MANAGING AND ACCOUNTING FOR MULTIPLE STAKEHOLDERS

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ABSTRACT

In this paper I argue that through the research summarized in this short article, substantial progress has been made in overcoming three fundamental barriers to the adoption of multiple corporate objectives, thereby to enable managing and accounting for multiple stakeholders. These three fundamental barriers are: (1) that top managers cannot be conceptualized philosophically as multiple-objective decision makers; (2) that there is no decision making mechanism to support multi-objective decision making by managers; and (3) that even if the first two barriers could be cleared, it appears not to be possible to account for the interests of stakeholders who are outside the corporate entity.

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To anyone working closely with CEOs and other top managers, it soon becomes clear that for most executives[1] the social responsibility of business is more extensive than profit maximization. They understand that corporate responsibilities extend to more constituents than shareholders alone. However, the question of how to conceptualize, and then to take responsibility for managing the expectations of these multiple stakeholders, has been the subject of a great deal of debate in both business and academic spheres since the stakeholder idea first appeared in a Stanford Research Institute memo in the mid-1960s. During the ensuing decades, the tension between shareholder wealth maximization (SWM) as the sole corporate objective function, and social responsibility to stakeholders as a multiple-value corporate objective, has remained a source of ongoing perplexity and controversy.

The SWM contention suggests that rational decision making requires managers to have a single objective. Specifically, the philosophical argument for SWM supposes that: "any organization must have a single-valued objective as a precursor to purposeful or rational behavior."[2] The idea, in other words, is that a decision maker cannot both have more than one objective and choose rationally. One reason for this, it has been claimed, is the impossibility of choosing rationally when tradeoffs are required as a result of having more than one objective.[3] Proponents of SWM have suggested further that even if philosophers could identify a way whereby multiple-objective decision making could be rational, it still would not be feasible for business managers to attempt anything other than single objective decision making.[4,5] These assertions have invoked three types of rejoinder: (1) a response that constructs a philosophical argument to rebut the "must have a single-valued objective" presumption; (2) a response describing a theoretical mechanism to address the "basis for making tradeoffs" requirement imposed by SWM proponents; and (3) a response that revisits accounting's entity convention for corporate accounting, to suggest that multi-objective accounting just might be practical after all.

In a recent publication, Mitchell and colleagues,[6] made the philosophical and practical argument for a pluralist (that is, a multiple-objective) conception of the corporation. They first presented "an account of a multi-objective corporation as a means for enabling a greater range of management decisions, so as to permit more direct corporate engagement in the diverse goals of various stakeholders."[7] In addition, they used the stakeholder agency framework suggested by Hill and Jones[8] to describe the practical mechanism whereby corporate actions are conceptualized: as the "outcome of an intra-corporate 'marketplace,' where corporate constituencies bargain together to balance multiple purposes."[9] In addition, in an article published just a few months earlier, Mitchell and (other) colleagues proposed a way to solve the accounting problem by revisiting the entity convention of accounting, using a version of accounting's generally accepted proprietary convention (partnership accounting) as a working substitute.[10] For each response to the three SWM contentions (philosophical, mechanism-based, and accounting-focused), I briefly describe this published research, and discuss its relevance to business managers.

Philosophical

The philosophical issue in play in the corporate objective-function debate pits value monism (the idea that a single objective is necessary for rational decision making by corporate executives) against value pluralism (the idea that the social responsibility of business is such that a single objective is insufficient). In arguing for value pluralism, empirical research suggests that "individuals adhere to multiple foundational moral stances that create moral tensions; but that [they] do not always and univocally resolve such tensions."[11,12] Social science research [e.g., 13,14] argues "that people typically are value pluralists in practice … which requires integratively complex thinking that, along with trying to respect competing values, also recognizes that there might be no single, ideal solution to such value conflicts."[15] Although, "resolution of value conflict cannot be guaranteed … [they argue that] people in multiple cultures nevertheless appear to have developed the capacity to survive, navigating their way through a world containing incommensurable and non-fungible values"; and therefore, for SWM proponents "… to argue that decision making in for-profit corporations can only be directed toward a single end, on pain of confusion and failure in decision making, suggests that managers are incapable of engaging in the kind of integratively complex thinking and dynamic maneuvering amid unresolved tensions that other people are able to accomplish."[16]

How is the foregoing philosophical argument helpful to the management of business currently? If "stakeholder support is essential to the existence of the corporation; [then] a multiple-objective function will better facilitate such support in at least two ways: (a) by buttressing corporate legitimacy (i.e., [facilitating] the consonance of the corporation with its society), and (b) by better enabling … monitoring (i.e., [ensuring] the consonance of the … corporation with its stakeholders)."[17] Acceptance of this recently-argued view of the corporate objective may mean greater support in the boardroom, for example; and specifically, it may mean greater support from directors, for officers' plans to serve both stakeholders and stockholders. How, then, does such multi-objective decision making actually work?

Mechanism-based

Hill and Jones have suggested the basis for conceptualizing multiple objective functions within a single business.[18] They conceptualized corporations as a "nexus of contracts" which incorporates within this nexus multiple stakeholders, who explicitly or implicitly contract with each other, using the corporation as a kind of mini-marketplace: with management functioning as the market intermediary "… to make strategic decisions and allocate resources in the manner most consistent with the claims of the other stakeholder groups."[19,20] Mitchell et al. have argued that within this mini-marketplace—termed an intracorporate market—the mechanism at work is an invisible-hand-like function, where bundles of individual or group preferences are exchanged through corporate decision making. They reason:

> *Where, for example, a "bid" (by managers) is constrained by a necessity of meeting a single corporate objective, the resources may become mis-valued from the perspective of the resource owner due to dissatisfaction with the limitations of the bid. Essentially, management's inability to pursue multiple objectives can, in some circumstances, limit its ability to meet the "ask" of the resource holders. Thus, the best match of objectives with resources is less likely, and social welfare might suffer insofar as social welfare measures are built upon an aggregation of those various resource holder preferences.*[21]

The benefits to managers of better understanding and utilizing this stakeholder-claim-relevant invisible hand mechanism are, I believe, known to managers; but have not been articulated explicitly. By better understanding how to mitigate the otherwise pervasive influence of single-objective-function-valued decision making, managers thus are enabled to maximize the allocation effectiveness of the resources they control, and avoid sacrificing the best match of objectives with resources, thereby to better benefit all concerned than otherwise would be the case. But the question arises: how to keep track of it all?

Accounting-focused

The accounting theory obstacle that gives rise to the tracking problem is traceable to the 'entity convention' of accounting, which fits the corporate form well, but "is at odds with the 'proprietary convention' of accounting that is appropriate for proprietorships, including partnerships."[22,23] Thus, where we conceptualize businesses as a nexus of contracts among stakeholders "acting as value-creation partners, then focusing on only one entity, the firm, will prove to be unsatisfactory."[24] Accordingly, Mitchell, et al. proposed "a *conscious* shift away from the entity convention and toward the proprietary convention (i.e., from corporation to partnership accounting)."[25] Why would such a shift be helpful in accounting for multiple stakeholders with multiple objectives? Mitchell et al. explain as follows:

> *On at least one key point, partnership accounting under the proprietary convention differs from corporate accounting under the entity convention. Specifically, under the proprietary convention percentage ownership of the organization (partnership interest percentage) and distribution of gains or losses (income interest percentage) can be decoupled (Goldberg, 1965). This is important because under the entity convention of accounting, it is very cumbersome (and antithetical) to reward non-equity holders with portions of the entity's residual earnings.*[26]

Thus, using the idea of a Value Creation Stakeholder Partnership (VCSP), Mitchell et al.[10] suggest a way for the contributions of the various stakeholders to the combined creation of value to be accounted for and to be distributed according to a responsive "income interest" that is unconnected to ownership interest.

For managers—whom, I realize, are unlikely to set up a VCSP set of books immediately—this still means, however, that a highly improved way of thinking about accounting for stakeholder relationships can be imagined. Such a thought experiment, where managers engage the economic world anew through their imagination, can enable even informal tracking of ‘contributions to’, and ‘distributions of’ value according to the time honored ‘shall give’, and ‘shall receive’ maxim of Franciscan friar and founder of accounting Luca Pacioli (circa 1494), that in this way continues to be useful today.[27] As a result, when one considers as partners the primary stakeholders of the business: employees, customers, suppliers, financiers/ shareholders and communities[28], then using the VCSP idea, it is easier to envision how the income interest of each primary stakeholder can be real-time negotiated and adjusted according to the value contribution to the enterprise, and thereby to better match value creation and value distribution. Such matching is important over the long run since, as argued by most economists, the strong-force equilibrium within the marketplace tends eventually to resolve accumulated inequities with revolutionary change in economic order.[29]

Final Comment

In short, I am arguing that through the research summarized in this short article, substantial progress has been made in overcoming three of the fundamental barriers to the adoption of multiple-valued corporate objective functions. Top managers can be conceptualized philosophically as multiple-objective decision makers. Their decision making mechanism can better be understood to operate as a marketplace where an intracorporate invisible hand enables better decision making. And, lastly, it appears to be possible—after all—to account for these advances. In these three ways theory better serves practice; and practice better informs theory.

ENDNOTES

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[16] Ibid., p. 260.

[17] Ibid., p. 267.

[18] Hill & Jones, 1992.

[19] Hill & Jones, 1992: 134.

[20] Mitchell et al. 2016: 264.

[21] Ibid.

[22] Littleton, A. C. (1933). *Accounting Evolution to 1900.* New York: American Institute Publishing Co.

[23] Mitchell, et al, 2015: 864.

[24] Ibid.

[25] Ibid.

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