaget SKF, 2024; Essity Aktiebolag, 2024; Volvo Cars AB, 2024). The second principle regarding circulating

materials and products is often connected to the words recycle, reuse and remanufacture (EMAF, n.d.). It concerns the resource depletion problem within the linear economic model. Lastly, the regenerate nature principle addresses the perseverance and enhancement of renewable-resources (EMAF, n.d.). Further, it involves avoiding the use of non-renewable materials such as fossil fuels.

The modern use of a CE gained recognition in the beginning of the 2010s with some influential articles by the Ellen MacArthur Foundation (Ekins et al. 2019). After these articles research has developed into the business and management control areas with many publications during the upcoming years (see e.g. Averina, Frishammar & Parida, 2021; Bocken, de Pauw, Bakker & van der Grinten, 2016). The CE has further become important for organisations in line with new regulation being legislated as they are being pressured into changing their approach (European Commission, 2015). Not to mention the pressure put on and motivators by stakeholders for the organisations to become more circular (Baah, Jin & Tang, 2020; Hernández-Arzaba, Nazir, Leyva-Hernández & Muhyaddin, 2022; Jabbour et al. 2020; Rodrigue, Magnan & Boulianne, 2013; van Langen et al. 2021). Baah, Jin and Tang (2020) emphasise that the competitiveness and efficiency of organisations is dependent on strategic adaptation to these pressures and motivators. One such important stakeholder group is an organisation's consumers as their purchasing behaviour is highly influenced by their perception of an organisation's products (Ajzen, 1991). Both Wee et al. (2014) and Boyer et al. (2021) argue that consumers are changing their purchasing behaviour to favour products from organisations with circular principles. This change is according to Aarikka-Stenroos, Don Welathanthri and Ranta (2021) due to the emotional value received by people when they have the possibility to contribute to sustainable development. This presents an opportunity and challenge for organisations to both attract new consumers, but also retain old consumers.

For practitioners one issue when companies evaluate a possible circular approach is the potential lack of positive financial performance (Kanzari, Rasmussen, Nehler & Ingelsson, 2022; Urbinati, Franzò & Chiaroni, 2021). Research so far has found contradictory results regarding the correlation between circularity and profitability (Fehrer & Wieland, 2021; Kohtamaki, Bhandari, Rabetino & Ranta 2024; Sarja, Onkila & Mäkelä, 2021; Shan, Mizra, Umar & Hasnaoui, 2023; Shan, Umar & Mizra, 2022) and therefore viewing how organisations can work with this balance in practice becomes relevant. With more empirical data available an understanding of balancing the financial performance with the CE will enable more entities to transition their way of doing business (Guldmann & Huulgard, 2020; Kanzari et al. 2022; Linder & Williander, 2017). Additionally, as CE initiatives are long-term projects it necessitates leadership and direct managerial attention to steer employees in the right direction. Without such active involvement these initiatives are prone to failure (Bocken et al. 2019; Takacs, Brunner & Frankenberger, 2022). Various researchers state that MCS are essential for cultivating integration of circular initiatives within organisations (Henri & Journeault, 2010; Lueg & Radlach, 2016). For organisations to implement a circular approach they need to change their processes, strategies and working dynamics (Upadhyay, Akter, Adams, Kumar & Varma, 2019) to ensure that the employees work towards the same overarching objectives (Malmi & Brown, 2008). According to Du, Pan and Zuo (2013) a key determinant to assess a CE is whether the organisation has the ability to balance the tension

between sustainable and financial requirements. Thus, researching how circular and financial objectives can be balanced through MCS practices and activities should be of interest for organisations either evaluating a potential circular approach or already engaging in CE initiatives.

1.2. Problem Discussion

Previous research provides contradictory results on the interaction between sustainability and profitability, but so far empirical research remains limited on how organisations handle this in practice. Kuo, Lu and Ganbaatar (2022) state that there is inconclusive evidence between the relationship of sustainability and profitability with it either being positive, negative or at times nonexistent (see e.g. Burnett & Hansen, 2008; Shan et al. 2023; Urbinati, Franzò & Chiaroni, 2021; Wagner & Schaltegger, 2004). Mom, Chang, Cholakova and Jansen (2019) explain how working with both sustainable and financial goals can bring forth a tug-of-war between these objectives. Organisations face the challenge to balance complex pressures with the growing competition and environmental problems which involves achieving multiple different goals (Gao & Bansal, 2013). If they manage to effectively balance these demands then they also have the possibility to achieve a better overall organisational performance (Luger, Raisch & Schimmer, 2018). However, Wu, Subramanian, Abdulrahman, Liu and Pawar (2017) state that there is limited empirical systematic explanation on how organisations best balance sustainable activities to ensure both financial efficiency in short-term, but also prosperity in long-term. Moreover, Du, Pan and Zou (2013) emphasise that research is needed on how to bridge the gap between sustainability and profitability, and how this balancing act is carried out by organisations. The reason for this gap, according to Du, Pan and Zou (2013), is based on prior research assuming that the two objectives co-exist without hardly any tension. However, other scholars argue that this is an unavoidable dilemma for organisations that requires management control (Henri & Journeault, 2010; Kuo, Lu & Ganbaatar, 2022; Starkey & Crane, 2003; Takacs, Brunner & Frankenberger, 2022). Thus, studying how organisations can balance these objectives through management control is highly relevant.

Another area where empirical research is lacking or ambiguous in its results is within the usage of MCS due to limitations of conceptual frameworks. One influential framework is the one created by Simons (1995) called Simons Levers of Control which has been extended continually by other researchers as it has faced challenges. Tessier and Otley (2012) expand the framework due to ambiguous definitions leading to mixed results in the empirical research. Further criticism regarding early frameworks is that they have neglected the interplay between control systems as they are viewed separately and possibly leading to invalid conclusions (Malmi & Brown, 2008; Otley, 2016). As a response to this, the new concept of MCS as a ‘package’ has emerged. One such framework presented by Malmi and Brown (2008) reflects the fact that organisations introduce control systems at different times by different groups within the organisation. They present five main control systems within such a package that influence and interplay within an organisation: (1) *Cultural Controls*, (2) *Planning,* (3) *Cybernetic Controls*, (4) *Reward and Compensation Systems* and (5) *Administrative Controls*. Organisations can within these five control systems employ different practices and activities to steer employee behaviour and actions. Otley (2016)

carried out a review on the research so far within MCS and states in line with Malmi and Brown that viewing the MCS as a package is fundamental for the design of future studies to understand the MCS within an organisation. According to him this has not been a part of most empirical studies and therefore requires further research. Thus, carrying out an empirical in-depth analysis using MCS as a package remains relevant.

Except the lack of empirical research of MCS, studies further only weakly link empirical observations with a conceptualisation of management accounting and a CE (Crutzen, Zvezdov & Schaltegger, 2017; Lueg & Radlach, 2016) and requires studies within MCS in practice (Berry, Coad, Harris, Otley & Stringer, 2009; Nixon & Burns, 2012). Sarja et al. (2021) state that research so far within the CE has been focused on engineering and there is only recently a shift towards business research. Therefore, there is little attention given to the human aspects of the transition. Both culture and incentives for managers and executives have been shown to have a trade-off in previous literature (Kirchherr et al. 2018; MIT Sloan, 2009; Takacs, Brunner & Frankenberger, 2022; Tuo, Rezaee & Gao, 2024). Eventough some studies such as Masi, Day, and Godsell (2017) and Ferreira, Jabbour and Jabbour (2017) point out the importance of support from managers for a CE shift, the internal involvement of human action has remained under researched. Lahti, Wincent and Parida (2018) further state that empirical research investigating a CE from a management perspective is scarce. In line with this, Henri and Journeault (2010) identify a lack of sustainability focus within studies of MCS. Hence, studying how MCS are employed in connection to a CE holds considerable academic value.

This study aims to contribute to the academic literature on how organisations balance circularity and profitability by empirically examining how MCS can be employed within a CE perspective. By carrying out an in-depth study to identify important and challenging MCS practices and activities to balance the tension between circular and financial objectives this thesis can contribute to the gaps within the existing knowledge.

1.3. Purpose & Research Question

The purpose of this study is to enhance the understanding on how organisations employ their management control systems to meet the demands from society in terms of circularity whilst trying to remain profitable. To fulfil this purpose the study aims to identify what management control system practices and activities are important and challenging whilst balancing circular and financial objectives within a Swedish listed manufacturing company that has adopted a circular approach. An in-depth analysis of the organisation's management control system practices and activities will provide an understanding of how this dilemma can be addressed within organisations. The following research question will be answered:

> "*Which management control system practices and activities are important and challenging within Essity Aktiebolag whilst working towards circular as well as financial objectives?*"

To answer the research question a case study of Essity Aktiebolag (publ), hereafter Essity, is carried out by interviewing executives, managers and employees. Essity is a multinational corporation with production and sales within 150 countries, 36,000 employees and has their

headquarters in Stockholm (Essity Aktiebolag, n.d.a). They produce goods within hygiene and health under brands such as Tork, Tena, Libresse and Leukoplast (Essity Aktiebolag, n.d.a). Essity has in the last decade worked with sustainability and has since 2017 and their separation from SCA reported on circularity (Essity Aktiebolag, 2018). Since most of their original products have a traditional linear usage their profitability can be considered highly correlated with a transition towards circularity when single-use is supposed to be reduced. This could be argued requires a balancing act between circularity and profitability supported by their MCS and is therefore considered to be a suitable case to study.

The study contributes to the academic literature of empirical studies within a circular economy context connected to a conceptualisation of management control systems and how organisation can work with balancing circularity and profitability. Within Essity it is identified that the MCS practice of organisational design and the MCS activity of breaking down long-term circular objectives in the short-term as well as their lack of measurability are the major important and challenging practices and activities respectively. Consequently, this MCS employment leads to a slightly higher prioritisation of profitability due to the challenge of working with circular objectives and measures. Practically, the study enables Essity to more clearly identify where their challenges lie to enable an understanding of where there can be a higher degree of steering the employee behaviour and actions to achieve goal congruence.

The study continues with the following structure. In chapter 2, the framework MCS as a package by Malmi and Brown (2008) will be explained and related to previous literature on the research topic. Thereafter, chapter 3 will explain the method of the empirical research and chapter 4 will present the results and analysis of the gathered material along with a discussion. Lastly, the study ends with concluding insights in chapter 5.

2. Theoretical framework

To study the stated research question of the thesis, the framework by Malmi & Brown (2008), 'MCS as a package' will be used as a basis for the conceptual model and to understand the different MCS within the case company. MCS are established by a company to influence employee behaviour and actions. Within this thesis it is intended to identify which MCS practices and activities are important and challenging for the steering purpose to balance circular and financial objectives within each system. Under each subheading 2.1.1.–2.1.5. one control system is explained from the MCS literature and thereafter existing literature on the CE that can be connected to the control system are presented. Finally, a conceptual framework is illustrated by compiling the MCS as a package by Malmi & Brown (2008) and the CE literature. This model captures MCS practices and activities within the case company.

2.1. Management Control Systems as a Package

Management control involves an approach to steer and influence employee behaviour and actions (Collins, 1982; Fisher, 1995) to implement organisational strategies in order to reach organisational objectives (Anthony, 1965; Collins, 1982) as effectively and efficiently as possible (Anthony, 1965). MCS consist of practices and activities to realise this control and protect the organisation from misalignment between the objectives of the organisation and the actions taken by employees (Malmi & Brown, 2008; Merchant & van der Stede, 2007). Over time there have been multiple frameworks developed with different definitions of what MCS are (see e.g. Anthony, 1965; Malmi & Brown, 2008; Merchant & Otley, 2007; Merchant & van der Stede, 2007; Otley, 2016; Simons, 1995; Tessier & Otley, 2012). The earliest definition included solely formal control systems such as budget tools (Anthony, 1965), but was criticised as it did not take into account informal systems that could motivate and influence behaviour and actions (Ouchi, 1979). One influential framework developed taking these informal systems such as cultural influence and norms into account is the one created by Robert Simons (1995) called Simons Levers of Control. His framework has later been criticised as well due to having ambiguous and vague definitions leading to mixed empirical results leading to further developments of conceptual models (Tessier & Otley, 2012).

More recently further criticism regarding viewing MCS as separate systems has emerged and conceptual frameworks seeing these as a 'package' have been developed (Malmi & Brown, 2008; Otley, 2016). Malmi and Brown (2008) state that previous researchers have neglected the interplay between control systems as they are viewed separately, hence can result in invalid conclusions. According to the authors, MCS should be considered as a package as it reflects the fact that organisations introduce control systems at different times by different groups within the organisation. Moreover, Malmi and Brown (2008) make a distinction between what is considered a MCS and what should be considered an information system. Some accounting systems are established to provide useful information in the decision making process, whereas others aim to steer actions or behaviours. In previous frameworks information for decision making has been included (see e.g. Simons, 1995). However, Malmi and Brown (2008) therefore state that in order to be called MCS it should focus on solely the

steering of behaviour and actions in order to affect the organisational outcome with the aim to reach goal congruence. The MCS should from a holistic viewpoint therefore not be defined as a single system, but instead as a package made up of different systems.

As seen in figure 1 below, the package, according to Malmi and Brown (2008), consists of five main parts; (1) *Cultural Controls*, (2) *Planning,* (3) *Cybernetic Controls*, (4) *Reward and Compensation Systems* and (5) *Administrative Controls*. The framework enables an examination of different contingencies that will affect the employment of MCS, hence it is considered particularly suitable to empirically explore (Malmi & Brown, 2008) the intricacies of how organisations balance circularity and profitability.

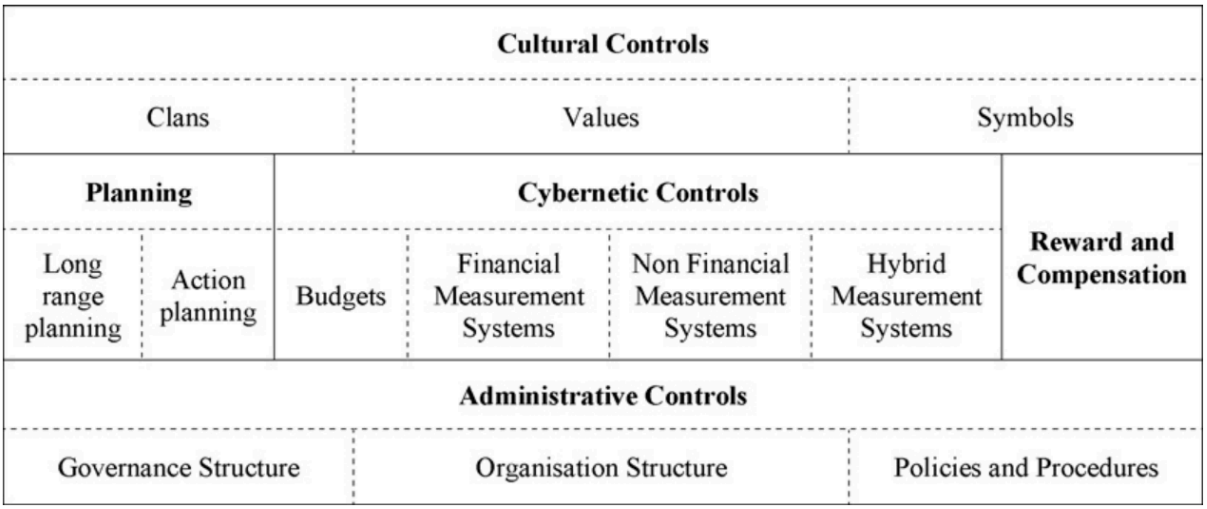

Figure 1: Management control systems as a package (Malmi & Brown, 2008, pp. 291).

2.1.1. Cultural Controls

The cultural controls is considered the broadest form of MCS and constitutes a frame for the other four parts (Malmi & Brown, 2008). Moreover, culture influences organisational behaviour, hence it can be used as a control system even if managers do not always have direct control over it. Further, the cultural controls, as explained by Malmi and Brown (2008), consist of three parts; *clans, values* and *symbols*. Clans control has its roots in existing subcultures within the organisation, both within departments but also within different professions. As a result, individuals exhibit a socialisation process where values and expertise will be affected. Beusch et al. (2022) find that this could cause problems in multinational companies due to different cultures between different countries. They report varying attitudes towards sustainable initiatives between American and Swedish managers. It was solely seen as risk management or cost handling within the United States, whilst in the Swedish context it was seen as the “right thing to do”.

Value-based control descends from Simons Levers of Control and through what the author states as belief systems (Malmi & Brown, 2008). It is about organisational rationales declared by managers which are communicated formally and systematically with the aim for the rest of the organisation to adopt. In a study by Svensson and Funck (2019) they find that in order to adapt to a circular approach, emphasis should be put on the importance of spreading the circular values across the organisation and socialising employees into the CE culture. Malmi

and Brown (2008) state that the spreading of values is carried out via three levels. The first level is when individuals are recruited based on the possession of similar values to what the organisation desires. Further, having the right people can long-term be a competitive advantage as the employees possess knowledge valuable to the organisation (Barney & Wright, 1998). The second level is when individuals interact which causes values to change in line with the group and organisational values. Henri, Journeault and Brousseau (2017) find in their study that sustainability values and overarching objectives can be enhanced and strengthened when increasing the diversity of discussion, debates and information exchange amongst various departments, both within and across. Finally, the last level is when values are explicitly stated by managers, hence individuals are forced upon acting in line with these values even if these do not correlate with personal beliefs (Malmi & Brown, 2008). Here research finds that managers that have the ability to deviate established traditions and adopt a long-term approach along with embracing ambiguity are considered better positioned to foster innovation and make sustainable investments (Takacs, Brunner & Frankenberger 2022). This can also be connected to an organisation's culture where a manager's "gut feeling" of a CE can have an influence on initiatives (Kirchherr et al. 2018). If these managers doubt the model with arguments such as that the initiative is too costly this can contribute to short sightedness. One further example of managers explicitly stating values to emphasise on the desired behaviour are internal company events along with focusing on sustainability during CEO/manager interviews (Svensson & Funck, 2019).

Lastly, the symbol-based control as proposed by Malmi and Brown (2008) is based on the organisation shaping its culture by visual expressions, such as layout, design of workspace or dress codes (Malmi & Brown, 2008). Svensson and Funck (2019) state that employees can be successfully socialised through visuals stating the corporate values at hand. Similarly, Curtzen, Sevzdov and Schaltegger (2017) find that visual sustainability symbols were considered effective when spreading the sustainability agenda. They further state that the most adopted approach in practice, to foster sustainability behaviour, was through distribution of letters/emails or interactions through intranet platforms.

2.1.2. Planning

According to Malmi and Brown (2008) planning is an ex ante control system where the aim is to establish goals in order to direct employees behaviour and efforts along with acting as a measure of progression towards the goals. It states what is required by the employees, hence clarifying the level of engagement expected by individuals. Additionally, planning enables cooperation across the organisation by aligning the goals across groups with the goal of the organisation. In a study of seven European firms Crutzen (2011) points out the importance of awareness to motivate employees to reach sustainable objectives as well as connecting them to financial goals. Unlike previous research (see e.g. Merchant & van der Stede, 2007), Malmi and Brown (2008) separate the planning process from the budget process as planning does not necessarily need to be linked to financial numbers. Examples such as strategic planning or operational planning are brought forward, which provide guidance and direct behaviour without a direct link to accounting and finance.

Moreover, Malmi and Brown (2008) state that there are two types of planning, short-term and long-term. In the short-term an action plan of goals for the immediate future, i.e. a year or less, are established, thus having a tactical focus. The long-term planning instead has a strategic focus, where the planning has a longer time-horizon. According to Crutzen, Zvezdov and Schaltegger (2017) long-term strategic planning is particularly important when it comes to circularity. To promote circular development it is crucial to establish the strategic objectives early, outline what is expected from employees and further break the objectives down into action plans along with performance measurements. Similarly, Lueg and Radlach (2016) state that action plans are particularly important as it helps employees understand what is to be reached in the long-term. However, Crutzen, Zvezdov and Schaltegger (2017) find that entities have difficulties in establishing action plans for the long-term sustainability goals as they are harder to define, which leads to companies mostly focusing on financial goals in the short-term. This further shows that sustainability is most often treated as a separate initiative and not included in the overreaching corporate objectives which, according to Henri, Journeault and Brousseau (2017), is crucial for better overall organisational performance.

2.1.3. Cybernetic Controls

According to Green and Welsh (1988), and Malmi and Brown (2008), cybernetic control is a process of employee assessment based on their performance compared to organisational standards. These standards constitute what is expected from the employees and are used to determine the quality of performed actions. Undesired deviations are used as feedback and help the organisation modify current systems, standards or actions (Green & Welsh, 1988). Four major cybernetic systems are identified in previous research; *budget*, *financial*, *non-financial* as well as *hybrid measurement systems* (Malmi & Brown, 2008).

The budget as a control mechanism is the most central as it has the ability to connect all parts of the organisation and provide a path which employees are supposed to follow (Malmi & Brown, 2008). Henri, Journeault and Brousseau (2017) emphasise the importance of the environmental objective being mirrored and visible throughout the whole budgeting process as well as in the forecast establishment to be able to balance both environmental and financial objectives efficiently. Similarly, Svensson and Funck (2019) find that the budget needs to adapt when working towards a circular approach as more extensive and detailed cost accounting is needed. The reason for this is explained by van Loon, Delagarde, van Wassenhove and Miheli (2020) to be a cash flow disconnect between revenues and expenses within the circular approach. Moreover, Urbinati, Franzò and Chiaroni (2021) and Shahbazi, Wiktorsson, Kurdve, Jönsson, and Bjelkemyr (2016) also identify the disconnect between revenues and expenses for companies in the context of servitization. They also find that a longer payback time occurs due to the high initial costs being paid back with postponed revenue streams as they happen simultaneously with customers utilising their services. Further, there are additional costs when implementing a circular approach as the provider also takes on tasks such as technical support, logistics, maintenance and end-of-life handling (Linder & Williander, 2017; Vermunt, Negro, Verweij, & Kuppens, 2019). The result is an increased cost for the organisation whilst at the same time smaller cash flows in the long-term are generated. Shan et al. (2023) study sustainable development linked to a CE within

twentyseven of the European member states and find that it is challenging due to requiring long-term funding and high upfront investments compared to traditional linear investments. Similarly, Urbinati, Franzò and Chiaroni (2021) and Gumley (2014) find in their research the major financial barrier to be high capital requirements, transaction costs, upfront investments and uncertainty regarding returns and profit. Further, Shan, Umar and Mizra (2022) identify that circular investments have high uncertainty and risk as well as not generating any return until later on. Moreover, they find that traditional investments might have a higher financial return than those for sustainable development, especially those with a high social and/or environmental impact. Budgeting, as stated before, therefore needs to take into account these financial implications (Henri, Journeault & Brousseau, 2017; Svensson & Funck, 2019).

Performance measurements are used, according to Malmi and Brown (2008), to hold employees accountable for certain goals, both financial and non-financial, but also a combination (hybrid). These measurement systems are more specific and detailed and can be on individual level or on organisational level, such as KPIs. The control mechanisms are used to motivate, guide and inform the organisation and its employees towards reaching the overall objectives (Malmi & Brown, 2008). Non-financial measurements are nowadays considered on the uprising as financial measures are not solely important in terms of creating value on the market and steering towards a circular approach (Lueg & Radlach, 2016; Malmi & Brown, 2008). Additionally, as circular strategies require assessment of new perspectives an extension of performance measurements are required (Lueg & Radlach, 2016; Svensson & Funck, 2019). Further, Crutzen, Zvezdov and Schaltegger (2017) state that a common problem within entities is the restricted integration of sustainable indicators into a common system, hence linking financial performance with social or environmental performance. However, Kanzari et al. (2022) find that the performance measures used for a circular approach are predominantly financial short-term accounting-based, such as ROI, ROE and ROA. On the other hand, Nußholz, Rasmussen, Whalen and Plepys (2020) find that long-term measurement can provide a balanced view of potential benefits for both financial and sustainable objectives.

de Oliveira, Dantas and Soares (2021) emphasise that a more comprehensive understanding of the CE context and the company's objectives is crucial to implement successful indicators. According to the authors, prior research shows that CE indicators most often cover a broad set of information, thus making the assessment of the circular activities superficial and results in confusion regarding what is to be done. According to Lindgreen, Salomone and Reyes (2020) these are referred to as micro-level or company-level indicators and most often fail to capture the complexity of circularity, consequently leading to different interpretations of what the goal is targeting whilst assessing the outcome. de Oliveira, Dantas and Soares (2021) find that organisations should separate indicators into nano- and micro-level as it aims to simplify the understanding of circularity but also facilitate a transition towards the CE rationale. The indicators at nano-level are strictly divided into divisions on product-level circularity and aim to improve material and component specifics such as design, quality and recovery of resources (Figge, Thorpe, Givry, Canning & Franklin-Johnson, 2018). Micro-level indicators remain at company-level and cover the overall scores and manufacturing processes, e.g. strategies regarding design and implementation of resources (de Oliveira, Dantas & Soares.

2021). Additionally, de Oliveira, Dantas and Soares (2021) address the importance of combining circular with financial indicators to bring optimised results, what Malmi and Brown (2008) refer to as hybrid measurement systems. Similarly, Ax, Johansson and Kullvén (2015) state that combining these tends to overcome some of the limitations with non-financial indicators. They argue that employees might experience difficulties understanding how non-financial goals are to be met or why, consequently leading to ineffective activities. Thereby, establishing complementing financial and non-financial indicators gives a more comprehensive understanding of the overall objectives and pathway.

2.1.4. Reward & Compensation Systems

In order to motivate with the aim to reach congruence between employee actions and overall objectives, reward and compensation systems are used (Hartmann, Govindarajan, Kraus, Anthony & Nilsson, 2020; Malmi & Brown, 2008). According to Malmi and Brown (2008) the inclusion of this control system within an organisation is expected to lead to increased engagement along with better overall performance. They explain that reward and compensation systems have three effects. *Direction*: where employees focus, *duration*: how long they focus on the task and *intensity*: how much of their attention is devoted to the task.

Riccaboni and Leone (2010) imply that formal control systems such as reward systems are important in order to integrate sustainable thinking into the organisation. Additionally, Henri, Journeault and Brousseau (2017) find that employees tend to be more motivated to reach environmental goals if there are sustainable indicators integrated into an incentive scheme. However, reward and compensation systems linked to sustainability goals are rather uncommon (Crutzen, Zvezdov & Schaltegger, 2017; Lueg & Radlach, 2016). Crutzen, Zvezdov and Schaltegger (2017) find that organisations preferably establish these schemes to direct managerial attention towards more conventional objectives such as economic initiatives rather than sustainable initiatives. Moreover, in those cases where reward and compensation is based on circular performance studies show that there is generally a lack of incentives to meet these goals (Lueg & Radlach, 2016). However, the lower prioritisation is rather due to lack of knowledge, as a common assumption is that the sustainable development is reflected in the financial performance (Lueg & Radlach, 2016). Unlike Henri, Journeault and Brousseau, Crutzen, Zvezdov and Schaltegger (2017) state that including sustainable reward and compensation systems might be less effective. What they find is that employees are less captivated by reaching sustainable objectives if it challenges the financial objectives. There is, according to Tuo, Rezaee and Gao (2024), a trade-off between short-term financial incentives and long-term financial and non-financial incentives for managers. They test this trade-off and find that a focus on short-term management earnings forecasts can distract managers from long-term sustainability reporting. MIT Sloan (2009) further underlines this stating that executives believe sustainability reporting will contribute to long-term benefits such as innovation and competitive advantage rather than positive short-term financial performance. However, having reward systems based on sustainability goals that improve the financial performance can be seen as motivating (Crutzen, Zvezdov & Schaltegger, 2017).

2.1.5. Administrative Controls

The administrative control aims to steer behaviour and actions by structuring the organisation in a desired way. Malmi and Brown (2008) explain the three groups where the administrative controls can affect this; *organisational design*, *governance structure* and *policies and procedures*. Organisational design aims to attract certain contacts and relationships and therefore certain desired expertises and skills within the organisation (Malmi & Brown, 2008). It is a central point as it determines how information is communicated (Hartmann et al. 2020). Whilst a decentralised design allows for more timely and accurate decision making (Blocher, Stout & Cokins, 2010; Horngren, Datar & Rajan, 2012) at the same time it constitutes a risk of different subunits making decisions at the expense of other units when they focus on their own rather than organisational objectives (Hartmann et al. 2020; Horngren, Datar & Rajan, 2012). According to Lueg and Radlach (2016) new organisational designs are needed to increase the priority of sustainable development in order to overcome the traditional behaviours of the linear model. Similarly, Sarja et al. (2021) find in their literature review that one major hindrance for transitioning towards a circular approach for companies is the need for major restructuring. The linear economic model used today has over multiple decades been integrated into all aspects of businesses and will require time to change. However, Lueg and Radlach (2016) emphasise that the optimal design will differ depending on the entity and its objectives.

The governance structure is also considered important as it aims to establish ensurement systems in which accountability and authority is formally drawn (Malmi & Brown, 2008). For example having a separate environmental department that is responsible for CE initiatives tends to lead to restricted discussion about the CE in the remainder of the organisation according to Kirchherr et al. (2018). The communication and the view of CE initiatives therefore tend to be less appealing at operational or financial levels. Due to only one group having the main responsibility other influential departments are not being familiarised with the topic or its potential benefits. This might explain the hesitant company culture many organisations experience towards a CE as discussed in the cultural control segment about managers gut feelings (Kirchherr et al. 2018), but also why financial goals are prioritised over sustainability goals in the short-term as discussed in connection to the planning as well as reward and compensation sections (Crutzen, Zvezdov & Schaltegger, 2017). Additionally, Henri, Journeault and Brousseau (2017) emphasise that better overall organisational performance will be achieved if there is a higher involvement of various departments in sustainable initiatives.

Policies and procedures are explained as how employees are held accountable and aim to guide actions through rules (Malmi & Brown, 2008). According to Svensson and Funck (2019) employees can be successfully socialised through documents and sustainable policies to act according to the organisation's objectives. When it comes to policies and procedures being established Lueg and Radlach (2016) emphasise that all relevant employees for circular development should be included in the formation of such. This is favourable as it is important that the management allows employee engagement in all aspects of circularity along with communicating and educating effectively in order to create engagement. Hartmann et al. (2020) connect this to how an organisation is designed as it is a central point to determine

how information is communicated. As seen within larger corporations, a centralised design is mostly common (Lueg & Radlach, 2016), but to capture employee engagement and accountability a more decentralised approach would be preferable (Hartmann et al. 2020). Another viewpoint on policy application within organisations is the occurrence of decoupling when policies are introduced but not implemented (Meyer & Rowan, 1977; Stål & Corvellec, 2018; Westphal & Zajac, 2001). This is done to meet institutional demands, whilst protecting core operations. Stål and Corvellec (2018) study this occurrence in connection to circularity within the Swedish apparel industry where they find that policies are not solely symbolic, but not fully implemented either. Similarly, Crutzen, Zvezdov and Schaltegger (2017) find that organisations establish sustainability departments or similar as responsible for reporting on the organisations behalf, but do not commit to any formal or long-term activities.

2.2. Conceptual Framework

The theoretical framework and previous research are compiled into a conceptual model for analysing the employment of MCS to balance circular and financial objectives, as visible in figure 2 on the next page. It is guided by Malmi and Brown's (2008) conceptual framework of MCS as a package within an organisation. Accordingly, the conceptual model manages the interaction of different control systems introduced simultaneously or at different times for the purpose of balancing circular and financial objectives, as presented by the arrows on the right hand side within figure 2. The steering of the organisation is conceptualised by viewing practices and activities throughout the five MCS; *Cultural Controls*, *Planning, Cybernetic Controls*, *Reward and Compensation Systems* and *Administrative Controls.*

The broadest control system within the package are the cultural control practices and activities which acts as a foundation for all other systems (Malmi & Brown, 2008). From previous literature it was identified that internal communication plays a vital role for all three forms of cultural steering; subcultures, values and traditions, and visual expressions. Subcultures refer to differentiating cultural attitudes between departments, whilst values and traditions, and visual expressions regard stated values and norms within the organisation. By researching communication flow and structure, both formal and informal, between departments will allow for analysing these three forms of steering and identifying their role within the studied dilemma.

The planning, cybernetic control, and reward and compensation system practices and activities are, as visible in figure 2, closely connected and are affected by the decisions of cultural- and administrative controls employment. In regards to planning the dimensions of short- and long-term, and the interplay between them is crucial according to prior research for studying the balancing act between circularity and profitability. The cybernetic controls involve budget and performance measurements, where literature states that the system structure of measurements as well as the types of measurements create different effects in people's behaviour and actions. Therefore, delving into these components will provide an understanding of how these interconnect and have an impact on the balance. Lastly, within the reward and compensation systems it was identified in the presented academic articles that the objectives behind the reward (basis) as well as its structure have implications for what

actions are undertaken and which behaviours are emphasised. This in turn will affect the handling of the dilemma between circularity and profitability.

The second foundation for the MCS as a package are the administrative control practices and activities which create a formal structure for how the other control systems are to be employed (Malmi & Brown, 2008). To identify the organisational design an analysis of the internal communication will be employed in accordance with the literature. Similarly, collaboration between departments will enable an understanding and examination of the governance structure regarding implementation of a circular approach and its connection to financial objectives. Finally, the engagement of personnel in the establishment of policies and procedures regarding the circular and financial objectives will highlight the balance between these goals.

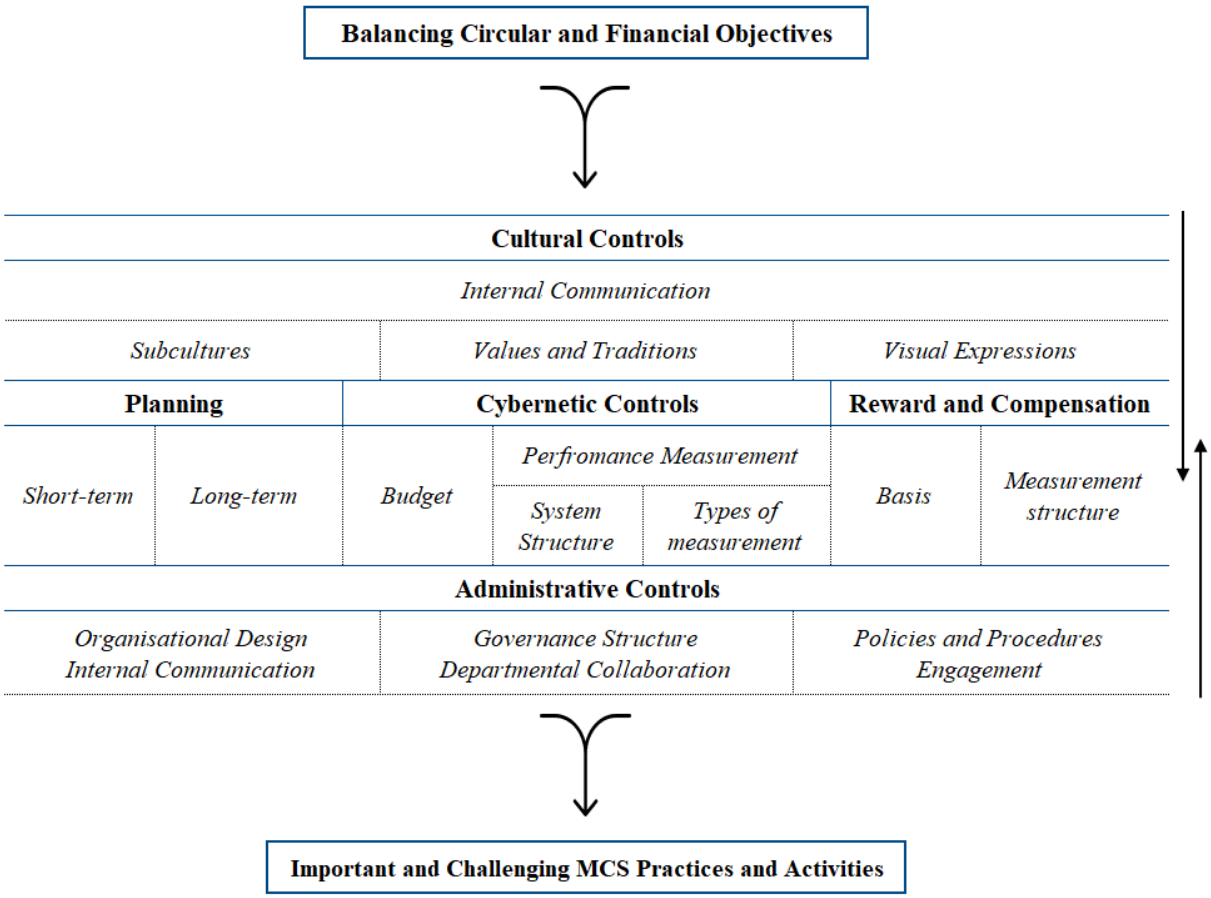

Figure 2: Conceptual model for analysing the employment of management control systems to balance circular and financial objectives.

By analysing the different components presented in figure 2, it will allow the researchers to determine which MCS practices and activities are important and challenging for the balance of circular and financial objectives. Through this conceptual model the study aims to enhance the understanding on how organisations employ their MCS to meet the demands from society in terms of circularity whilst trying to remain profitable.

3. Method

To achieve the purpose of the thesis by conducting a study applying the conceptual framework a qualitative method has been selected as suitable. In this chapter, an explanation and justification of the methodological research design, followed by the data gathering, selection, and processing of empirical findings is presented. Lastly, the limitations of the study and its quality are discussed.

3.1. Research Design

The chosen methodological research design of the thesis was a qualitative approach as it allows for capturing the complexity of reality, experiences and actions undertaken by people (Denzin & Lincoln, 2011; Patton, 2015). Since the purpose of the study is to enhance the understanding on how organisations employ their MCS to meet the demands from society in terms of circularity whilst trying to remain profitable the focus on employee and employer perception of MCS practices and activities was of utmost importance. Qualitative inquiries allow for in-depth understanding of how a phenomenon works and finding patterns amongst the events and perception of people (Patton, 2015). Further, it enables future research to understand concepts and processes designed within an organisation (Yin, 2009) by capturing internal perspectives (Patton, 2015). Hence, a qualitative inquiry into the MCS employment was deemed the suitable approach.

To enable capturing the complexity of an organisation's reality and understanding of the area MCS and a CE a case study approach of a single company was chosen. This due to providing a detailed description of said area and allowing meaningful understanding of human behaviour and experience (Flyvbjerg, 2006; Patton, 2015; Saunders, Lewis & Thornhill, 2019; Yin, 2009). Case study research has received much criticism from scholars, but Flyvbjerg (2006) argues that within social sciences there is little chance of ever producing any form of predictive theory and can therefore only yield context-dependent knowledge in which the case study is particularly fitting. Eysenck (2013) states that "*[...] sometimes we simply have to keep our eyes open and look carefully at individual cases — not in the hope of proving anything, but rather in the hope of learning something!*" (pp. 9). Similarly, multiple other researchers have expressed corresponding views about the case study and its implications and contributions to the social sciences (see e.g. Ragin & Becker, 1992). As the aim of the research is to identify important and challenging MCS practices and activities, this learning capability of the case study is especially well suited for this thesis.

3.2. Data Gathering

The primary source of the data collection was through interviews with employees at Essity. This allows the knowledge of people within the studied context to provide detailed and thorough description of their environment and experiences (Patton, 2015) in such detail and depth required for a case study (Warren, 2011; Yin, 2018). As people within the same organisation still have varying interpretations of the same phenomenon in-depth interviewing is considered the most suitable method of data gathering (Johnson, 2011). The interviews had a semi-structured approach, enabling a high level of flexibility (Saunders, Lewis & Thornhill,

2019; Yin, 2018) and allowing the respondents to express their perspective on the subject more freely (Yin, 2018). The approach enables further exploration of arising content of interest as discussion between participants are encouraged, but within the limits of specific themes set beforehand (Collis & Hussey, 2013). The flexibility which this approach facilitates is needed to reflect each respondent's own experiences which enabled the purpose of the case study to be fulfilled (Bryman & Bell, 2017; Yin, 2018). An aim of at least ten interviews was decided upon beforehand, which in the end landed in a total of twelve interviews. The reason to aim for ten interviews was due to both capturing the experiences of different people (Patton, 2015) as well as providing a higher level of confidentiality for the employees being interviewed as identification internally becomes more difficult when there are more respondents (Johnson, 2011).

Additionally, to complement the interviews and gain a further understanding and insights of the case company and circular initiatives, a document analysis was conducted (Silverman, 2015). Company reports and websites were used and reviewed which provided additional information valuable to the primary empirical findings (Bell, Bryman & Harley, 2019; Silverman, 2015). Lastly, as another source of data, previous research in the form of academic journals and literature were used for theory building and thesis agenda, as well as background information. These sources were predominantly peer-reviewed or published in higher ranking journals to ensure higher quality throughout the research process (KIU, 2022).

3.2.1. Interview Design

The interviews were conducted with respondents one-on-one in order to create a confidential space and to avoid the presence of other colleagues influencing them into not sharing their view openly and honestly leading to subjective empirical data being retrieved (Collis & Hussey, 2013; Johnson, 2011). The language of the interviews depended on the respondents choice of either Swedish or English as some find it easier to express their thoughts and experiences in certain languages (Marschan-Piekkari & Reis, 2004). At the initial stage of the sessions the interviewers clarified the research process and purpose, as well as how each respondent's contribution would be handled and used within the study (Silverman, 2015; Warren, 2011). Additionally, the respondents were informed that their participation would be voluntary, anonymous and the information they shared would be treated with confidentiality (Collis & Hussey, 2013). Simultaneously, they gave their permission to record the sessions and use the AI tool TurboScribe ensuring no valuable information was lost during the processing of the empirical data (Johnson, 2011; Silverman, 2015). Lastly, at each session both interviewers were present, taking turns in actively leading the discussion whilst the other was taking notes, making observations and chime in if anything of interest was missed.

The semi-structured interviews contained open-ended questions designed to capture the respondents' own interpretations and experience of central concepts linked to the studied phenomena (Patton, 2015; Silverman, 2015; Warren, 2011). As various positions across different departments of the organisation have been of interest as respondents, a single interview guide would not allow to capture everyone's experience and knowledge of the area studied in a suitable manner. With consideration to this, two different interview guides were compiled, see appendix 1 and 2, containing the same overarching themes dependent on the

position of executive/manager or employee. Within these some questions differed depending on the departments; *Sustainability, Finance, HR, Communication, Innovation, Procurement* or *Manufacturing*. Regarding the President & CEO and CFO & Executive VP the interview guides for communication and finance for executive/manager were used respectively. The interview questions were structured around six main themes to allow and ensure coherence and a smooth conversational flow. At the first stage respondents were asked to provide some general information about themselves and their role at the company. They were further asked to define the researched word CE as it is a central concept crucial for the study. The reason for this was to facilitate a correct understanding of further discussions to avoid the limitation of possible varying interpretations of the word (Patton, 2015; Silverman, 2015). Subsequent five themes were thereafter based on the conceptual model, more specifically *Cultural Controls*, *Planning, Cybernetic Controls*, *Reward and Compensation Systems* and *Administrative Controls*. Further, the interview format was predominantly how-questions to avoid leading inquiries and encouraging respondents to explore the predefined themes independently (Patel & Davidson, 2019; Silverman, 2015). Lastly, follow-up questions were devised during the interviews as emerging subjects of interest were discussed (Collis & Hussey, 2013), whilst remaining open to questions previously thought relevant to become irrelevant during the interview process (Warren, 2011).

3.2.2. Case Study Selection

To enable the study to be carried out a company with an original traditional approach of linearity which is undergoing a change towards a circular approach was necessary to capture how an organisation employs MCS to balance circularity and profitability to handle this change. One advantage is studying a listed company as these have high requirements of public information facilitating data gathering. Due to these considerations the case company chosen was Essity which has been around since 1975, although as a part of SCA until 2017 when they split into two companies (Essity Aktiebolag, n.d.b). They have a clearly stated purpose of both achieving profitability, but also to contribute to circularity (Essity Aktiebolag, 2024). In addition to this, they are a member of the Ellen MacArthur Foundation (Essity Aktiebolag, n.d.c) which have been influential in the transition towards a CE since it started to gain recognition in the 2010s (Ekins et al. 2019). Silverman (2015) underlines the importance of a purposeful choice of case company as it allows for the possibility to study the actual process or feature of interest. Essity was deemed a good representative of the population since their original products have a traditional linear usage of single use, the profitability can be considered highly correlated with a transition towards circularity where negative impacts such as waste should be minimised. This could be argued requires a balancing act between circularity and profitability supported by their MCS employment. Once the company had been approached and they showed interest in participating in the case study and providing information the decision was made to continue the research with them.

3.2.2.1. Choice of Respondents

The selection process of interviewees were guided by the primary objective to find suitable respondents involved in the MCS practices and activities of the organisation across various departments. This approach allowed competent subjects to be selected in order to achieve a level of depth of the studied phenomena by accessing their varying experiences,

interpretations and understandings (Patton, 2015; Silverman, 2015). Both executives, managers and subordinates were selected as suitable for the study as it allowed capturing the full process of MCS employment and providing a nuanced interpretation of what MCS practices and activities are important and challenging when steering the operation towards both circular and financial objectives. After the initial contact with Essity, suitable respondents were contacted from both a strategic as well as operational viewpoint. The employees were thereafter introduced to the research field and further asked if participation was of interest. Interviews were later scheduled and conducted. To limit the risk of the authors own perception of who plays an important role a broad set of people and departments were interviewed. Within these sessions and contacts further recommendations of employees to interview were suggested, allowing for a representative picture of the organisation and its MCS employment. A detailed list of the twelve participants can be found in table 1.

Postion	**Department**	**Duration**	**Digital tool**	**Language**
Executive	President & CEO	*36 min*	Microsoft Teams	Swedish
Executive	CFO & Executive VP	*43 min*	Microsoft Teams	Swedish
Executive	Sustainability & Innovation	*40 min*	Google Meet	English
Manager	Sustainability	*35 min*	Microsoft Teams	Swedish
Manager	Finance	*41 min*	Google Meet	Swedish
Manager	HR	*32 min*	Microsoft Teams	Swedish
Manager	Procurement	*30 min*	Microsoft Teams	Swedish
Manager	Manufacturing	*37 min*	Microsoft Teams	Swedish
Employee	Sustainability	*34 min*	Microsoft Teams	Swedish
Employee	Finance	*24 min*	Microsoft Teams	Swedish
Employee	Innovation	*36 min*	Microsoft Teams	Swedish
Employee	Manufacturing	*27 min*	Microsoft Teams	Swedish

Table 1: Presentation of participating respondents within the study.

The participating respondents were stationed at the headquarters in Stockholm, or at the offices in Gothenburg and Ismaning, or at the factory in Lilla Edet in addition to working at the departments of Sustainability, Finance, HR, Innovation, Procurement or Manufacturing. To protect their integrity the interviewees will remain anonymous and will either be referred to as E1-E3 for executives, M1-M5 for managers and S1-S4 for subordinates (employees) within the empirical section or their roles and position to provide a context for the gathered data. However, the permission was given to use the title of the President & CEO and CFO & Executive VP within table 1. The reason for this is due to them providing a top-level perspective enabling an understanding and valuable context of strategic, financial and circular objectives as well as overall performance thus providing higher credibility of the results.

Further, the President & CEO title was used within two quotations in the empirical section due to being strongly connected to the role and the analysis thereof. All interviews were carried out in either Swedish or English using tools such as Google Meet and Microsoft Teams and the duration of the interviews were between 24-43 minutes as visible in table 1.

3.2.3. Ethical Reflections

Swedish law requires researchers to conduct good research practice (Lagen (SFS 2019:504) om ansvar för god forskningssed och prövning av oredlighet i forskning) and therefore guidelines based on the European Code of Conduct for Research Integrity have been created as to what needs to be addressed; *Honesty*, *Accountability, Respect* and *Reliability* (ALLEA, 2023; Swedish Research Council, 2023). The research and interviews were conducted in compliance with these ethical guidelines to address issues and occurring limitations (Silverman, 2015). The two most important factors with interviews as a data gathering method is the confidentiality of the respondents (Adler & Adler, 2011; Collis & Hussey, 2013; Johnson, 2011; Warren, 2011) and being *honest* towards the participants (ALLEA, 2023; Swedish Research Council, 2023). All participants were informed of the study and their part in it, as well as anonymization to protect their integrity within the empirical presentation (Adler & Adler, 2011; ALLEA, 2023; Swedish Research Council, 2023). Within the empirical section all Swedish quotations were translated by the authors into English and due to only one interview being conducted in English it is not indicated which quotations are translated to protect the integrity of that respondent. Further, all participation was of own free will with each respondent consenting to the interview and being informed that their involvement could be retracted at any time (Collis & Hussey, 2013; Silverman, 2015).

To take into consideration *accountability* and *respect* both the interview process as well as the usage of the information gathered becomes important (ALLEA, 2023; Collis & Hussey, 2013; Swedish Research Council, 2023). Firstly, interconnected with the confidentiality concerns, the interviewees were all asked permission to record the session and informed that the recordings were deleted once the research was completed. Further, they were made aware that these recordings alongside the transcripts would not be shared with anyone except the researchers and solely used within the study (Adler & Adler, 2011; Warren, 2011). To ensure correct understanding of the information received all interviewees were offered the possibility to give feedback to the processed data. This ensures an increased trust between the respondent and author as they can make sure that they have been understood correctly and that the information has been used accordingly to the purpose stated to them (Collis & Hussey, 2013; Silverman, 2015). Lastly, *reliability* concerns the quality of the research (ALLEA, 2023; Swedish Research Council, 2023) and how this has been taken into consideration can be found in section *3.4. Quality & Limitations*.

3.3. Approach to Analysis

The approach for the data handling was a thematic analysis guided by the conceptual model to allow for identifying patterns and discrepancies of themes (Silverman, 2015). As mentioned previously the interviews were structured using the conceptual model meaning that the theoretical framework and previous literature was an important part within the data analysis and was further used to organise the presentation of the data. During the interviews

thorough notes were taken and the sessions were recorded. The transcriptions were created in two-steps, firstly the program TurboScribe generated a transcript based on the recording which then was revised by the authors to ensure correctness. TurboScribe is an encrypted service (TurboScribe, n.d.) which ensures confidentiality to avoid information leakage to unauthorised persons. After the transcripts were finished a coding process of the gathered data was conducted to allow for categorising and detecting interesting information within the phenomenon studied (Collis & Hussey, 2013; Yin, 2018). This involved four stages where the first one involved going through one transcript at a time to identify interesting words and phrases along with adding reflections and comments to these (Collis & Hussey, 2013; Silverman, 2015). Examples of common phrases found were *individual performance, Beliefs and Behaviours*, and *collaboration*. Thereafter, in the second stage the transcripts were processed together and patterns and themes connected to the MCS employment were discerned (Collis & Hussey, 2013). This yielded examples such as *organisational structure, cascading goals*, and *role dependent responsibility*. Within the third coding stage the findings were connected and structured (Collis & Hussey, 2013) into the five overarching control systems within the conceptual framework; *Cultural Controls, Planning, Cybernetic Controls, Reward and Compensation Systems* and *Administrative Controls*. Lastly, in the fourth stage important and challenging MCS practices (wider organisational norms and principles) and activities (specific tasks or acts) were identified and analysed by viewing the different patterns and themes affecting multiple control systems.

3.4. Quality & Limitations

To address the quality of a qualitative approach the research process is an integral part (Patel & Davidson, 2019; Patton, 2015; Yin, 2009). KIU (2021) states that to analyse the quality of a study it is important for the reader to understand how the research has been conducted to be able to make a judgement regarding its reliability. Further, Flyvbjerg (2006) states that one of the most common criticisms regards the possibility of replicating and generalising a case study. In his article he explains that this is dependent on the case chosen rather than the research design in itself. A case study using strategic sampling of the studied subject can be generalised (Flyvbjerg, 2006) and one way to synthesise the data is using a theoretical framework (Silverman, 2015). By applying the MCS as a package by Malmi and Brown (2008) both a conceptualisation of the information as well as a transparent method is attained. Further, through detailed explanation of the data gathering as well as the approach to analysis brings a high visibility to the research process. Via this high reliability of the thesis has been achieved.

One further limitation and defining part of the quality of qualitative research and interviews is the subjectivity of the respondents regarding a context or issue. To validate anyone's perception the choice in doing multiple interviews with different parts of the organisation, but also within the same departments allows for different experiences and reflections to meet and give a simultaneity picture of the context studied (Ellingson, 2011). Further, to ensure a correct understanding of the respondents view regarding the studied phenomena they were requested to verify the written text as a feedback-loop (Collis & Hussey, 2013; Silverman, 2015). Through this approach a high validity could be ensured and created representative data for the study.

4. Empirics & Analysis

The steering of employee behaviour and actions is conceptualised by viewing MCS practices and activities throughout the five control systems; Cultural Controls, Planning, Cybernetic Controls, Reward and Compensation Systems and Administrative Controls. As presented in section 2.2. Conceptual Framework, cultural- and administrative controls create a foundation via informal- and formal structures and influence the closely connected planning, cybernetic controls, and reward and compensation systems. The planning involves the short- and long-term planning of objectives, the cybernetic controls involve budget and performance measurements and reward and compensation systems regards incentives. These five control systems build the structure of the chapter where within each of them separately empirical findings, analysis and connection to previous literature are presented. Finally, the interaction between the different control systems and important and challenging MCS practices and activities to balance circular and financial objectives are discussed.

4.1. Cultural Controls

As stated in the conceptual model the internal communication lays a foundation for the other influences on the cultural controls. In Essity E1 stated "*I mean we've tried to make sustainability everyone's job.*" which multiple other respondents indirectly confirmed during their interviews. For example, M4 working partially with training colleagues mentioned that it was common for discussion regarding Essity's sustainability initiatives and objectives to take place. Another instance was presented by the sustainability manager who mentioned that when collaborating with other departments they were met with a lot of sustainability ambitions. This was even further underlined when asking the interviewees about their knowledge regarding Essity's circular activities. Every single one of the respondents mentioned the Columbus-project which is a new way to produce pulp for tissue products using the parts of the wheat straws that normally go to waste. However, E1 mentioned that circularity often at a high level seems simple, but once it is broken down becomes a complicated and technical subject. They have tried working with it by including training to enable conversation across different departments, as underlined by E3 as well;

> "*[...] always make sure that people actually understand why you do things and why you have certain rules and why you have an ambition to be circular, for example. [...] that's the surest way to get something done and implemented.*" - E3

This indicates a high level of internal communication spreading circular initiatives regardless of where in the organisation the person is working, much in line with the studies by Svensson and Funck (2019) and Henri, Journeault and Brousseau (2017). The strategy to include everyone is however not without its difficulty as circularity often at a high level seems simple, but once it is broken down becomes a complex subject for people around the organisation to understand. By working with a seemingly high degree of internal communication through discussions and training they try to mitigate this issue.

Essity has four core values; Committed, Care, Collaborate and Courage (Essity Aktiebolag, n.d.d). They state on their website (n.d.d) that they are *committed* to delivering superior results, both economically, environmentally and socially. To achieve this they *collaborate* across teams, functions and business. Further, they *care* about consumers, customers, the environment and each other. By doing this they state that they have the *courage* to take the lead. This has been presented similarly by the interviewees as well where it was learned that they are named Beliefs and Behaviours internally, seemingly being widespread in their definition and meaning within the company. According to E2 their sustainability work fits in with all of the Beliefs and Behaviours, which could be identified in the interviews with S1, M2 and E1 as well. On the other hand, on multiple occasions it was noted that there was a high awareness regarding the need to not solely talk about environmental and social sustainability, but also include the sustainable financial perspective. For example, an employee within the sustainability department mentioned that they are all encouraged to be aware of the stock movement which they can find on their intranet platform 'Essentials'.

This demonstrates that the Beliefs and Behaviours are well integrated within the culture, especially the part about being committed to results since there seems to be an awareness that the company should also be financially sustainable when talking about sustainability. The aim of organisational rationales such as the Beliefs and Behaviours is to make the rest of the company adopt them (Malmi & Brown, 2008) and within Essity these values were mentioned by most and actively engaged in. M1 for example regularly holds workshops with their team on how they can connect Beliefs and Behaviours to their job and roles. Most interviewees did mention the Beliefs and Behaviours as important. Further, during the interviews there were indications that the adoption of organisational rationales has reached multiple people within different parts and hierarchical levels of the organisation.

> "*They [Beliefs and Behaviours] are always there. [...] They're not just posters on the wall but actually referred to and used. [...]. This is not just something we have written on a piece of paper, but something we are also trying to do.*" - E2

> "*But it is my understanding that they [Beliefs and Behaviours] are perceived as important for the company*" - Finance employee

> "*It feels good to be at a company that is really committed to it [Beliefs and Behaviours]. It's not just talk.*" - Manufacturing manager

In contrast, the manufacturing manager also stated that it can be difficult to reach the entire organisation, especially all the way to the people within the factories. This indicates that not the entire organisation has the same view of important values which could have consequences for steering employee behaviour and actions. However, there is active work being done to reach all employees and steer them in the same direction. One example within manufacturing are group exercises which the interviewed manufacturing manager mentioned are done twice a year. A further example was mentioned by the manufacturing employee where they actively try to engage everyone in the goals and initiatives by visibly posting the objectives and results on a board outside of the canteen where many people pass. These include Beliefs and Behaviours, financial and circular amongst others. The active engagement from visual

expression is identified by Svensson and Funck (2019) as an effective tool to spread values. Meaning that Essity actively works in using strategies to reach all employees, even if they seemingly are not fully there yet.

Within Essity's purpose statement three objectives are clearly stated; (1) empower people to fully enjoy life, (2) facilitate a sustainable and circular future, and (3) enhance shareholder value via profitable growth (Essity Aktiebolag, 2024). As E3 stated "*It is not just about achieving a financial result, so to speak, but it is just as important to achieve sustainability goals [...]*". This purpose and its connected values can be found through different ways to influence the company's employees and steer their behaviour and actions. Firstly, it was noted that they are not only communicated within the organisation, but also a part of the recruitment process of new potential employees according to E1, E2, E3, M1 and M2. The HR manager explained that they take these values into consideration when positioning themselves towards possible new employees, as well as external events such as student fairs.

> "*I also believe that when we recruit, this is the type of profile we want. People who think it's [Beliefs and Behaviours] a natural part of their job. [...]. A competitive advantage because it is a way to attract employees who are proud and happy to work in a company that is trying to improve sustainability.*" - E2

This implies a conscious decision to employ people who think the same values are important already before even joining the company. E2 even stated the positive effect of a competitive advantage in connection to having and attracting the right employees. By employing people aligned with the company's values it can be argued to influence a more long-term employment, leading to much knowledge of the organisation and their work. This can then be connected to what Barney and Wright (1998) write on sustaining an advantage in the long-term by having the right knowledge within the organisation. Employing a person based on their stated values should facilitate an easier integration into the company and an openness to accept organisational rationales leading to a potential higher goal congruence.

Another way to influence people's behaviour and actions is when individuals interact which in turn can change one's values (Malmi & Brown, 2008). Within Essity internal communication regarding circularity was identified in different settings. The executive within sustainability and innovation mentioned it being part of meetings, whilst the finance employee rather met circularity informally outside of work tasks when engaging with people working within the sustainability department. In other interviews with for example the finance manager and manufacturing manager these people were very much actively involved in information exchanges where sustainability was a part. On the other hand, the sustainability employee had few discussions regarding financial values, but did encounter them in other ways such as quarterly webcasts by executive management.

The executive within sustainability and innovation working directly with circularity might be the reason for the respondents encounter with the circular values during meetings, whilst the finance employee does not within their daily tasks. This could be further seen in some other interviews, where the direct involvement in daily sustainability work made a difference when it came to encountering circularity, for example with the HR manager. However, as

mentioned previously, all interviewees could discuss Essity's circular initiatives, meaning that they knew more about the work being carried out, than they interacted with others regarding circularity within their roles. This implies a culture where circularity is present, even if it is not part of the daily interaction between all employees. Henri, Journeault and Brousseau (2017) discuss that debates and information exchange enhances sustainable values within an organisation, but from the interviews it was noted that even if not all employees are actively discussing circularity in their work, circular activities are still well known. The reason behind this could be the spreading of values through events, managers/executives and symbols.

Employees cannot only be influenced, but also be forced to act in line with values explicitly stated by managers/executives (Malmi & Brown, 2008). During the interviews it became clear that Essity's CEO actively states how important circular values are for the company. One example brought forward by M4 and M1 was that the CEO took part and talked about Essity's sustainable initiatives in the United Nations in 2022. This does not only give a strong external positioning, but it also shows internally and affects the viewpoint of commitment towards circularity from the CEO. Another example presented by M4 and S3 of the CEOs active engagement are quarterly webcasts where he presents the financial quarter results, but also discusses Essity's circular activities as well as Beliefs and Behaviours. According to the two respondents this enables an understanding of how everything connects.

> "*[...] and, of course, by being role models throughout the organisation. [...]. I mean one hundred and fifty people [in a recent meeting with the plant managers], of course I talk about sustainability to them. They should know that I know what the goals are and that I stand behind it and think it is important and prioritised, etc.*" - President & CEO

As shown in the above quotation the President & CEO of Essity is also aware of the influence they can have on employee values. This aligns with the research by Svensson and Funck (2019) who find that one way to emphasise behaviour amongst employees was via internal company events and CEO/manager interviews. Another example of internal communication to inform employees about initiatives are presentations by the sustainability department which the finance employee found very helpful in understanding the circular goals. Interestingly, both the finance employee and the sustainability employee receive information about the parts they do not encounter in their daily work task via similar presentations and/or webcasts and hence it could be argued that they are partly being forced to act in line with Essity's circular and financial objectives when these are stated.

During the interview with E1, the respondent discussed the traditional tendency of focusing on the short-term instead of the long-term and how they tried to make their team focus on both when facing a trade-off situation between financial and circular objectives.

> "*The other thing is really to try to look at the long-term because the tendency will be always to prioritise the short-term, which is more immediate. So we'll try to provide perspective on what is the impact short-term and long-term so that we balance. And at times you'll have to prioritise short-term or long-term, but then you do it with eyes wide open.*" - E1

Crutzen, Zvezdov and Schaltegger (2017) explain that companies tend to mostly focus on short-term financial objectives rather than long-term aspects of both circular and financial targets and as mentioned by E1 this tendency exists within Essity as well. Takacs, Brunner and Frankenberger (2022) further discuss the ability to move from established traditions to foster innovation and sustainability. The viewpoint and way of working by E1 demonstrates a different approach than the traditional prioritisation of the short-term found by previous research. As Kirchherr et al. (2018) like to call it 'gut feeling', this indicates how E1 can influence initiatives and activities via an alternative viewpoint than the one that has a tendency to be favoured. This could be an important cultural tool for Essity in enabling a balance between these at times contradictory commitments and not solely having a short-term perspective. However, if this is a one time encounter with someone having this viewpoint or not cannot be directly confirmed within the gathered data. On the other hand, as E1 is an executive it could be argued that they have a certain amount of influence on their employees which indicates that this way of approaching trade-off situations is more widespread than only them.

Except managers and executives underlining important values within Essity it has also throughout the interviews been identified that they work a lot with visual expressions stating the organisational rationales. One example presented by S2, S3, S4 and M4 is the usage of their internal intranet platform 'Essentials' for visual communication. S3 and S2 explained that the Beliefs and Behaviours are clearly present on the platform. On the other hand, S2 mentioned that as far as the person knows there are no clear circular values being communicated on the platform. Except Essentials S2, M1 and M5 further described how Essity also during their Tork paper circle-project, regarding recycling used paper hand towels, communicated via signs in every toilet in the office. They informed about the project as well as everyone's contribution by for example not throwing anything else than paper towels in the trash bin enabling recyclability. All these examples indicate lots of different values being put forward, although circular ones were not directly present within 'Essentials'. However, the circular values could be argued to be present via the Beliefs and Behaviours as these also include this aspect. The Tork paper circle-project can be seen as indirectly emphasising the circular values and initiatives, whilst at the same time engaging employees by making them understand how they themselves can contribute. The usage of symbols, and especially intranet platforms, to influence behaviour and actions presented by Svensson and Funck (2019), and Curtzen, Sevzdov and Schaltegger (2017) is similar to the ways Essity implements their visual expressions.

Lastly, regarding different subcultures within Essity it has not been identified in the empirical findings that there are any major differences between professions regarding their values and culture. Nearly all of the respondents mentioned the same Beliefs and Behaviours and presented very similar pictures of Essity's circular work. One reason for this could be the structural way the company is designed by having multiple of the group functions such as HR and Finance within every business/global unit as well, see an illustration of Essity's overarching organisational structure in appendix 3. This lets different professions intermingle with each other much more than if for example all of HR was one direct group function serving the entire organisation. Currently the formal line of hierarchy goes to different

business/global unit presidents and not an HR manager directly within a group function (Essity Aktiebolag, 2024). However, there is an informal line between everyone working within HR, but formally they report to the business/global unit presidents (Essity Aktiebolag, 2024). This also goes for other professions leading to an intermingle between them and could be the reason for not reaffirming certain professional differences equally as much as it could be if they used another structure. Although, it should be mentioned that M3 stated that there are local differences regarding the culture when it comes to geographical locations. The respondent pointed out that there remained a clear connection to Essity, but that everyone could have their own little twist not leading to the same issues regarding values being affected by geographically bound culture as Beusch et al. (2022) identify.

4.2. Planning

Within Essity the long-term commitments come from expectations from share- and stakeholders according to M3, M5, E1 and E3. They are, as mentioned before, also present within Essity's purpose; (1) empower people to fully enjoy life, (2) facilitate a sustainable and circular future, and (3) enhance shareholder value via profitable growth (Essity Aktiebolag, 2024). The planning process in itself, long-term, starts by committing to some commitments and setting a strategic plan. What was found during the interviews is that this part of the process is quite similar for the financial and circular objectives, but differing somewhat once moving from the commitment towards breaking them down into action plans. Starting with the financial planning process E3 mentioned that Essity can be considered quite traditional in their approach.

> "*[...] we are relatively traditional there actually [financial planning]. You could say that we make a strategic plan from a fairly large perspective. We look at the strategy and what we want to develop as a company portfolio in the very long-term. But also a little more concrete in five years' time. We want to become bigger in this and that area and we want to allocate resources here and there, you know, a lot of different things. And for that, we also make a fairly general financial plan. It's not at all detailed, but it's based more on strategic initiatives, so to speak. Here we have our basic operations, and if we do these things and invest here and there, it should lead to higher structural profitability or higher profitability because we focus on higher segments, for example. You start there with a strategic plan*" - E3

Once the long-term perspective has been established, Essity thereafter works by making rolling strategic plans closer in time to both the above mentioned five year plan as well as a three year plan. Within these three year plans things such as bigger CAPEX or investments are included. E1 added how these plans are approved by the board once a year. Lastly, in the short-term more detailed annual financial plans are made which are followed up on a monthly basis. This planning process is widespread within the organisation and for example within the manufacturing department both manager as well as employee talk about the three year plan and short-term planning to reach the long-term organisational objectives as well as the participation of the manager in the actual three year and short-term planning for the particular plant they work at.

The circular objectives, as mentioned before, are committed quite similarly as the financial objectives in the long-term. Breaking down the long-term circular objectives within Essity is a similar process to the financial but less detailed and less structured according to E1, E2, E3, M1 and M3. The process in itself, as described by E1, E3 and M3, looks at what the company needs to deliver during this year to be in line with their long-term commitments. Here one difficulty for Essity is that the necessary actions to be done for the year are not as clear for the circular objectives as for the financial objectives. M3 described it as firstly looking roughly at what kind of building blocks are necessary to get to the long-term goal and then trying to break them down further. This has its consequences in the follow-up of the plan which also becomes less detailed and therefore not being as well anchored in the company as the financial targets.

> "*So we have a planning process for that [sustainability], and we look at how this year looks like, but in general, that process is much less granular, it's not so much down to the unit level, it's not nearly as substantiated, you could say. And it's usually a bit more long-term because we don't have like next quarter we should have a certain margin, a certain sales and all that, but we're not correspondingly granular like follow-up, or planning of the sustainability goals. I think that in two or three years we'll be there, maybe four, but we're not there now.*" - E3

> "*It becomes quite difficult to maybe estimate and plan what is reasonable that we reach during the year. It's more that we ensure, we have a pipeline that we think will help us reach the long-term goal. [...]. The important thing is that it happens. Because once it happens, it will happen again and again and again. That's the long-term we want. Not exactly which month we do it.*" - M3

M3 explained that they believe it is more important that there is a flow for actions to be undertaken rather than trying to break the circular objectives down in particular years and months they need to be achieved. Mentioned later was also that with new technology being developed planning something precisely to be done in five years becomes ineffective for the company and might even be obsolete depending on what happens. On the other hand, as E3 pointed out, more detailed planning continues to be a developing part of Essity′s process, but currently they are not at the same level as the financial yet.

The challenge of breaking down circular objectives is something Crutzen, Zvezdov and Schaltegger (2017) also identify and according to them has to do with them being much more difficult to define and concretize. They further state that this is one reason that organisations have a tendency to focus more on short-term financial goals. Similarly, Essity does have a much more detailed and developed process for the short-term financial objectives. However, if this is due to a conscious decision or rather due to the difficulty in defining a short-term action plan for the circular objectives is indeterminate. Having a long-term plan is emphasised by Crutzen, Zvezdov and Schaltegger (2017) as important to promote circularity as well as breaking these down into shorter action plans. Therefore the less detailed circular action plans within Essity could have implications for the employees of the company as what to focus on and the level of engagement can become somewhat ambiguous. As Lueg and Radlach (2016) write, the short-term helps employees to understand what the company aims

to reach in the long-term. What can be identified is that there is a level of awareness regarding this ambiguity of circular goals within Essity, but it remains challenging and thus can lead to lesser steering of employee behaviour and actions towards a higher level of engagement and focus towards circular goals than maybe wanted.

E2, E3, M3, M5 and S3 explained that Essity has divided the responsibility of sustainability depending on who can actually contribute to the target. One person encountering sustainability due to this division is the manufacturing employee who mentioned that the factories have scorecards within the plants where all objectives are part of one strategy including sustainability. In contrast, one person not encountering any circular goals due to this division was the finance employee participating in the breaking down of solely financial objectives. Further, S3 discussed how the brands within Essity have their own sustainability goals and strategies which do not have to be the same for each brand. For example, the Essity goal of at least fifty percent of revenues coming from sustainable innovations within the last three years (Essity Aktiebolag, 2024) can affect the brands differently. M3 explained that different product areas have different potential to contribute and the company thereafter has divided the parts within a bigger picture.

> "*[...] [dividing responsibility] to the various parts needed to contribute in order for us to achieve goals. [...]. A prime example of circularity is our packaging ambitions. We set goals that we then cascade out to all the different divisions. And they, in turn, work on solving these recyclability issues, increasing the proportion of recycled material in packaging.*" - M5

Multiple researchers explain how important it is to integrate the financial and circular objectives in the planning process (Crutzen, 2011; Crutzen, Zvezdov & Schaltegger, 2017; Henri, Journeault & Brousseau, 2017). In Essity′s case they have a connection between these according to multiple respondents. However, as can be seen not everyone encounters both circular and financial objectives. The differing viewpoint of the interplay between the financial and circular goals is argued to be due to the way the responsibility of sustainability is divided within the company. This division means that not all employees get in contact with the planning process of circular objectives.

The way Essity has divided the responsibility can have varied effects. The division of responsibility can enable cooperation and align goals from different groups with overarching objectives. However, since not all departments directly encounter it due to the division these department efforts might not align with the rest, losing parts of the organisation. Interestingly regarding this is that not all respondents spoke of this division of responsibility. One reason for it could be that the business/global unit presidents receive goals which then are broken down on individual levels step by step, person by person. Meaning the role of the employee and their work plays a role in the action plan for themselves and therefore did not notice how responsibility is divided from a holistic viewpoint. Further, interesting was that some respondents have mentioned that sustainability should be part of everyone's job and therefore have tried to cascade it down within everyone's goals. What could be identified though is that some persons do not have goals connected to sustainability directly, however for some there is a connection between the operational work carried out and sustainable objectives of the

organisation. For example the innovation employee did not have a clear goal connected to sustainable innovations, but at the same time every other test-drive they did was connected to sustainability. One reason for this could be the previously discussed difficulties in defining short-term action plans for circularity. As the procurement manager stated, it looks differently depending on which role you have within procurement. For some they could more indirectly contribute to circular objectives rather than affect the objectives as such.

4.3. Cybernetic Controls

As Malmi and Brown (2008) describe it the budget is a tool which can be used to connect all parts of an organisation and provide a path for employees to follow. The planning process has in this framework been separated from the budget process, but within Essity it was identified that much the same process for short-term action plans and the budget were used. They, as M3 explained, have their commitments decided upon quite centrally and then different parts of the organisation are responsible to create a budget for them. It becomes an operational plan of what the organisation should achieve during the year, a 'marching order' as M3 described it. The manufacturing manager stated that the process takes place annually and that they receive demands centrally from the company. Similarly, the innovation employee discussed that they report what kind of costs they will have the upcoming year and that these numbers then are followed up each month. Noteworthy was that the innovation employee had the possibility to send in a request for extra money for projects showing that even if the budget does financially set a limit, there are possibilities for new projects to be introduced.

It has been identified from the interviews that there are mixed opinions on the integration of circularity within the budgeting process in Essity. Some, for example E1 and M4, find that within the budget process sustainable targets are directly connected to it and M4 explained that they often find the sustainable alternative also profitable. E1 elaborated that the budget process is rather mathematical even for the sustainability part and is done at the same time as the financial part. Further, E1 and E2 explained how within budgeting they do look at how to allocate their capital or money in terms of not only what goes behind growth and cost savings, but also what goes with sustainable investments.

> "*So it's not like you try not to look at it [sustainability] in isolation. [...]. So we try to look for things which are kind of drive both growth and value creation, financially, but are also better for the environment.*" - E1

Other respondents stated or indicated a more indirect connection of the circular objectives within the budget process. M5 discussed how a strong financial result can provide further possibilities for circular initiatives. Similarly, both the innovation employee and finance manager explained that each innovation project has a circular way of thinking regarding for example usage of plastic or renewable materials, but these are not aggregated into some sort of sum. At the same time, M3 discussed how Essity is trying to see circularity as something driving profit and growth for their products and brands and not measure it separately. Within the budget therefore there seems to be an indirect connection and the manufacturing employee gives an example of how circularity thinking is indirectly integrated within their budget process.

> "*No, it's an indirect impact really [integrated circular objectives]. Given that when we budget, these aspects come into play. For example, we have to make allowances in the budget for the fact that we buy biogas. And also take into account what fibres we buy. [...]. And this comes with an extra cost depending on what it is. Then you have to think about it. But there is no circularity in the budgeting in that way otherwise. It comes automatically depending on the different conditions, as you might say. [...]. So it's woven in, but there's not really any direct circular thinking.*" - Manufacturing employee

At the same time as some noted a relatively direct connection, some an indirect connection there are respondents who did not see any integration at all within Essity's budget process. E3, M1 and S2 described how they do not encounter anything other than financial numbers and cost control within their budget process.

The current financial budget process within Essity is quite traditional, but as Henri, Journeault and Brousseau (2017) as well as Svensson and Funck (2019) emphasise the process needs to not only take into account financial objectives but should also include circular objectives. The differentiating standpoints of the interviewees on the integration of circularity within the budget process could at first glance have to do with the previously discussed division of responsibility regarding sustainability. However, the respondents who saw indirect connections or direct connections were at times from the same department, however not always. Further, some who work within the same business/global unit within Essity had experiences of both direct, indirect and non-integration of the circular objectives within the budget process. This indicates that the position or role and therefore division of responsibility does not have an effect on the way this is perceived. Rather the reason could be, as some respondents say, there is an indirect connection which some have more difficulty to capture and others find very easy to observe and therefore see a direct connection. However, the integration of circularity within the budget process does not seem to be fully complete within Essity. One difficulty when not fully integrating circularity within their budget process can be that the connection between circularity and other parts of the organisation become less clear which in turn can lessen the effect of the budget as a path to follow. Meaning employee behaviour and actions have the risk of deviating more than if it would be included in the budget. This could in turn lead to difficulties regarding things such as Svensson and Funck (2019) explain the need for more detailed cost accounting when circularity becomes a part of it. One reason for more detailed cost accounting is explained by van Loon et al. (2020) as there is a disconnect between revenues and expenses within the circular approach.

During the interviews examples of changes in the investment decisions within Essity were brought up where M5 explained how the company has started to look at the climate impact of their investments and has become part of the input. It is not something that affects a yes or no directly, but it has started to be taken into account which M5 believed will become even more important in the future. So far though, what could be identified is that the financial implications such as costs still hold a slightly higher importance when making decisions about investments. M3, M4, M5, S1 and S3 all mentioned scenarios where the cost

accounting in the end becomes the decision making factor. M5 further described how there are technical possibilities for circular solutions in some cases but they require extraordinary feedstocks which drives an additional cost that cannot be covered by an extra revenue for the end product. This indicates that unless the investment is financially viable it will not be done.

> "*Sure, Essity is adamant that it wants to be sustainable. But so far I haven't seen a single initiative that doesn't have a calculation behind it that balances. I think that trumps sustainability, to be honest. But those are the two things that you're working really hard on.*" - M4

Within Essity some further difficulties were also identified during the interviews. E2 discussed how some sustainable investments require a payback period longer than normally accepted. Further, the aspects of end-of-life handling were mentioned by M3 and M5 in regards to the trouble of finding which other key players they need in their supply chain to handle the end-of-life products. They mean that this is not part of Essity's core activities and therefore rather finding the correct partner for them would be the beneficial solution. Then other aspects such as who should carry the costs in connection to the end-of-life handling and who should take part in any revenues generated would become an issue.

Just like previous research has stated regarding the difficulty of circular investments due to higher upfront costs and long-term funding compared to the traditional investment (Gumley, 2014; Shan et al. 2023; Shan, Umar & Mizra, 2022; Urbinati, Franzò & Chiaroni, 2021) similar difficulties have been presented within Essity. The higher financial barriers and the uncertainty or lack of positive return create a challenge for the circular investments for them as well. Previous research also explained how detailed cost accounting also regarded problems of longer payback times and end-of-life handling (Linder & Williander, 2017; Shahbazi et al. 2016; Urbinati, Franzò & Chiaroni, 2021; Vermunt et al. 2019) which also were presented within Essity as challenges. To enable effective steering of employee behaviour and actions these difficulties need to be taken into account in the budget alongside circularity, otherwise the path for employees to follow becomes less clear and leading to a higher risk of deviations.

Although these difficulties exist multiple respondents explained how they are still trying to work with this. As E2 stated "*You take some financial risks and you live and you learn*". M5 also mentioned how hard they are still trying to learn and change the conditions for the possible solutions as well as many other respondents mentioned how they believe circular investment in the end can drive profit and growth via consumer demands and brand development. In line with this, E3 discussed investments made regarding CO2 reduction.

> "*But you haven't really priced CO2, even if you could do it. And if you had observed the actual costs of CO2 and it would be part of your cost calculation. Then you would actually have made money on most investments you make. So in reality, you actually make money, I think, on almost all sustainability work, even if it is not always visible.*" - E3

It shows the difficulty of measuring the effects of circular initiatives, which also could be one reason for its partial exclusion from the budget process. If it is difficult to measure, then it

becomes difficult to budget, demonstrating what research says regarding the importance of its inclusion (Henri, Journeault & Brousseau, 2017; Svensson & Funck, 2019), is much easier said than done. This is similar to the challenge found in the planning process regarding breaking down the long-term circular commitments into action plans.

The second part of the cybernetic controls are the performance measurements used within the organisation. They create a way for employees to be held accountable for certain goals as well as motivate, guide and inform them about the organisation's overall objectives (Malmi & Brown, 2008). In Essity they have a clear structure of how they measure performance. Firstly, they have the organisational level which handles amongst other targeting-systems for their sustainable innovations and similar indicators as explained by the sustainability manager, employee, and innovation employee. Other measurements are financial ones such as ROCE and organic growth. Apart from this no specific organisational level performance measures have directly been encountered in the data gathering as much of the discussions regarded the planning of organisational objectives and therefore has been discussed in the planning section. Further, Essity has a higher emphasis on performance measurements on a business/global unit and especially individual level where most of the compensation and rewards are connected for the average employee. The business/global unit performance measurements are dependent on the responsibility of the unit meaning that depending on the unit their performance is evaluated differently. One example was presented by the manufacturing manager and employee that mentioned how the factory is evaluated on their goals every month which can differ from other factories. If the reader remembers, these results were then posted on a board outside of the canteen for all the employees at the factory to be seen.

As previously stated in the planning section the objectives start at the organisational level, and then the business/global unit presidents get their goals which are then cascaded down within the organisation person by person. The performance measures are established individually via the following process;

> "*Well, every year my boss and I sit down. And everyone in the company does this. We go through what goals we should have. There cannot be too many. Maybe five of them. And then those goals are followed up every quarter. And then you get an assessment on the goal afterwards.*" - S1

The performance measures are often set up via a discussion between a manager and their subordinate on how the subordinate can contribute to the cascaded goals within their role. The follow up on a quarterly basis is done according to M1 to avoid any surprises when the performance is evaluated at the end of the year and enable support from the manager when necessary.

In the previous research carried out by de Oliveira, Dantas and Soares (2021), and Lindgreen, Salomone and Reyes (2020) they state that to avoid confusion regarding what is to be done there should be a separation and broken down performance measures from the organisation, the micro-level, into nano-level. The nano-level, as described in the theory, regards product-level circularity such as improving material or components like design, quality or

recovery of resources (Figge et al. 2018). Within Essity it was clear that the emphasis was on an individual level regarding performance measures as all respondents focused on these when asking about performance measurements, in a way similar to the nano-level, but more focused on the individual than a product per se. Crutzen, Zvezdov and Schaltegger (2017) explain in their research that having a common system for measurement of financial and circular performance has been a difficulty for organisations. This challenge seems to not be as big of a problem for Essity. By cascading the micro-level objectives down to nano-level measures it enables employees to understand not solely the overarching commitments, but also how they can contribute and are held accountable for their performance, enabling clearer motivation and guidance. However, this cascading process leads to some employees not being included within the circular or financial activities being done. Meaning that for those not encountering circularity it becomes a complex area even if, as mentioned before, Essity strives to include everyone. No matter which aspect (i.e. financial or circular) a person does not encounter, a consequence becomes a disconnect to some of the company's commitments causing a lower degree of steering of employee behaviour and actions. Interestingly, it was further identified that the individual performance measurements hold true within the offices of Essity, but not completely all the way down in the factories. The manufacturing manager explained that they are now moving to include team level, meaning not entirely down to individual level within the plants. This could have consequences for steering the employees within the plant as they are not on an individual level motivated to fulfil certain goals. However, there are some initiatives to overcome this somewhat, which will be discussed more in the reward and compensation system section as it regards additional incentives rather than performance measurements.

The performance measurements within Essity are cascaded down and established on an individual level as explained above. Consequently leading to some not encountering either the circular or financial measures. For example the finance employee did not encounter any circular goals in their individual targets, whilst the sustainability employee on the other hand did not encounter any financial goals in their targets. It should be noted however, that within the interviews most employees encountered financial measures amongst their goals, only a few did not. Using the system Essity currently employs, the circular performance measurements do therefore not apply for all employees even if Essity does include non-financial measurements in their performance system. The Beliefs and Behaviours are according to E1, M1 and S1 mandatory to include, meaning that to some degree non-financial measurements are included for everyone, but that these do not have to be connected to circularity per se.

As Lueg and Radlach (2016), Svensson and Funck (2019), and Ax, Johansson and Kullvén (2015) write, extensions to the solely financial measurements using non-financial indicators are necessary for a circular approach. What can be identified in Essity is that the division of responsibility has an effect on what types of measures an employee will have and encounter. Consequently, the types of measures identified during the data gathering were quite different depending on role and position within Essity. Some researchers have found that performance measures commonly are short-term financial (Kanzari et al. 2022) and as could be noted almost all respondents had some form of financial performance measures. Even though other

goals were present simultaneously as well. The reason for still mostly including the financial measures can be the previously discussed difficulty of measuring non-financial performance especially in connection to circularity as the sustainability employee explained;

> "*But circularity, we still struggle a bit with finding good indicators. That is, good metrics. We use checklists to assess. It's not as easy to put a number on circularity as on a [carbon] footprint.*" - Sustainability employee

Some researchers argue for a long-term view upon the measures to balance both circular and financial objectives (Nußholz et al. 2020). If this is the case for Essity cannot be answered straight forward from the gathered data. However, as the performance measures are cascaded down from top management, one could argue that those goals should be the yearly action plan to reach the long-term goals, both financially and circular. From that point of view the performance measurements on an individual level should be a yearly broken down goal meaning short-term, but with a long-term perspective as well. One argument against a more long-term performance measurement system for individual employees is similar to what Lindgreen, Salomone and Reyes (2020) state regarding having nano-level measures. The long-term commitments tend to be relatively holistic and therefore difficult to understand for an employee and how they play a role in it. By breaking it down more short-term this enables employees to understand what is expected of them and should influence their behaviour and actions in the wanted direction to a higher degree. Within Essity, as mentioned, it could be argued that this issue does not occur due to their way of structuring individual performance measurements since the targets are short-term focused on a yearly basis stemming from their long-term commitments.

4.4. Reward & Compensation Systems

Using a formal reward and compensation system is one way organisations can motivate employees to achieve goal congruence (Hartmann et al. 2020; Malmi & Brown, 2008). Essity has three different formal systems to compensate and reward good performance. Firstly, there is a bonussystem for the entire organisation according to M2, M4, M5, S2 and S4. This bonus is solely connected to the financial measures EBITA-margin, operating cash flow and organic sales growth (Essity Aktiebolag, 2024). Depending on how the company is doing financially the employees receive a yearly bonus. This means that the individual does not have any specific performance measures connected to this bonus and it can therefore be argued that it could become less motivating and clear for them how they can contribute to the result, especially if they do not work directly with financials or affect financial results. As the aim of reward and compensation systems such as these are to motivate and create higher engagement this loose connection to the individual performance for some can indicate a lower employee focus and time spent on tasks related to this aim.

Secondly, there is another bonussystem for the top one hundred and fifty management within Essity. As it is similar in structure to the remuneration policy these two incentive programs will within this thesis be presented and discussed together. E1, M3 and S4 explained that the bonussystem for top management builds upon objectives which include both financial and sustainability results connected to both the organisation's performance and specific business/global unit performance. Similarly, the remuneration policy is connected to both the

financial and sustainable performance, although solely on an organisational level (Essity Aktiebolag, 2024). Certain amounts of the bonuses and the remuneration are connected to certain financial or sustainable objectives, meaning that depending on which goals are fulfilled a certain amount of bonus is paid out. Regarding the remuneration policy Essity has a long-term incentive program where the results for three years are measured and thereafter depending on the result paid out (Essity Aktiebolag, 2024). This program introduces a new three year period every year, meaning there are continuously new long-term incentives introduced for the upcoming three years running parallel with each other. Within these eighty percent of the remuneration is connected to financial outcomes and twenty percent to carbon emission reduction outcomes (Essity Aktiebolag, 2024). Further, they have a short-term program which is solely built upon financial numbers due to otherwise rewarding the same outcome of carbon emissions twice since it is included within the long-term (Essity Aktiebolag, 2024).

> "*The whole company executive team is measured and rewarded on both [sustainability and financial] as well as the top one hundred and fifty [management]. [...]. And then below, they don't have a bonus on that*" - E1

For the bonussystem for the top one hundred and fifty management the division of the objectives should differ between the recipients as they are connected to business/global units as well and not solely organisational targets. For the person the bonus is then connected to a certain percentage to the company commitment and a certain percentage to the business/global unit. The exact division was not identified within the empirical findings, however it was explained that the weighting of targets was done using this structure and dependent on where the person worked. As should be noted, E1 and S3 explained that these goals included both financial and sustainable targets and it can be assumed to have a similar division for the aggregated objectives of all top one hundred and fifty management as the remuneration policy (eighty financial/twenty sustainable) to achieve a higher goal congruence. Should this division not be similar then there is a potential challenge in steering employee behaviour and actions since the higher management can influence their subordinates to a high degree by cascading their specific targets via the process of the individual performance measurements which in turn would potentially lessen the goal congruence achievement.

Thirdly, all managers and employees explained that depending on the performance of achieving individual goals the employee is rated in discussion with their manager which then affects their salary negotiations and future job opportunities. These performance measures, as explained previously, are connected to the individual's role and therefore vary much across the organisation including targets either financial, circular or both.

> "*To some extent, they [individual performance measures] are also a basis for salary when you do your salary review. Depending on whether you have achieved your goals, you get a rating. It's not just the targets as such. But of course the overall performance. But they also have a part in this. So you get it on an individual level.*" - S3

S1 further explained two other factors taken into account, beyond the goal achievements, in the evaluation process; how well the person performs compared to the group and how sought-after the person is on the job market. The aspect of wanting to retain employees rather than steering their behaviour and actions as a part of the reward and compensation system can be connected to leading to a higher overall performance when people with the right knowledge stay with the company. As discussed in the cultural controls section, having the right people can lead to a competitive advantage (Barney & Wright, 1998). One could however argue that retaining employees affects loyalty as well and leads to a behaviour wanted by the organisation. Having the salary negotiation connected to the individual performance measures indicates a clear process where Essity tries to steer the behaviour and actions of its employees to put in time and focus much of their attention to these specific objectives.

Including both circular and financial targets in the formal reward and compensation systems can both be a benefit, but also a challenge. As seen in Essity's incentive programs this depends on which program and on the role of the person. Looking at the all employee bonus it is solely connected to financial objectives, which according to Crutzen, Zvezdov and Schaltegger (2017) and Lueg and Radlach (2016) is quite common. The reasons for this could be multiple. One could be that there can be a lack of motivation to fulfil goals which employees do not directly affect and as has been noted in the cybernetic controls section most employees encounter financial targets compared to circular targets. Although, then it could be argued that there is a lack of motivation for those that do not encounter financial aspects within their work. Another reason for the bonus to be connected to financial outcomes might have to do with the Swedish law still stating that the main objective of a listed company is to provide profit to their shareholders unless otherwise specified (Aktiebolagslag (SFS 2005:551) 3 kap. 3§). Moreover, as Lueg and Radlach (2016) and MIT Sloan (2009) state, a misconception of circular initiatives being reflected within the financial performance could be a further reason for solely using financial objectives. This has been noted somewhat in the interviews, where it is common to state that the circular developments of their products is an investment into their brand and will lead to higher financial results in the future. Considering the research stating higher consumer preference for circular products (Wee et al. 2014; Boyer et al. 2021) which in turn should lead to higher revenues it could be argued that there is a good basis for these claims by Essity employees contradictory to Lueg and Radlach (2016) and MIT Sloan (2009).

In contrast, within the top one hundred and fifty management bonus, remuneration policy and for some of the individual salary negotiations, both sustainable and financial objectives are part of the incentives. Unlike the academic literature mentioned above other researchers argue that this motivates people to reach sustainable goals when included (Henri, Journeault & Brousseau, 2017; Riccaboni & Leone, 2010). Interestingly though, sustainability solely connects to twenty percent of the compensation as of yet within the remuneration policy as well as it being only connected to carbon emissions. The reason for this is explained by the CEO.

> "*In our long-term incentive programmes, which is also stated in the annual report, we have a component that relates to carbon emissions. [...] we have chosen it because it is perhaps the most important and it is easiest to follow up and it must decrease in absolute terms year after year after year. So that it is very easy and concrete. There is no point in making it too complicated because it will be so fragmented otherwise.*" - President & CEO

Similar issues regarding lack of quantifiable measures have been presented in the planning and cybernetic controls sections as well. The difficulty to break down and create concrete and understandable measurements for circular objectives leads to less such measures and less granular action plans. Further reasons for including little circular objectives can be due to trade-off situations between both the financial and circular (Crutzen, Zvezdov & Schaltegger, 2017) as well as the long- vs short-term viewpoint (Tuo, Rezaee & Gao, 2024). As mentioned previously, E1 discussed how the long-term and short-term perspectives can go against each other and how they try to actively work and engage in both of them. By having a long-term incentive program within the remuneration policy broken down into a short-term (Essity Aktiebolag, 2024) Essity tries to work with this possible trade-off.

> "*[...] there's many polarities in business. I mean, one is do you go for growth or do you go for profit? Do you cut costs or do you invest for future profit? Right. And it's never easy, right? Which one you do? There's a tension on profit or sustainability, short-term or long-term. So yeah, you face those all the time*." - E1

The incentive program for the top one hundred and fifty management should have an indirect effect on the employees considering the system structure of the individual performance measurements. Since the individual salary negotiations as well as career opportunities are connected to them employees should strive to achieve similar targets but on their individual level. Since the bonuses are connected to targets of managers who then cascade their goals, employees should indirectly all contribute in their way to both circular and financial commitments. As mentioned both by previous research and E1 trade-offs between the financial and sustainable targets happen. One example can be connected to the previous discussion of longer payback time occurring when investing in circularity compared to traditional investments in the cybernetic controls section leading to a need for higher investments into the future and lower profit that year.

> "*Ultimately you can't, that's more activity, you'll find a way, but at the end you need to deliver both [sustainable and financial]. And if you don't deliver both, we're not going to get our internally rewarded, we don't get our bonuses, we don't get our salary increases. Not that everyone works for that, but you won't get it if you just get financials, but you're short on sustainability. You don't get the full reward. Same if you only do sustainability, you don't get the full reward, so you try to incentivize that you get both.*" - E1

Lastly, it was noted that the above described reward and compensation systems do cover all offices around the globe and also some working at the factories, but according to the manufacturing manager not all of the employees within the plants are included in these

systems. It was mentioned in the cybernetic controls that there are not individual performance measurements all the way down in the factory. One way, identified during the interviews, to work around this was mentioned by the manufacturing manager who stated that they have a special program for initiatives within the plants. This incentive program to promote improvement activities within the factory is called Eurostar and includes multiple aspects such as financial and sustainability. The manufacturing manager explained that every quarter someone is selected in first and second place and is rewarded with a weekend trip somewhere in Europe to celebrate a good initiative. This means that even if they do not have the same performance measurement system and reward and compensation systems for factory workers they still have a possibility to steer behaviour and actions to focus their time and attention to promote multiple objectives.

4.5. Administrative Controls

Depending on how an organisation is structured different relations and contacts are desired (Malmi & Brown, 2008) and enables different flows of communication (Hartmann et al. 2020). Essity is using a matrix organisation structure as noted by the dual way some departments are organised (Essity Aktiebolag, 2024). The group functions such as HR and Finance, as previously mentioned, have a global function, but also have employees within the business/global units that report to their manager within those instead of the HR or Finance function directly. See appendix 3 for a visualisation of the overarching structure within Essity. One example of communication regarding circularity was presented by the HR manager who explained how they encounter discussions about this subject almost everywhere in the company when talking to people. Similarly, the sustainability manager also encountered much communication between them and other departments such as procurement and innovation, which was also confirmed from their side. However, the structure within Essity can have its downside according to E2;

> "*I think that a major and continuing potential for Essity is that we are quite consensus-oriented and collaborative, as Swedish companies often are. And that is very good in the long-term, but it can sometimes lead to decision-making processes dragging on and things becoming a little unclear and there is a possibility, so to speak, to veto even if you are not directly involved.*" - E2

The combination of the formal matrix structure and division of responsibility indicates a more decentralised design to promote timely and accurate decision making in accordance with research from Blocher, Stout and Cokins (2010), and Horngren, Datar and Rajan (2012). However, as E2 stated, letting decision making be more decentralised can bring on difficulties within the company as well. This can be connected to research stating risks of suboptimal decisions being made as the focus becomes departmental rather than organisational commitments (Hartmann et al. 2020; Horngren, Datar & Rajan, 2012), but from a slightly different angle. What E2 explained could rather be seen as suboptimal decision making due to lack of information by someone who can influence the decision rather than prioritising their own goals. Anyhow, this indicates that a decentralised structure can lead to challenges for Essity.

As can be further noted in the illustration in appendix 3 within Essity the sustainability department is part of the innovation and global brand unit. This is a relatively recent change as understood from the interviews and described by E3.

> "*In purely organisational terms, [...] we have integrated this [sustainability] into the business, but there is a guy [...] who is also responsible for innovation and so on, and he is some kind of overall responsible person, but then we have distributed all these responsibilities to the targets for those who can actually do something about them.*" - E3

To increase the priority of circularity new organisational structures are needed (Lueg and Radlach, 2016; Sarja et al. 2021). The organisational design allows for a governance structure within Essity resulting in much collaboration between different departments. Kirchherr et al. (2018) write that a separate sustainability department leads to restricted collaboration and discussion so by integrating the sustainability department together with other departments Essity mitigates this separation and restricted collaboration. Another reason for the inclusion of the sustainability department within the business could be due to a higher familiarisation of circular goals and its possibilities (Kirchherr et al. 2018). A high familiarisation can be argued to be the case within Essity as there was a widespread knowledge about circular initiatives as discussed in the cultural controls section.

Within the interviews multiple examples of collaboration between different parts have been identified. Some examples pertaining to the sustainability department were presented by the employee and manager. The employee talked about how they work with innovation regarding material development whilst both mentioned how they helped the brand units with their brand strategies. From another viewpoint the procurement manager talked about how they support sustainability reporting. This can be connected back to previous chapters about how the responsibility of decision making and goal setting for sustainability was found to be divided upon those who can contribute to them.

By collaborating between different departments the risk of prioritising financial targets over the sustainable becomes less within the planning as presented by Crutzen, Zvezdov and Schaltegger (2017). It should be noted as well that collaboration does not solely pertain to sustainability, but also for financial aspects. For example the finance employee explained how they worked with many different departments in their budget process. The seemingly high collaboration within Essity indicates clear involvement within circular initiatives which could be argued facilitates overall goal congruence. Henri, Journeault and Brousseau (2017) emphasise the positive effects on organisational performance of high involvement similar to what has been identified.

One last way to steer employee behaviour and actions is to hold them formally accountable through rules (Malmi & Brown, 2008). When asking the question regarding policies and procedures during the interviews most people had to stop and think more than during other questions. This indicates that people could not connect the commitments of Essity to these documents straight away. One reason identified was that some worked with the rules on a much more operational level than strategic and could not directly connect their work and the

policies and procedures to Essity's targets. However, some respondents had examples of how the organisational objectives were connected to them. Both the manufacturing manager and sustainability employee for example discussed a policy regarding raw materials used within Essity. This could by the authors clearly be connected to the objective 'Fresh Fibre' where Essity has a goal of one hundred percent certified fresh fibre to prevent deforestation and promote biodiversity (Essity Aktiebolag, 2024). E1 further explained that Essity had KPIs to measure and ensure compliance with the policies.

> "*So one is, I think, the policies, but I think more important is how we kind of live by them and enforce them. And what are the ways in case we don't have that, we detect that. [...]. And then we've got tons of KPIs in place to ensure that we have visibility on how do we comply, like, you know, and if we have any deformities or we don't comply.*" - E1

The engagement in policies and procedures was identified to be affected by the organisational design by including the sustainability department into the business, and governance structure by dividing the responsibility of sustainability where circularity can be impacted. This then influenced who can engage in the establishment of policies and procedures within the company. Both the sustainability manager and employee were taking part in the creation of certain policies regarding sustainability, but they were not the only ones interviewed playing a role in establishing policies. The manufacturing manager explained how the management team for the plant influenced the policies pertaining to them regarding safety, sustainability, energy and quality, whilst the HR manager talked about contributing to policies within their area of responsibility.

To succeed in socialising the employees to act according to the organisation's objectives (Svensson & Funck, 2019) all relevant employees should be involved in the establishment of policies and procedures (Lueg & Radlach, 2016). Within Essity there are indications of high engagement of employees within the process of establishing policies and procedures in line with the research, but interestingly it was also mentioned that if someone found something incorrect or not updated that they could send a request for it to be changed, including more employees than those who have expertise within the area. As Hartmann et al. (2020) explain how a decentralised structure would be preferable for employee engagement, Essity indicates a similar structure in regards to the policy making. However, the company group policies are approved by the board so in a sense some of these documents are very centralised. This could mean a different approach trying to engage their employees, but still remaining centralised regarding establishment of rules and accountability in certain regards. It should as well be noted that just like with the collaboration it was brought forward by E3 that the same reflection of commitments could be found in the financial policies and procedures as for the circular, factory and HR policies. This was further underlined by the finance employee that explained how they could contribute, where relevant, to the policy writings as well.

Lastly, regarding potential decoupling between policies being introduced but not implemented (Meyer & Rowan, 1977; Stål & Corvellec, 2018; Westphal & Zajac, 2001) this phenomenon has not been identified within the empirical findings. Institutional demands i.e. regulations requiring policies to be implemented were discussed during the interviews,

however the respondents talked about the introduction of the policies rather than the implementation of these. Nonetheless, there are inclinations that most policies are implemented due to the chosen organisational structure. As Crutzen, Zvezdov and Schaltegger (2017) state some organisations create a sustainability department, but not committing long-term to any form of activities. Within Essity all respondents could give examples of circular initiatives that were happening and invested in long-term. Further, there seems to be a high engagement in the creation of the policies which should lead to a higher awareness of what is to be complied with and carried out. By engaging the employees it is argued to create a higher chance of spreading the organisational objectives, reaching goal congruence and avoiding decoupling.

4.6. Discussion

During the study some important and challenging MCS practices and activities have been identified which in turn have further implications. Firstly, the MCS practice of structuring the company in the way that Essity has, played a major role for multiple of the control systems. The administrative controls is one evident system, especially the governance structure and organisational design, but this also has further effects on the other control systems. Due to Essity choosing to integrate the sustainability department within the global unit *global brand, innovation and sustainability* as well as dividing responsibility of its circular objectives on different parts of the organisation many other control systems are influenced. One major part is the communication and collaboration this creates. As discussed in the cultural controls section a cohesive culture and values was identified strongly connected to the Beliefs and Behaviours. This is enabled through the internal communication created by the structure of including not only sustainability, but multiple different functions within different units. By fostering this type of exchange a foundation for sharing knowledge could be argued to be created. As the structure is affecting mostly the administrative- and cultural controls this means that both the major ‘foundations’ within the conceptual model for the remaining control systems create an important MCS practice for the balancing act between circular and financial objectives.

The internal communication was clearly identified and a contributing MCS activity to the widespread knowledge about Essity′s circular initiatives. As mentioned, all respondents, no matter role, position or involvement in circularity could discuss these initiatives. This further underlined the similar values and culture within the company opening up for collaboration. Although, it should be noted that collaboration does not bring forth only good things, but also creates some challenges within a Swedish context. Even if Essity is a global brand the Swedish nature of collaboration within decision making has been found to create problems in the sense that sometimes it takes a long while and those who might not have all the information can affect the final outcome. No particular example regarding circularity has been identified, but it could be argued that the widespread knowledge about circular initiatives might be one such area where at times this type of challenge could occur. Not only are the cultural control systems affected by the structure, but also the way planning is carried out which in turn, as discussed, affects the budget, performance measurements and some of the reward and compensation systems.

Secondly, one major challenge also affecting the planning, cybernetic controls and rewards and compensation systems to a large degree is the MCS activity to break down circular objectives in the short-term. The difficulty to find measurable circular objectives has had major effects on how the planning is carried out short-term. Long-term there seems to have been little effects due to this, but breaking down the long-term commitments was identified to be challenging and not as detailed as the financial equivalent. This in turn also had implications on the performance measurements and budget process. Once again due to the complexity to find appropriate short-term and quantifiable measures these are not corresponding to the financial activities. Similarly, the reward and compensation systems are therefore mainly built upon financial measurements, although in some cases circularity was incorporated. One such example was the carbon emissions outcome for the remuneration policy. However, it was noted that partly the reason for and solely usage of this measure was due to its evaluability.

As discussed, the top management was partly rewarded based on both financial and circular objectives, still indicating a strong want to include both aspects when working. This as explained will consequently affect the individual performance measurements further down in the organisation. By including both they create an important MCS practice for balancing circular and financial objectives even if, as stated, not all employees will have these types of measures. On the other hand, the percentage of rewards connected to sustainability was solely twenty percent in the remuneration and as discussed could be argued should have the same division amongst the bonuses for the top one hundred and fifty management. Worth mentioning here is that for those within manufacturing not having individual performance measurements Essity has included an alternative incentive MCS practice where these employees can be steered towards both circular and financial objectives seemingly equally important. This differs from the remuneration and top one hundred and fifty management bonus. However, it is argued that the bonussystem for top management and the remuneration policy affects the organisation to a higher degree due to the performance measurements system than the one for manufacturing employees. The division of bonuses connected to sustainable vs. financial measures alongside the discussion regarding the MCS practice of budgeting and the MCS activity of investments decisions made or not, indicates that the financial outcome still has a slightly higher priority in the end. This affects the steering of employee behaviour and actions within the planning, cybernetic controls and the reward and compensation systems when balancing circular and financial objectives.

5. Concluding Insights

The purpose of the thesis is to enhance the understanding on how organisations employ their MCS to meet the demands from society in terms of circularity whilst trying to remain profitable. To fulfil this purpose the study aims to identify what MCS practices and activities are important and challenging whilst balancing circular and financial objectives within a Swedish listed manufacturing company that has adopted a circular approach. To answer this the following research question was established;

> "*Which management control system practices and activities are important and challenging within Essity Aktiebolag whilst working towards circular as well as financial objectives?*"

Based on the case study conducted on Essity the most important MCS practice when working towards both circular and financial objectives is identified as the structure of the company. By using their chosen design they enable internal communication and collaboration establishing a high potential steering of employee behaviour and actions within the cultural and administrative controls which in turn influences the other three control systems. Within this MSC practice the challenging MCS activity of decision-making within the Swedish context due to high collaboration is acknowledged. Further, the MCS activity of internal communication of circular initiatives is recognized as important within the MCS practice of organisational design. The results of the case study further conclude in the major challenging MCS activity of breaking down long-term circular objectives into short-term quantifiable objectives and measures. This has collateral problems within the planning, cybernetic controls and reward and compensation systems of not enabling an equivalent for the circular compared to the financial aspects. The challenge has implications on the MCS practice of the remuneration of the top executives as the circular targets are solely connected to the reduced carbon emissions due to its measurability as well as only representing twenty percent of the bonus. Further, a similar challenge can be argued to hold for the bonuses of the top one hundred and fifty management due to otherwise not achieving goal congruence. This complexity of breaking down circular targets in turn affects the balance between circular and financial objectives as the focus will be steered somewhat more towards financial results. Connecting this further to the challenging MCS practice of budgeting and MCS activity of investment decisions it yields a slightly higher steering potential towards financial objectives over the circular ones.

The MCS activities of internal communication and collaboration and the MCS practice of Essity's organisational structure results in a high degree of potential to meet the demands of society as the MCS employment allows employees to be engaged in circularity and steer their behaviour and actions towards it. However, the study finds that the challenging MCS activity of breaking down circularity in the short-term and making it measurable hinders this somewhat. Even if there are MCS activities to include circular objectives within bonus systems, this accounts for a lower degree of engagement than what the administrative and cultural controls emphasise. Further, the MCS practice and activity of the budget process and of investment decisions encourage behaviour and actions to put a slightly higher emphasis on

financial aspects even if the culture within the company indicates an equal degree of engagement in both. However, the study finds that even if some investment decisions which might short-term not be viable economically are carried out, the control systems steer employees to prioritise the financial aspects to a slightly higher degree. This employment of the MCS gives an opportunity to meet demands of circularity, but the profitability prevails typically due to the challenge of working with circular objectives and measures.

This study contributes to the previous research by showcasing an empirical examination of the CE with a conceptualization of MCS. By conducting a case study of how an organisation works with balancing circularity and profitability the study contributes to academic literature by identifying what MCS practices and activities are important and challenging within this dilemma. The practical implications of the study showcases an example of how MCS can be employed within a listed manufacturing company to balance circular and financial objectives, but also which challenges arise with this type of employment. By highlighting which MCS practices and activities are important and challenging within Essity both they and others get an indication on what to study and evaluate within their context and potentially work with or change. For Essity, as identified, the breaking down of circular objectives to quantifiable measures remains the biggest challenge hindering the balance whilst the organisational structure was the most important to enable the balancing act for their employees. To enable a higher degree of steering the employee behaviour and actions Essity can now more clearly identify where their challenges lie.

A limitation of the study is the Swedish context which can create circumstances not applicable for all manufacturing organisations around the world. Even though the case company has a global presence and manufacturing all over the world most respondents were located within Sweden as well as part of the steering coming from a relatively central perspective meaning a more Swedish context. Therefore, it should be taken into account when evaluating other cases and contexts. A further limitation is the potential of interviewees giving answers that positively reflect on the company. Within this study this is deemed a low risk as no judgement on effectiveness of their circular work is made as well as having an anonymization process that also keeps the respondents anonymous within the company enabling a freer discussion and expression of experiences. The exception of including the President & CEO and CFO & Executive VP as open interviewees was done with permission as well as providing a higher credibility of the results due to their top-level perspective.

5.1. Future Research

During the case study some interesting perspectives for future studies were encountered. A financial management perspective would be a future interesting avenue for research. One example encountered was the end-of-life handling requiring new players in the value chain which in turn leads to questions regarding how the costs should be divided and who shares the profits. Answers to such questions would enable identification of business opportunities and risks associated with transitioning to a CE. Lastly, other geographical settings would be of interest for future studies so as to capture if there are similar challenges regarding collaboration or not as within the Swedish context, as well as potential other issues influenced by other country contexts.

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Appendix

Appendix 1. Interview Guide Executives/Managers

Below you can find the interview guide used during the interviews with the participating executives and managers at Essity.

Stages	Information & Interview Questions	
Opening Information	Introduction of authors. Explaining the structure of the interview and informing about voluntary participation and possibility to retract it at any time during the research process. Asking permission to record and informing about the confidentiality and handling of these. Further, confirming in which language the interviewee prefers moving forward. Introduction of thesis and purpose. •Any questions? Explaining the research process and permission to transcribe using an AI tool on the recorded audio. Further informing about the possibility to confirm our understanding of the collected data. Reminding of anonymity as a respondent and usage of recorded material. •Any questions? And are you okay with continuing? •Yes: starting recording and transcription. •No: ending the interview.	
Introductory Inquiries	•First of all we would like to ask you to briefly describe your role. •Could you shortly define what Circular Economy means to you? •What do you know about Essity's circular activities?	
Key Inquiries	*General Questions for all departments*	1. What values are important to the company according to you? a. How are these communicated internally? 2. How is the planning of financial objectives carried out, both in the short- and long term? a. How is the planning of circular objectives carried out, both in the short- and long term? b. How do these relate to each other and have you encountered any challenges within the planning process? 3. How do you get employees to work towards your objectives? a. Have you encountered any challenges with this? 4. How is employee performance measured? a. Are these performance measurements financial or circular, or both? b. If both: How do these relate to each other and have you encountered any challenges? 5. How is good performance rewarded within Essity?

		a. Are these linked to circular objectives? b. Are these linked to financial objectives? c. How do these relate to each other and have you encountered any challenges? 6. How are circular and financial objectives reflected within policies and guidelines within Essity? a. Who influences these policies and guidelines?
	Questions specific for the Sustainability department	7. How are financial objectives integrated into your budget process? a. How are circular objectives integrated into your budget process? b. How do these relate to each other and have you encountered any challenges? 8. In what instances do you have discussions regarding circularity with other departments? a. If not: why do you think this is the case?
	Questions specific for the Finance department	7. How are financial objectives integrated into your budget process? a. How are circular objectives integrated into your budget process? b. How do these relate to each other and have you encountered any challenges? 8. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
	Questions specific for the Communication department	1. b. Have you encountered any challenges with this? 7. How do you get employees engaged within circularity? 8. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
	Questions specific for the HR department	8. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
	Questions specific for the Innovation department	7. How are financial objectives integrated into your budget process? a. How are circular objectives integrated into your budget process? b. How do these relate to each other and have you encountered any challenges? 8. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
	Questions specific for the Procurement department	7. How are financial objectives integrated into your budget process? a. How are circular objectives integrated into your budget process? b. How do these relate to each other and have you encountered any challenges? 8. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
	Questions specific for the Mannufacturing department	7. How are financial objectives integrated into your budget process? a. How are circular objectives integrated into your budget process? b. How do these relate to each other and have you encountered any challenges? 8. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
Final Inquiries & Information	•Is there anything you feel like we missed asking you or something you would like to add? •Would it be okay to contact you later on if we should have any follow up questions? Explaining the expected timeline of when the possibility to confirm the processed data takes place. Thanking them for their participation.	

Appendix 2. Interview Guide Employees

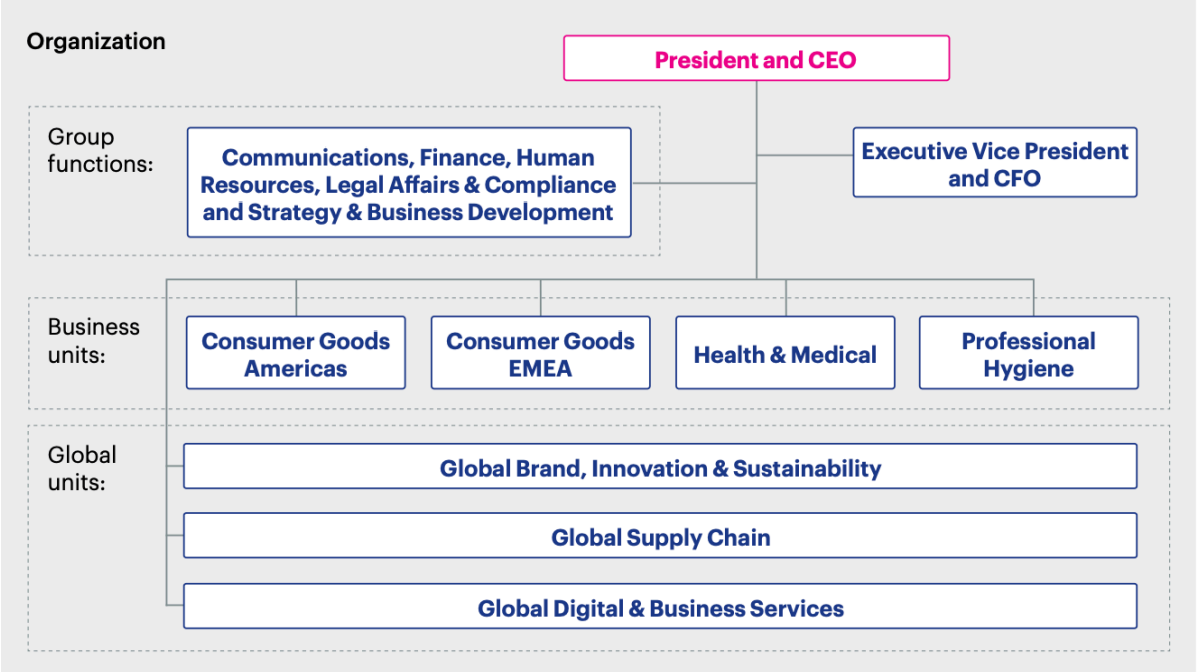
Below you can find the interview guide used during the interviews with the participating employees at Essity.

Stages	Information & Interview Questions	
Opening Information	Introduction of authors. Explaining the structure of the interview and informing about voluntary participation and possibility to retract it at any time during the research process. Asking permission to record and informing about the confidentiality and handling of these. Further, confirming in which language the interviewee prefers moving forward. Introduction of thesis and purpose. •Any questions? Explaining the research process and permission to transcribe using an AI tool on the recorded audio. Further informing about the possibility to confirm our understanding of the collected data. Reminding of anonymity as a respondent and usage of recorded material. •Any questions? And are you okay with continuing? •Yes: starting recording and transcription. •No: ending the interview.	
Introductory Inquiries	•First of all we would like to ask you to briefly describe your role. •Could you shortly define what Circular Economy means to you? •What do you know about Essity's circular activities?	
Key Inquiries	*General Questions for all departments*	1. What values are important to the company according to you? a. How are these communicated internally? 2. How are long term circular objectives broken down in the short term? a. How do these relate to short- and long term financial objectives? b. Have you encountered any challenges with this? 3. How is your performance measured? a. Do you have clear performance measures to achieve, related to financial and/or circular objectives? b. If both: How do these relate to each other and have you encountered any challenges? 4. How is good performance rewarded within Essity? a. Are these linked to circular objectives? b. Are these linked to financial objectives? c. How do these relate to each other and have you encountered any challenges? 5. How are circular and financial objectives reflected within policies and guidelines within Essity? a. In what ways do you have the opportunity to influence these policies and guidelines?
	Questions specific for the Sustainability department	6. How do the financial objectives affect your daily tasks? a. Have you encountered any challenges with this? 7. In what instances do you have discussions regarding circularity with other departments? a. If not: why do you think this is the case?
	Questions specific for the Finance department	6. How do the circular objectives affect your daily tasks? a. Have you encountered any challenges with this? 7. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?

	Questions specific for the Innovation department	6. How do the financial objectives affect your daily tasks? a. How do the circular objectives affect your daily tasks? b. Have you encountered any challenges with these? 7. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
	Questions specific for the Mannufacturing department	6. How do the financial objectives affect your daily tasks? a. How do the circular objectives affect your daily tasks? b. Have you encountered any challenges with these? 7. In what instances do you participate in discussions regarding circularity within your line of work? a. If not: why do you think this is the case?
Final Inquiries & Information	•Is there anything you feel like we missed asking you or something you would like to add? •Would it be okay to contact you later on if we should have any follow up questions? Explaining the expected timeline of when the possibility to confirm the processed data takes place. Thanking them for their participation.	

Appendix 3. Essity Organisational Structure

Below you can find the overarching organisational structure employed within Essity.



(Essity Aktiebolag, 2024, pp. 33)