

2022 ICVG Conference: Governance in its institutional context

Title: Firm-level governance and the tragedy of the commons: An expanded objects of control framework

Authors

Dr. Tracey Dodd, Adelaide Business School, University of Adelaide¹

Prof. Johannes Dumay CA, Department of Accounting & Corporate Governance, Macquarie University²

Abstract

Merchant and Van der Stede (2017) reason that organisational action can be guided through cultural, personnel, action, and results controls. However, understanding of how these management controls could effectively support organisations in addressing crises, such as global warming, remains nascent (Goebel & Weißenberger, 2017). Specifically, little is known regarding how management controls could help overcome crises caused by institutional settings in which government regulation and self-organising systems fail to protect collective interests (Bridoux & Stoelhorst, 2022; Howard-Grenville et al., 2014). Understanding how firm-level forms of governance can leverage management controls to achieve greater collective action toward pressing social and environmental challenges is required. Advancing such knowledge is timely as organisations across the world embrace stakeholder capitalism (Freeman et al., 2007; 2010), which compels private organisations to govern action within the firm in a way that aligns with the long-term interests of people and the planet (Australian Institute of Directors, 2022; Business Roundtable, 2019).

In these institutional settings, decision-makers within firms must address challenges stemming from the tragedy of the commons (Dodd & Yengin, 2021; Stein, 2022). The tragedy of the commons occurs in scenarios where individuals who have access to shared resources, such as the atmosphere, pursue their self-interest in ways that deplete the resource due to the absence of effective institutions or rules (Hardin, 1968). While scholars such as Ostrom (2008, 2010) and Bridoux and Stoelhorst (2022) examine collective forms of governance, including self-organising systems, that can overcome the tragedy of the commons, many challenges remain.

History shows that establishing and maintaining self-organising forms of governance is difficult to achieve (Howard-Grenville et al., 2014; Stein, 2022). This is because self-organising forms of governance rely on the ability of individuals who use or benefit from the system to monitor each other and access conflict resolution mechanisms when disputes arise (Ostrom, 2010; Ostrom et al., 1994). Scholars agree that this may not be possible due to the costs involved and willingness of stakeholders to collect and share information required to monitor performance (Bridoux & Stoelhorst, 2022). Further, even if the conditions for shared governance can be met, little is known regarding how organisations can leverage management controls to achieve and maintain collective interests over time (Bridoux & Stoelhorst, 2022; Goebel & Weißenberger, 2017). This is a problem for organisations seeking to adopt stakeholder capitalism and modes of governance that require an understanding of

¹ Honorary Senior Research Fellow, University of Exeter.

² Honorary Visiting Professor, Nyenrode Business Universiteit, The Netherlands and Adjunct Professor, Aalborg University, Denmark.

how to guide employee action in a way that meets the needs of people and the planet, especially when conflicting interests are present and supporting institutions are lacking (Lange et al., 2022).

Given these conditions, this paper will explore how the objects of control framework (Merchant & Van der Stede, 2017) could assist organisations in establishing and maintaining stakeholder capitalism where institutions have failed to protect shared resources and now need to. We develop a novel management control framework that offers suggestions on firm-level governance models that may prove effective in enacting stakeholder capitalism to address the tragedy of the commons. Our paper thus offers conceptual advancements regarding management controls that would be required if a stakeholder view of management aims to redress social and environmental harms that arise when institutions fail and the tragedy of the commons persists.

References

- Australian Institute of Directors. (2022). Directors' "best interests" duty in practice. <https://www.aicd.com.au/board-of-directors/duties/liabilities-of-directors/directors-best-interests-duty-in-practice.html>. Accessed 27 August 2022.
- Bridoux, F., & Stoelhorst, J. W. (2022). Stakeholder governance: Solving the collective action problems in joint value creation. *Academy of Management Review*, 47(2), 214–236.
- Business Roundtable. (2019). Business Roundtable redefines the purpose of a corporation to promote "An economy that serves all Americans". <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>. Accessed 27 August 2022.
- Dodd, T., & Yengin, D. (2021). Deadlock in sustainable aviation fuels: A multi-case analysis of agency. *Transportation Research Part D: Transport and Environment*, 94(102799), 1–14.
- Freeman, E. R., Harrison, J. S., Wicks, A. C., Parmar, B. L., & de Colle, S. (2010). *Stakeholder Theory. The State of the Art*. Cambridge University Press, Cambridge, UK.
- Freeman, E. R., Martin, K., & Parmar, B. (2007). Stakeholder Capitalism. *Journal of Business Ethics*, 71(1): 303–314.
- Goebel, S., & Weißenberger, B. E. (2017). The relationship between informal controls, ethical work climates, and organisational performance. *Journal of Business Ethics*, 141(3), 505–528.
- Hardin, G. (1968). The tragedy of the commons. *Science* 162, 1243–8.
- Howard-Grenville, J., Buckle, S. J., Hoskins, B. J., & George, G. (2014). Climate change and management. *Academy of Management Journal*, 57(3), 615–623.
- Lange, D., Bundy, J., & Park, E. (2022). The social nature of stakeholder utility. *Academy of Management Review*, 47(1), 9–30.

Merchant, K., & Van der Stede, W. (2017). *Management Control Systems*, 4th Edition, Pearson: London UK.

Ostrom, E. (2008). Tragedy of the commons. *The New Palgrave Dictionary of Economics*, 2, 1–4.

Ostrom, E. (2010). Beyond markets and states: polycentric governance of complex economic systems. *American Economic Review*. 100 (3), 641–672.

Ostrom, E., Gardner, R., & Walker, J. (1994). *Rules, Games, and Common-Pool Resources*. Ann Arbor: University of Michigan Press.

Stein, G. M. (2022). Environmental justice and the tragedy of the commons. *California Law Review Online*, 13, 10.