Expanded abstract

Stakeholder Accounting: towards an expanded accounting model

Contextualization and objective

BlackRock's 2019 letter to its shareholders, statements by the Business Roundtable, and the theme of the motes recent World Economic Forum meeting in Davos, basing the company on value creation for stakeholders, provide more than enough evidence that stakeholder theory is now widely accepted in the business world. Harrison, Phillips and Freeman himself (Harrison et al., 2020) recently offered further evidence of this change in perspective and concluded that one of its main implications is that there is a need for a broader range of means of measuring stakeholder-oriented corporate performance. If the corporate purpose shifts from generating value for shareholders to generating value for a broader variety of stakeholders, the two-dimensional (double-entry) perspective of today's accounting needs to be widened to a more multidimensional view of performance, that can reflect value holistically.

Economic/financial accounting cannot meet the information requirements of stakeholder theory. In the absence of a concrete system of information, therefore, stakeholder theory could easily fall foul of Jensen's 'problem of governance'. Whether the principal is only the shareholder (as in agency theory), or a set of stakeholders (multi-fiduciary theory), the problem of agency could be aggravated; and the manager (the agent) would have exclusively control of the system for justifying goals and interests. Introducing stakeholder theory in companies without stakeholder-oriented accounting will allow managers to act on this premise. Stakeholder theory itself and the associated problem of non-governance therefore pose a serious challenge to traditional accounting and necessitate its extension. The purpose of this article is to propose how and why this should be done and what for purpose.

Foundation Arguments, Analysis and Proposal

In stakeholder theory, the company is based on five key concepts: prioritizing purpose as well as profits; creating value for stakeholders as well as shareholders; seeing business as embedded in society as well as markets; recognizing people's full humanity as well as their economic interests; and integrating business and ethics into a more holistic model (Freeman et al., 2020). This approach is based on six fundamental principles: 1) Purpose, 2) Interconnection, 3) Cooperation, 4) Reciprocity, 5) Value Creation, and 6) Human Complexity (San-Jose, Retolaza and Freeman, 2017).

Classic accounting limits our perception of value to the perspective of a single stakeholder –the shareholder– and does not take into account that of other stakeholders: employees, suppliers, government, citizenry and in some cases, even the customers themselves. Moreover, it appears to restrict the definition of value to price-mediated economic transactions (Agle, Mitchell & Sonnenfeld, 1999), failing to class as values any transfers that occur outside a price system, whatever their quantitative and qualitative importance in terms of human development and happiness. It also fails to take emotional value into account; in the best of cases, clearly pejorative emotions are considered merely as a restriction on rational choice. Accounting therefore focuses exclusively on the organisation's financial activities, ignoring a broad set of non-market and emotional transactions which may be of great importance to the organisation's different stakeholders (Gray et al., 1995; Gray, 2002).

Exclusive use of the current system of economic and financial information results in a reductionist approach to the concept of value, distorting its connection to purpose. This is primarily because value focuses on the economic, and particularly the residual (Harrison and Wicks, 2013). This hinders all efforts to achieve the purpose, unless they are marginal, altruistic or aligned with the achievement of greater economic value (Karnani, 2011). If companies really want to commit to stakeholder-oriented management, as they appear to be doing (at least in theory), we need instruments of management oversight (accounting) that allow us to see the value distributed to the different stakeholders through all systems of value transfer, so that we can manage it and connect it properly to the organisation's strategy (Kaplan and Norton, 1992).

Results, limitations, and implications

From the perspective of stakeholder theory, there are ever more insistent demands for broader gauges of corporate performance oriented towards stakeholders as a whole. Such systems of measurement should include information for each of the stakeholders, with a shift from the current one-dimensional accounting to multidimensional accounting, breaking with the single-value concept. Secondly, any such system of information should be capable of incorporating not only a priced transaction value but also the set of non-market and even relational transactions. The aim is not to create some alternative or complementary system, but rather to extend the limits of current economic/financial accounting. To this end, Stakeholder Accounting (SA) proposes extending the x-axis from shareholders to all stakeholders of an organisation, including non-stakeholders –who will need to be addressed through induced due diligence or omission; and extending the y-axis to embrace non-market transactions and emotional value.

In conceptual terms, SA is based on the polyhedral model, for which this paper offers an improved relational analysis with three areas of value and the shared value model. We propose addressing the three dimensions using three different methodologies. In the case of market value, as reflected in the accounts, we propose a reinterpretation that classes value according to the stakeholders by whom it is ultimately received. This change does not, therefore, involve additional accounting but a reinterpreting of existing accounts from the perspective of the value-recipient. Non-market value is translated into monetary units by means of a 5-step process: 1) Identification of the stakeholder groups to whom value is potentially transferred (stakeholder map), 2) dialogue with participating individuals from the different groups to understand the mechanisms of value transfer (dialogue with stakeholders), 3) identification of the mechanisms of transferral of that value (value variables), 4) identification of outputs (goods or services transferred) and 5) valuation of outputs in monetary units, by means of proxies (reasonable value). Emotional value is calculated as a correction factor relating satisfaction –measured using a specific questionnaire for each stakeholder– to the economic surplus obtained by that stakeholder. In order to integrate these three types of value with each other and the management processes, the value is translated into monetary units whereby it can be understood and compared.

Conclusions and contributions

This might seem like a deductive, theoretical proposal, but nothing could be further from the truth; SA has been in operation for nearly ten years now, during which time many organisations of all kinds –third sector organisations, cooperatives, public institutions, and commercial companies (microenterprises, SMEs and listed companies)– have tested out the possibility of using social accounting, with sufficiently satisfactory results; a fully operational model may therefore be considered to be in place, although, without doubt, there is still great potential for improvement. As for the utility of SA, although it might be thought to be merely informative, the experience of organisations that have used it shows that it has other complementary potentials, such as benchmarking (their own figures and those of their sectors); strategy; management, including empowerment of stakeholders; and impact analysis through specific analytical accounting, which has already been tested out in domains such as gender, territory, innovation and SDGs, as well as in relation to specific problems such as disability, unemployment, education and culture.

In complement, but no less importantly, through feedback SA enables a potential increase in perceived value in areas of intrinsic and transcendental motivation. This can in turn impact the organisation's social performance by augmenting the organizational citizenship behaviour of the agents (multiple stakeholders) involved in its generation, in turn creating a process of increased value. In any case, SA is aligned with stakeholder theory, and as such allows the value transferred to each stakeholder to be identified quantitatively. As multidimensional accounting, it replaces maximization of a single utility for a sole stakeholder with optimisation of a set of uses for a large number of stakeholders, orienting it towards the development of a shared value and a distributive balance that is sufficiently satisficing for each stakeholder.

At this moment in time, the main limitation and area of investigation is standardisation. Initiatives in this area are now emerging at both a national and international level. Whether or not this issue can be resolved will determine whether SA can, in coming years, be extended urbi et orbi.

Keywords: stakeholders, social value, social accounting, impact, new narrative, purpose.