Accounting for Stakeholders

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Abstract: Value creation stakeholder theory (VCST) holds that optimal value will be created for the firm where the most value is also created for stakeholders. However, deriving the knowledge needed to actualize this aim is not possible without a system of accounting for primary stakeholders: tracking and rewarding the activities of those whose cooperative risk-bearing produces such value. Established accounting practice is deficient for this kind of comprehensive stakeholder risk management because current corporate accounting practice is based upon the "entity convention," which focuses primarily on debt and equity holders as risk-bearers. In this paper we propose a concept of stakeholder accounting, based upon the generally accepted "proprietary convention" (i.e. partnership accounting) as a method for generating the knowledge needed to enable such collaborative risk management. In doing so we address the question: What principles and processes derived from value creation stakeholder theory are fundamental to accounting, and would enable all primary stakeholders to prudently and advantageously manage their risk in the firm (i.e. to thereby, better create value for themselves and for the firm)?

Key words: stakeholder theory, value creation, entity convention, proprietary convention, risk

Introduction

An appealing notion, which associates effective stakeholder management with firm value creation, has appeared recently in the management literature. This idea has been termed Value Creation Stakeholder Theory (VCST); and it holds that optimal value will be created for the firm under conditions where the most value is also created for stakeholders (Freeman, Harrison & Wicks, 2007; Freeman, Harrison, Wicks, Parmar, & DeColle, 2010). The proponents of this approach argue that stakeholders create value in conjunction with the firm through various types of investment and corresponding risk-taking; and that firms indeed exist because stakeholders band together to participate in the risks and rewards of creating and sharing value (Mill, 1848). In the market system this banding together is distinctively shaped and constrained, because, under market-system assumptions, stakeholders tend to contribute to organizations where such a contribution optimizes value not only for the firm, but for themselves as well (Smith, 1776). Market-system stakeholders are thus self-interested in that they seek to promote their interests, an attribute that they share with firms.

However, in order for stakeholders to "maximize" value creation for both themselves, and to "optimize" value for the firm, stakeholders need to be able to manage their "stake" in the firm; which means that stakeholders need to take certain risks (Clarkson, 1995); but these risks need to be prudent and, where possible, rewarding (in the general sense of being most desirable or maximizing to each stakeholder specifically, and optimizing to all stakeholders generally;

Greenwood and Van Buren, 2010). Such advantageous risk taking enabled by prudence requires, in turn, sufficient stakeholder knowledge: on the part of each stakeholder separately, and by the group of stakeholders together. This knowledge has traditionally been made accessible by the accounting function. In a very practical way, VCST involves generally accepted corporate accounting practice which shapes stakeholder knowledge acquisition, stakeholder risk taking, and thereby the actions of stakeholders that, in turn, create more or less value.

Unfortunately, established corporate accounting practice is deficient for purposes of the kind of comprehensive stakeholder risk management required (according to VCST) for optimal value creation, because it does not provide the right sorts of information to *all* who take risk. Specifically, current accounting practice is based upon the "entity convention" (Goldberg, 1965; Riahi-Belkaoui, 2004), which focuses on reporting primarily to debt and equity holders as risk-bearers. Consequently, entity-convention-based accounting does not serve stakeholders in such a way that non-financier stakeholders can effectively engage in the risk-reward calculus necessary to satisfy the conditions for stakeholder risk-taking prudence that, according to VCST, then impinges on firm value creation. Some newer accounting notions, such as balanced scorecard (Kaplan & Norton, 1992) and triple bottom line (Elkington, 1997; Norman & MacDonald, 2004), while making progress toward providing for some stakeholder informational needs, only provide partial solutions, because—as we argue herein—they remain rooted in the entity convention of accounting.

We therefore propose a concept of stakeholder accounting, based upon the generally accepted "proprietary convention" of accounting (Goldberg, 1965; Riahi-Belkaoui, 2004), as a method to enable better stakeholder risk management and consequent value creation for both stakeholders and the firm. We argue that as a more comprehensive means toward informing stakeholders in pursuit of this goal, the proprietary convention permits use of a more-flexible accounting system, specifically one that operationalizes the partnership between a corporation and its stakeholders. This inclusion of more stakeholders in the accounting records of the firm is possible because—most essentially, *partnership accounting permits share of ownership and share of distribution to be different*—a quality that has dramatic ramifications for the practicality of stakeholder accounting.

Our goal in this paper is therefore to present both the rationale for proprietary-convention-based stakeholder accounting, and to propose a conceptualization upon which accounting could be developed for a newly emergent type of stakeholder-focused entity that flows from the argument: value creation stakeholder partnerships (VCSPs). We consider achieving this goal to be theoretically important for three reasons. First, an analysis of the feasibility and practicality of a more comprehensive stakeholder-sensitive accounting system addresses a key conceptual sticking point upon which the future of stakeholder theory (as more than merely a foil for the current shareholder-centric corporate structure) may pivot. Second, with this new conceptualization of accounting for stakeholders we offer new possibilities for the conceptualization of the value-creating organization (i.e., the VCSP). Third, this theorizing challenges firm profit maximization as the conventional wisdom by placing stakeholder value maximization at the center of value creation, and replacing firm profit maximization with firm value optimization.

Our research question is as follows: What fundamental principles and practices, derived from value creation stakeholder theory, would enable relevant stakeholders to prudently and advantageously manage their risk in the firm (i.e. to thereby, better create value for themselves

and for the firm)? In addressing this question suggests we must therefore: (1) establish the significance and develop the theory (propositions) surrounding four key premises of VCST in relation to stakeholder risk management; (2) outline a fundamental conceptual structure based on this theory that can provide, in turn, the conceptual foundation for an accounting system that flows from the theory that enables the integration of VCST premises with accounting notions; (3) propose a possible system of value creation stakeholder accounting (VCSA) using the structure developed; and (4) link VCSA to risk management and value creation for the primary stakeholder groups: employees, customers, suppliers, financiers/stockholders and communities, including identifying limitations. We conclude with a discussion of how VCSA adds value for both firms and stakeholders, and how our theorizing implicates research and practice.

Value Creation Stakeholder Theory

What has come to be known as stakeholder theory was initially introduced into the management literature by Freeman (1984) and has more recently been elaborated by Brenner & Cochran (1991), Nasi (1995), Mitchell, Agle & Wood (1997); Slinger (1999), Freeman, Harrison, Wicks, Parmar & DeColle (2010), and others (Agle. et al, 2008). There are multiple interpretations about the meaning and use of stakeholder theory, including (non-exhaustively): (1) stakeholder theory as a way to operationalize corporate social responsibility (Wood, 1991); (2) stakeholder management as a method for strategic management (Freeman, 1984; Harrison & John, 1998); (3) stakeholder theory as a genre of more general management theory (Freeman, 1994); (4) stakeholder identification as a way for managers to assess who or what really counts (Freeman, 1994; Mitchell, Agle & Wood, 1997); and (5) stakeholder theory as a way to put ethics and fairness into management theory (Phillips, (2003).

More recently Freeman, Harrison and Wicks (2007) and Freeman, Harrison, Wicks, Parmar &DeColle (2010) have suggested that a principal insight of stakeholder theory is that it provides a way to understand business as an activity engaged in value creation. This "value creation" interpretation of stakeholder theory is the one we shall argue is the most relevant for addressing the issues discussed in this paper. The following paragraphs present four premises that spell out a foundation for the theoretical structure entailed in understanding stakeholder theory in value creation terms, the accounting required, and how stakeholder risk management and accounting are important to value creation for both stakeholders and their firms (Figure 1).

{Insert Figure 1 about here}

Four Premises of Value Creation Stakeholder Theory (VCST)

In this paper, the premises we present are assertions that bound and define VCST as it might apply to the value creating partnership that exists among stakeholders and their firms. These premises derive from, and build upon, the most-basic foundations of value creation: i.e. exchange activities. Exchange activities are the result of buyer/seller alignment behaviors that integrate their interests (Hayek, 1937), and together produce the justification (namely reciprocity; Phillips, 2003) for the notion of a value creation stakeholder partnership. Accordingly, we present the following premises of VCST concerning each of these key stepping-stones in value creation: activities, alignment, integration, and reciprocity.

1. Activities. All businesses through their *activities* for and with their primary stakeholders, create (or destroy) value. And, for purposes of this paper (as just noted), we define

"activities" to be exchanges between/among primary (Clarkson, 1995) stakeholders. This is important, because accounting has long held that the basic activities that must be accounted for are exchange transactions: where a willing buyer exchanges something of value with a willing seller (Goldberg, 1965). While, over time, stakeholder relationships emerge that are broader than specific exchange transactions, it is important to ground a theory of accounting for stakeholder value creation in the traditional basics of value creation through exchange (e.g., Carter, 1989; Larson, 1992). Without the freedom to engage in voluntary transactions, no system of business can emerge. Given a grounding in such voluntary exchanges we can then give a non-reductive account of the firm as a set of stakeholder relationships that are interconnected through some type of exchange-transaction activity. Furthermore, Freeman (2011) argues that it has always been the case that business and its stakeholders are inseparable in value creation/destruction because historically, the nature of capitalism has been shaped and constrained by the multiplicity of socioeconomic relationships that lead to value creation for stakeholders. Hence we assert:

> *The Activities Premise. Exchange activities among primary stakeholders create or destroy value.*

We note here that, for purposes of our argument, we have defined "primary or definitional stakeholders" generically (Agle, Mitchell and Sonnenfeld, 1999; Clarkson, 1995; Mitchell et al., 1997) as "employees, customers, suppliers, financiers/stockholders and communities," because the activities of these stakeholders provide the resources needed for firms to survive as going concerns and as such, put these groups at risk (Clarkson, 1995). VCST suggests that most businesses have these stakeholders as definitional (of what that business organization is). However, we also recognize that there are differences within industries, cultures, and sectors, which may expand or contract this list somewhat. For example, NGOs or governments may also be primary stakeholders.

2. Alignment. Next, VCST suggests the ideal that organizations which optimize their value do not thoughtlessly trade off the interests of one stakeholder with the interests of another; but rather, that where contributions and consequent incentives from the activities of various stakeholders can be *aligned*, more value is likely to be created. Past interpretations of stakeholder theory argue that there needs to be a priority rule for determining which stakeholders are most important, generally in terms that are descriptive (Donaldson & Preston, 1995; Mitchell, Agle, & Wood, 1997) or instrumental (Donaldson & Preston, 1995) from the perspective of the organization and its goals. VCST suggests that stakeholder interests must ultimately be ever more closely aligned so that, for example, when managers make customers better off, they also make suppliers and stockholders better off. We observe that this idea of alignment broadens the activities notion from buyer/seller to stakeholder/stakeholder. Of course, in the real world there must inevitably be tradeoffs; but VCST maintains that managers will do well to try and minimize the value destruction from "trading off." The resulting theoretical framework has important implications when we turn to the perspective of particular stakeholders on questions such as how value creation and value distribution can be effectively reconciled (Mitchell, 2002; Venkataraman, 2002). Alignment induces value creating relationships, and the resulting interconnectedness helps create the presumption of continuity (i.e. a going concern; Goldberg, 1965) upon which accounting depends. Accordingly, we assert:

> *The Alignment Premise. Stakeholder activities should be arranged such that incentives among stakeholders are aligned (that when managers make primary stakeholder A better off, they also make primary stakeholders B, C, D $_{\ldots n}$ better off).*

3. Interaction. The inevitable conflict that results from the at least partially conflicting interests of stakeholders can be used catalytically for value creation, when interpreted as an opportunity for productive *interaction*. Productive interaction results when commonality in interest/purpose is reconciled through innovation that is guided by moral norms. Each element (purpose, innovation, and morality), contributes an important element to this value-creating *gestalt*, as we explain in the following paragraphs.

While there are many ways to understand the specifics of how to create value for stakeholders, Freeman, Harrison and Wicks (2007) have suggested that the underlying idea of "purpose" is a good place to begin. Collins and Porras (1994) and Mourkogiannis (2006) have suggested that firms that perform well over a long period of time are purpose driven. When there is perceived conflict among stakeholders, it is often due to short-term purposes being taken into account to the exclusion of longer-term purposes.

Productive interaction also can be fuel for innovation—transforming the energy generated by conflict, into energy for innovation. For instance, if project A is pursued then customers will be satisfied, but the costs of project A may alarm financiers, or may mean a tougher negotiation with employees. VCST suggests that there is frequently an innovative reinterpretation of project A in terms of value creating interaction among stakeholders, which can become much closer to the simultaneous satisfaction of employees, customers, suppliers, financiers/stockholders and communities than would a conflict-based approach.

Additionally, because all stakeholders' interests are interconnected through the mechanism of banding together to achieve some economic purpose, and because all are actors in the moral realm, it is a false choice to pose creating value for stockholders against creating value for stakeholders. We assert that creating the most value for stakeholders actually creates the most value for stockholders, since value creation captures the intersection of stakeholder interests. VCST suggests that over the long run, stakeholder interests converge as the interaction of purpose, innovation, and morality reconciles and to a great extent helps to coordinate effort; and, further, that managerial attempts to make one group of stakeholders better off at the expense of other stakeholder groups are often counterproductive. Thus we assert:

> *The Interaction Premise. Value creation comes from the reconciling interaction of purpose, innovation, and morality.*

4. Reciprocity. A final part of VCST is that stakeholders are connected and the creation of value for one only occurs in the context of value creation for others—that is, in the context of *reciprocity* (Phillips, 2003). We see that if one is a customer, for example, then how well the customer's interests are satisfied is in part connected to how the relationships with suppliers, employees, and other stakeholders are managed as well. In this conceptualization, no stakeholder stands alone in the value creation process. At the core of VCST, then, is the idea that the risk that one stakeholder incurs in being a customer of a business organization is at least partially determined by the way that other relationships are managed. Because stakeholder interests are aligned in such a manner, the usual distinction between value creation and value capture becomes less important because, when stakeholder A contributes to value creation, it creates value for stakeholder B; and the focus shifts from distributing a limited pie to making the pie bigger for everyone and distributing value based upon contribution to its creation. Consequently, we assert:

The Reciprocity Premise. Value creation for one stakeholder group implies value creation and distribution for many stakeholder groups [1]

We take note that as the foregoing four premises are then considered as a whole, the stakeholder link to the value creation becomes more explicit. Hence, when (as above) we assert that creating the most value for stakeholders actually creates the most value for the stockholders of the firm, we depend upon the association of two constructs: value created by stakeholders, and value of the firm. This association, in turn, relies upon a conceptualization of the firm as an *optimizing* mechanism invented by/for stakeholders: where conflicting stakeholder interests can be ". . . discovered, surfaced, and resolved . . . [and where] the firm is [more] an equilibrating mechanism and [less] a governance mechanism" (Venkataraman, 2002: 46-47). This association also depends, as earlier noted, upon a conceptualization of managers as moral, in that they "consider stakeholders *maximally* [emphasis added] because stakeholders possess intrinsic worth in and of themselves; that is they are *ends* not *means* [emphasis in original]" (2002: 47). We therefore observe that the value creating association between stakeholders and the firm is one of value *optimization* for the firm (as a reconciler of interests), and is one of value *maximization* for stakeholders (as "ends" where the consequences matter; Sen, 2000: 487), and therefore we suggest:

Proposition 1. Optimal value will be created for the firm to the extent that maximum value is created for stakeholders.

In making the stakeholder link to value creation more explicit, the idea emerges that the notion of risk—shared risk, in particular—is central to the task of creating and accounting for stakeholder value creation. Accordingly, we now turn our attention to the implications of VCST for stakeholder risk and stakeholder accounting.

VCST, Stakeholder Risk Management, and Stakeholder Accounting

Introducing VCST into the risk-assessment calculus raises a number of concerns around the idea of risk and its implications for accounting. First of all we must situate the notion of risk within the business firm-based conversation. We suggest that as stakeholder theorists, we choose to understand risk in its traditional role in business theory as the risk that the firm encounters as it seeks to create the most value it can for stakeholders, but for purposes of our reasoning, for financiers in particular. We might call this risk: Firm-Stakeholder Risk (FSR) and it will begin with the traditional way of understanding risk to financiers, as the variance of returns (Fama, 1968; Markowitz, 1999; Sharpe, 1964). But, such risk is much more complex, and therefore needs further elaboration. The premises of VCST suggest that variance of returns—likely to be affected by performance uncertainty—is in fact uncertainty in the ability of the firm to satisfy the basic interests of a given stakeholder so that this stakeholder does not leave the firm's sphere to find an alternative. And, this type of performance uncertainty is even more complicated when we consider that a firm's ability to satisfy customers, for example, may well be dependent on its ability to satisfy suppliers, employees, and other stakeholders. On one hand appears the possibility that firm assets will be lost; and on the other hand the possibility that value creation opportunities will not be seen or acted upon.

[1] We acknowledge that our treatment herein deals specifically with "between-groups" analysis; but we also consider it to be likely that the conceptual framework we develop could apply to "within-group" differences among members of a specific stakeholder group.

Following an approach suggested by Dickson and Giglierano (1986), where the complexity of "acting" and losing, is distinguished from the possibility of "waiting" and losing; we separate the risk to firm stakeholders into Sinking the Boat Risk for the Firm (SBRF) and Missing the Boat Risk for Firms (MBRF). Based on making this distinction, it is easy to see that a system of accounts which relies on the primacy of financiers (i.e. the debt and equity holders as suggested by the entity convention of accounting), is likely to radically understate Missing the Boat Risk for Firms (MBRF), simply because it does not take into account the right information. As suggested by VCST the right information must include the information needed to bring other potential stakeholder contributions into alignment, which—being missing in entity-convention accounting—results in lost-opportunity risk, or MBRF.

Firms which satisfy the minimum expectations for stakeholders, but which want to be even more successful, might therefore search for and be accountable to opportunities (Agle et al., 2008) by engaging stakeholders in dialogue to try to create opportunities that pursuit of their interests can bring to light. Missing such opportunities, or not making the effort to create them, therefore also carries risk for the firm. For example, the 3M Company rejects "waiting and losing" and instead takes overt action to create opportunities for the firm, thereby to reduce MBRF by engaging its employees in an innovation-focused dialogue. We argue that 3M's stated goal: ". . . to couple 3M's highly diversified and differentiated technology to high growth market space opportunities to create new-to-the-world product platforms," pursued with proactive employee engagement that demonstrates accountability to opportunity not yet discovered is an example of explicitly targeted accountability to opportunity that leads to MBRF reduction. For example, 3M's accountability to opportunity is made manifest by the following employee-stakeholder engagement actions:

- "Giving people room" to innovate is a 3M tradition, exemplified by the "15% culture" which encourages technical employees to spend 15 percent of their time on projects of their own choosing and initiative.
- New Product Forums are regularly held, where divisions can share their latest products and developers can solicit support for a new product, idea or technology.
- Researchers can apply for Genesis Grants. The grants provide significant funding to individuals or teams to pursue embryonic new product ideas or concepts (3m.com, 2012).

We believe that there is a growing body of evidence to suggest that good managerial practice can be seen as working to minimize total risk: both SBRF *plus* MBRF (Dickson & Giglierano, 1986), and that these two components of stakeholder risk are connected through the kind of stakeholder engagement suggested by VCST (Sisodia, Sheth, & Wolfe, 2007). But, all of this is only half the story.

What about the risk to other stakeholders beyond financiers? How can this be accounted for, and thereby better managed. One of the important goals of entity-convention-based accounting systems is to create a way for investors and other financiers to determine the risk associated with investing in a particular enterprise. But, if the premises of VCST hold, there exists more than just risk to financiers in this investment decision. How are we to think about the risks to the other primary stakeholders, when only part of the story that concerns them is presently available accounting reports? How can we begin to conceptualize Stakeholder Firm Risk (SFR) or risk from the viewpoint of a non-financier stakeholder? As a potential answer to this question, we suggest that an underutilized thread in the stakeholder literature be reactivated.

The vision of stakeholders as risk bearers was illuminated in early stakeholder theory; but it has not been deeply scrutinized since. Max Clarkson famously identified the holding of risk in the firm as definitive of a stakeholder in an oft-cited early explication of stakeholder theory (Clarkson, 1994; Phillips, 1999). He observed that a risk-based stake is not the same as a claim, and only the former creates a stakeholder (ibid). Despite consistent reference to Clarkson's risk-based definition (Friedman & Miles, 2006; Mitchell et al., 1997; Phillips, 2003), the idea of the stakeholder as a risk-bearer has barely developed beyond its initial conception within the stakeholder literature. Indeed it was Clarkson's own view that the reason for identifying stakeholders as bearers of risk was to wrestle the issue of definition and priority to the ground, to decide once and for all who really is a stakeholder in the firm and how much each should count. While others have tackled this question using other lenses (Clarkson, 1995; Mitchell et al., 1997; Phillips, 2003; Van Buren, 2001), the risk-bearing lens has lain somewhat dormant. With the emergence of VCST, however, the issue of risk-bearing is once again front-and-center in the conversation.

Clarkson's view was that risk to stakeholders could be meaningfully distinguished by understanding those who voluntarily accepted a risk and those who did not, but had risks thrust upon them. He defines "voluntary stakeholders" as "those persons or groups that have knowingly made or taken stakes in a firm and have thereby assumed some form of risk" (Clarkson, 1994: 7). When a customer buys a car, the customer assumes some risk that the selling firm is an ongoing concern and will be able to produce the requisite spare parts, service, etc. This buyer risk is analogous to Sinking the Boat Risk for Stakeholders (SBRS) discussed earlier. Employees take on a similar risk, especially if they begin to specialize their skills, at some cost of redeployment, what Williamson calls "asset specificity" (Williamson, 1985). Communities bear Sinking the Boat Risk as well when they convince companies to relocate, or when they invest in infrastructure that helps make a company's business model more effective; or even when their citizens accept the risk of having the company be a part of the community (such as the risk that the firm's operations pollute the water or land thus harming the community).

Each of these stakeholders, however, also bears Missing the Boat Risk for Stakeholders (MBRS) as there is no guarantee that they will be motivated to engage or be invited to be engaged in dialogue with companies to find/surface opportunities. These risks are obvious, yet the literature is mostly silent about how stakeholders should assess MBRS to favorably manage their interests in the value creation process.

In the case of stakeholders individually, such favorable management would take the form of maximization, where each stakeholder would desire to select "an alternative to which there is none better" (Sen, 2000: 486). In the case of stakeholders collectively, such favorable management would be for the stakeholders to collectively strive for "the best alternative" (ibid). In the case of both stakeholders individually and collectively, the motivation toward maximization or optimization (respectively) would be expected to invoke the Knightian concept of value creation from voluntary risk-taking. This conceptualization, grounded in the notion of the prudent management of resources, was asserted by Knight (1921) who developed what we might now term "a stakeholder view of value creation." In this view, where stakeholders band together to pool their resources, to act with confidence and judgment under uncertainty to apply these resources, we assert as relevant, Knight's argument that:

> This fact is responsible for the most fundamental change of all in the form of organization, the system under which the confident and venturesome 'assume the risk' or

> 'insure' the doubtful and timid by guaranteeing to the latter a specified income in return for an assignment of the actual results (1921: 269-270).

Thus, where voluntary risk-taking is assumed to include the sum of both SBRS and MBRS; and where risk-taking prudence is defined to be "skill and good judgment in the assembly and application of resources under conditions of risk" (Knight, 1921; Merriam-Webster Dictionary), we may therefore suggest:

> *Proposition 2*. Stakeholder and firm value creation is enabled by stakeholder risk-taking prudence.

But, as just noted, Clarkson has suggested that some stakeholders are involuntary which he defines as "those persons or groups that are or have been, unknowingly placed at risk as a result of the firm's activities, goods, or services" (Clarkson, 1994: 7); and yet in the proposition just offered, we have not retained this distinction. Why?

We suggest, in answer, that whether a stakeholder "knowingly" accepts a risk is really a *function of what there is to be known*, which in part, is subject to a particular accounting convention. If that accounting convention is oriented primarily towards financiers or financier's risks, then we have a logical problem. One cannot "knowingly accept risks that one cannot know." The merits of distinguishing between voluntary and involuntary collapse without accounting that enables volition. A second problem is that if the premises of VCST are to hold, then the risks to a particular stakeholder (both SBRS and MBRS) are correlated; and by extension, risks to voluntary stakeholders would, in any event, be affected by the response of involuntary stakeholders. Thus, as we argue, the problem of inclusion/exclusion is not one of having or not having volition; but rather it is one of knowing or not knowing. Accordingly, in the next section we lay out the concepts and logic to apply the premises of VCST to produce a rigorously derived and tractable approach to stakeholder accounting as a means to enable risk-taking prudence.

The Application of VSCT to Accounting

In the foregoing section, we have argued for the relevance of two propositions concerning four key premises of VCST in relation to stakeholder risk management and its importance to stakeholder value creation. In this section we outline a fundamental conceptual structure for accounting for stakeholders based on this theory; specifically to explain how knowledge is built (we suggest: from facts to data, data to information, and information to knowledge) and to then provide the conceptual foundation for an accounting system that flows from the theory to produce sufficient stakeholder knowledge for prudent risk taking.

Thus, in this section an argument is developed to support the following assertions: (1) that knowledge-building has an underlying and stable structure; (2) that the underlying structure of knowledge-production is the basis for the four accounting processes that are fundamental to every accounting system (Goldberg, 1965); (3) that the four fundamental accounting processes capably reflect the four premises of value creation stakeholder theory (VCST); (4) that the four premises of VCST, when coupled with the four fundamental accounting processes can permit is to generate the underlying theory for a system of stakeholder accounting that can: (a) explain the shortcomings of current practices in financial accounting and previous attempts to create socially responsible accounting systems, (b) suggest an addition to current practice to make stakeholder

accounting more practical, and (c) spell out the importance of more attentive knowledge generation (i.e. accounting) as it relates to stakeholder risk-taking prudence.

The Structure of Knowledge-Building

To effectively, but succinctly, outline the key elements in the structure of knowledge-building we appeal to the information technology (IT) literature, which has of necessity developed the principles required for research in the IT domain. At this point in time, the IT literature has developed to the point that knowledge-building—creating work products of the human mind—can be described as having an underlying and stable structure. For purposes of this paper we describe these mental work-products from lowest to highest level of refinement as: facts, data, information, and knowledge. We do not mean to suggest any general epistemology with these distinctions, nor do we suggest that "facts" can be separated from "values" in a clean and dichotomous way (Putnam, 2004). The literature suggests that each fundamental attribute can be identified by what is uniquely added as level of refinement increases from facts to knowledge, as follows:

- facts = phenomena (generally but not exclusively observable phenomena) (Ackoff, 1989);
- data = facts + symbols (Ackoff, 1989: 3);
- information = data + meaning (Davenport & Prusak, 1998: 2); and
- knowledge = information + application (Davenport & Prusak, 1998: 5).

As we will further explain, this four-part (simplified) hierarchy of knowledge-building is useful when coupled with the four-part hierarchy that comprises accounting process.

Accounting Processes and the Structure of Knowledge-Building

Accounting theory suggests that the minimum requirements of accounting process are counting, recording, summarizing and reporting (Goldberg, 1965). Unsurprisingly, given the pervasive influence that latent structure has upon manifest phenomena (Merton, 1968), each of these four accounting processes appears to effectively parallel the structure of knowledge-building such that the underlying structure of knowledge-production can be seen to be the basis for the four fundamental accounting processes, as shown in Table 1:

{Insert Table 1 about here}

The parallelism asserted in this structure may be explained and illustrated as follows. To create a viable accounting system, *counting* requires some form of unit identification and measurement of focal phenomena. *Recording* requires the addition of symbols (usually, but not necessarily, numbers), according to recording conventions consistent with the semiotics of symbol usage within the accounting domain (e.g. accounting's matching principle) to create accounting data. *Summarizing* requires the addition of meaning, such that the significance and implications of data are evident (e.g. accounting's classification conventions: real v. nominal accounts, current v. long-term; or accounting's account-based closing conventions: how a meaningful "*net* something" is obtained, thus producing information. *Reporting* becomes possible when information is applied to permit the reader to assess, compare, evaluate or otherwise analyze information relative to some purpose or goal (such as to compute retained earnings to reflect the financial position of stockholders as residual claimants to company assets).

Hence, according to this logic, we may assert that problems of application such as problems with knowledge sufficiency (e.g. some stakeholders not having sufficient knowledge to make prudent risk-taking decisions), can be traced either to missing links in the knowledge-building chain, to mistakes in choice of purpose/goal, or to both. We may further assert that the impetus for accountants, activists, ethicists, philosophers, and other social science scholars (and concerned practitioners) to develop a viable form of stakeholder-sensitive accounting is to redress these problems of application—i.e. the problems of knowledge *in*sufficiency.

In the following two sections, we deal first with the lack of effective purpose/goal specification by summarizing the premises of VCST as they relate to the four basic requirements of the accounting process. This is necessary because, as previously noted, stakeholder-accountability goals are required that are sufficiently comprehensive and comprehensible to be the basis for effective application. In the second-following section, we address potential missing links in the knowledge-production/stakeholder accounting chain to: (a) explain the shortcomings of both current practices in financial accounting and previous attempts to create socially responsible accounting systems; (b) suggest a plausible addition to current practice to make stakeholder accounting practical; and (c) spell out the importance of a more attentive system of generating knowledge sufficiency (i.e. accounting) concerning stakeholder risks.

Accounting Processes and the Premises of VCST

As explained previously, VCST is based upon four fundamental premises, each of which can be reflected in accounting process (Table 2), and elaborated as follows:

{Insert Table 2 about here}

1. The Activities Premise: Exchange activities among primary stakeholders create or destroy value. As previously discussed, the activities of interest in a viable stakeholder accounting system—those to be measured and *counted*—are exchange transactions: those activities that add to or diminish either sink-the-boat or miss-the-boat risk (SBR, MBR, respectively) for any primary stakeholder.

2. The Alignment Premise: Stakeholder activities should be arranged such that incentives among stakeholders are aligned (that when managers make primary stakeholder A better off, they also make primary stakeholders B, C, D $_{\ldots n}$ better off). *Recording* in a viable stakeholder accounting system must employ symbol assignment such that what is recorded matches the residual rewards and sanctions that result from implicit and explicit understandings between/among stakeholders. Because stockholders of the corporation are the residual claimants to the company's assets (under the entity convention of accounting), and because under the alignment premise, stakeholder seniority should not be greater than that of stockholders, then the activities of all primary stakeholders that bear upon risk should be matched (i.e. activity to stakeholder), and recorded accordingly.[2]

[2] This rationale: (1) is virtually identical in concept, for example, to the adoption of an accrual basis of accounting to match (record) income and expense according to their periods of earning and incurrence respectively, and, (2) is also consistent with the way the liabilities and equity sections of currently-prepared balance sheets separately account for the claims of creditors and of different classes of equity holders; except that in this case the "accruing" would consist of *recording* activities of primary stakeholders such that they match the corresponding risk reductions "earned" or SBR/MBR incurred.

3. The Interaction Premise: Value creation comes from the reconciling interaction of purpose, innovation, and morality. When targeted meaning (i.e. accounting relative to the "intersection" of purpose, innovation and morality) is added to data to become information through the *summarizing* accounting process, it is possible to create information that is meaningful to all participating parties. For example, an accounting system that classifies real versus nominal accounts (i.e. asset/liability/equity v. revenue/expense) according to what the stakeholders consider to be, for example, long-lived (the definition of an asset) could have a substantial effect upon the "net" gain or loss that is computed to reflect the Interaction Premise. Summarizing in value creation stakeholder accounting (VCSA) would thus be designed primarily to produce accountability based on the meaning set forth by the stakeholders.

4. The Reciprocity Premise: Value creation for one stakeholder group implies value creation and distribution for many stakeholder groups. *Reporting* at its core is intended to provide a means whereby the summarized information that produces accountability can be reported in such a way that the collaborating parties receiving the accounting reports can evaluate their risks and apportion rewards. Value creation stakeholder accounting (VCSA) reports might therefore present the summarized information according to SBR and MBR *stakeholder-by-stakeholder*, to facilitate the comparisons of these risks with the rewards and thereby to provide stakeholders sufficient credible knowledge to enable them to individually maximize the value of their stake; and to collectively optimize the value of the firm. Thus, such reports could, in total, track value created and distributed for the entire stakeholder enterprise, which may not necessarily be the enterprise as a corporate entity, but instead be the risk-taker primary-stakeholder-defined cooperative enterprise that, we suggest, is—in substance if not always in form—a value creation stakeholder partnership (VCSP). Reporting would therefore tend toward partnership- versus corporate-type assumptions.

The foregoing discussion has developed the idea that the knowledge-sufficiency function of accounting is tractable for the analysis of prudent risk-taking. This tractability is demonstrable as each premise of VCST is linked to the accounting functions of counting, recording, summarizing and reporting. Tractability is further demonstrable as the sufficiency of knowledge from the accounting function is shown to enable stakeholders to better evaluate their risks. Accordingly, we suggest:

> *Proposition 3*. Stakeholder risk-taking prudence is associated with stakeholder knowledge sufficiency.

It therefore becomes essential at this point in the argument to address the question of what form a VCSA system of reporting might take. In the following section, a possible system of accounting for value creation stakeholder partnerships according to the proprietary convention of accounting is suggested as an alternative to the entity convention of accounting, and is then compared to several extant systems using the four basic accounting functions: counting, recording, summarizing, and reporting.

A Possible System of Value Creation Stakeholder Accounting

The four premises of VCST offer to all primary stakeholders, as risk bearers, the opportunity to collaborate such that all parties become better off through the arrangement, i.e. to participate together as stakeholders in such a way that value is created. The accounting problem that arises as a result of this construction is that the "entity convention" of accounting, which is so highly appropriate for the corporate form (regardless of age or size of the entity), is at odds

with the "proprietary convention" of accounting that is appropriate for proprietorships, including partnerships (Littleton, 1933: 203). Like all conventions, however, "each contains an element of artificiality . . . either is valuable [useful] so long as it is consistently maintained . . . [and] it is only when an unconscious shift in viewpoint from one to the other occurs that there is danger of false reasoning" (Gilman, 1939: 598). For stakeholder accounting, we therefore suggest a conscious shift away from the entity convention and toward the proprietary convention.

The Proprietary Convention of Accounting

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) and distribution of gains or losses can be decoupled (Goldberg, 1965). As we have asserted in the VCST premises previously stated, value creation for one group includes value creation for all, though perhaps—we now suggest—at different levels, using appropriate metrics. Additionally, partnership accounting provides for the possibility that one partner can serve as a general partner (say the corporation as a corporate general partner), and that some other partners can serve as limited partners or all or some as general partners as the stakeholder risk-sharing conversation may develop and be documented in the partnership agreement. And, since under the proprietary convention ownership and distribution of gain or loss are decoupled, and since the premises of VCST assert that *more* value is created by an activity-based, aligned, purpose-innovation-morality interactive, and reciprocal partnership (the VCST premises); we thus can expect that there is to be more value created through such a partnership, which can then be distributable to all primary stakeholders according to their agreed-upon respective risk-bearing accounts.

From the juxtaposition of these two very different but generally accepted accounting conventions, we can gain a sense for why past efforts at reorganizing "corporate" accounting to take account of stakeholders (whether or not as risk-bearers) have been only partially successful. What has been attempted is to try to account for a stakeholder partnership (which requires a proprietary-convention approach), by attempting (possibly unconsciously) to inappropriately apply accounting for a corporation (using an entity-convention approach). Hence, we argue that to effectively conceive of a workable system of VCSA: partnership accounting—as a direct derivative of the proprietary accounting convention—is a more appropriate accounting convention (and by extension a partnership v. a corporate organizational vehicle) to be applied.[3] And furthermore, it is plausible to assert that: (1) identifying the units to be *counted*, (2) basing the *recording* processes on matching reward to risk using those units of accountability, (3) *summarizing* based upon accounting classification that is representative of SBR and MBR risk-bearing, and (4) *reporting* based upon partnership rules that are rooted in the "proprietary accounting" convention, is a practical next step in making VCSA a reality.

We do not assert these arguments naïvely. Rather, we readily acknowledge that the arguments within this paper are but a necessary precondition for the development of a workable stakeholder accounting system, that is: a workable specification of a theoretically-consistent and rigorously derived framework upon which to build that can provide the stakeholder knowledge sufficiency required to enable prudent stakeholder risk-taking. We therefore argue that partnership accounting, as adapted to include the principles of VCST, offers to the solution of the

[3] We thank Accounting colleague A for raising this possibility in discussions with the authors as this paper was being conceptualized.

stakeholder accounting problem a proven accounting method and organizational structure that can provide this starting point, for its obvious benefits. In the remainder of this section, we therefore address potential missing links in the knowledge-production/stakeholder accounting chain to explain shortcomings in both current practices in financial accounting and in two selected examples of previous attempts to create socially responsible accounting systems (balanced-scorecard, and triple-bottom-line accounting); and then we explain how the addition of partnership accounting to make VCSA practical might be conceptualized.

Analysis of Current Practices in Financial Accounting

Through use of the entity convention to account for the activities of the corporation, information generated for financiers (as the holders of debt or the owners of equity with respect to the "entity") is primarily the only information available to stakeholders (i.e. reports are financier-focused). While the social issues in management and other research literatures are replete with the enumeration of the shortcomings of this limitation in focus (Agle et al., 2008), and the accounting literature is replete with scholarship that highlights the weaknesses of accounting systems in general (e.g. timing errors, measuring-unit errors; cf. Riahi-Belkaoui, 2004: 536); it might nevertheless be productive to analyze the main weaknesses of current accounting practice according to the theory developed in this paper. Table 3 provides a summary of this analysis. As noted in column Three of Table 3, the generally-accepted counting, recording, summarizing, and reporting processes of corporate accounting are not stakeholder-focused, principally due to historical cost-based accounting for a too-limited set of activities (entity-convention-based), which then constrains further knowledge-building as these facts are turned into data, information, and highly-focused knowledge.

{Insert Table 3 about here}

Analysis of "Balanced-scorecard" Accounting

The balanced-scorecard approach to accounting arose in the early 1990s (Kaplan & Norton, 1992). This approach is a mixture of financial and non-financial measures each compared to a "target" value for, say, financial, customer, internal business processes, innovation and learning—and the scorecard itself is constructed based upon the performance metrics that management of an entity deems to be important. Balanced-scorecard accounting is not meant to be a replacement for traditional financial accounting and in fact relies upon the entity convention of accounting for the production of financial reporting. Instead, the balanced-scorecard approach provides a way to succinctly capture the information most relevant to selected target readers. There are as many versions in circulation as there are methods by which target information is determined (i.e. the design processes used by a given company to select the content of the scorecard). As displayed in Table 3, balanced-scorecard accounting fails to fully enable VCSA, primarily because the customizability of the scorecards is idiosyncratically based and financial reporting is grounded in the entity convention; whereas VCSA is intended to be premise-based, grounded in the proprietary convention of accounting, and widely-applicable.

Analysis of Triple-Bottom-Line Accounting

Triple-Bottom-Line (TBL) accounting is intended to capture an expanded spectrum of values and criteria. The idea behind this approach is to increase the measurement breadth of organizational (and societal) performance accountability: economic, ecological and social. With the ratification of the United Nations TBL standard for urban and community accounting in early

2007, TBL became the dominant approach to public sector full-cost accounting for corporate entities. As shown in Table 3, the TBL accounting approach sets up an arbitrary set of purposes (economic, ecological and social) that produces standardizability in accountability around these purposes, but which are not strictly suited to the accountabilities necessary to foster value creation for all risk bearers—as is necessary (we argue) for a viable system of VCSA. We suggest this, at least because of the impact of the timing. That is, TBL performs as an artificial retrospective summation of seemingly disparate objectives, rather than an integrated holistic forward-designed accounting system aimed at stakeholder value creation; and once again it is grounded in the entity convention of accounting. Hence, it is our conclusion, that TBL accounting, in most cases, would not fulfill the requirements of VCSA, because it should not be expected to stimulate value creation as its main outcome.

Summary

In the foregoing paragraphs, we have attempted to describe a likely scenario for the implementation of VCST through VCSA. We have developed a theoretical rationale for how the underlying and stable structure of knowledge-building can be viewed to be the basis for the four fundamental accounting processes (simplified); and how the four fundamental accounting processes reflect the premises of value creation stakeholder theory (VCST). When the VCST premises are coupled with the four fundamental accounting processes, a theoretical framework for stakeholder accounting can be generated to explain the shortcomings in both current practices in financial accounting and previous attempts to create socially responsible accounting systems. This theoretical framework can, as a result, suggest a pathway toward the level of knowledge sufficiency required for stakeholders to prudently manage their risks. We therefore suggest:

> *Proposition 4*. Stakeholder knowledge sufficiency is more likely to occur where accounting practice (e.g. counting, recording, summarizing, & reporting) comports with Value Creation Stakeholder Theory (VCST) premises through Value Creation Stakeholder Accounting (VCSA).

The parallel structure theory created by coupling the VCST premises with the four fundamental accounting processes also produces the idea for an addition to current practice to make stakeholder accounting practical: VCSA that is based upon the proprietary convention of accounting theory—i.e. the creation of value creation stakeholder partnerships VCSPs. Fortunately, the mechanics of partnership formation are relatively easy organizing processes to implement legally. The key governing document is the partnership agreement. The hard part, which we allow is likely to be the crucial next point of research attention, is to develop such agreements among various sets of partners (stakeholders) as to relative risk-bearing and reward-sharing. As we will argue in the next section, it is the terms and conditions agreed upon in the VCSP Agreement that are the crucial addition to accounting that makes it possible for stakeholders to better understand their assumption of risk; and therefore to be placed in an improved position from which to exercise stakeholder risk-taking prudence.

VCSA, Risk Management, and Value Creation

How, then, would a VCSP count, record, summarize, and report such that value creation can be enhanced? In this section we very briefly sketch a possible scenario to this effect. For simplicity's sake, we present this possible scenario in the form of a "thought experiment Q & A," that addresses counting, recording, summarizing and reporting, in turn, as follows.

Q: What should be "counted" to enable SBRS and MBRS to be accounted for?

A: In ordinary accounting, the things that are counted are assets, such as inventory and fixed assets, which have historical costs attached. Thus, where the Activities Premise suggests that exchange activities must be counted, VCST suggests that we should count (and price) exchanges with primary stakeholders. The new addition to the counting process, to enable VCSA to function, would be that the relevant items to be counted are the activities specified in the partnership agreement of the VCSP. In practical terms, this would mean that certain activities *beyond the boundary of the corporate entity* would be counted as agreed upon by the parties. In fact, we assert that within the provisions of the "value creation stakeholder partnership agreement" the firm and its stakeholders are enabled to set forth their agreements about the SBR or MBR activities that lead to value creation through the assumption of these risks by each of the parties; and could thereby specify the terms upon which distributions/allocations of the value created/ destroyed, respectively, would be made.

Q: How should the VCSA exchange activities that are counted, be recorded?

A: Conceptually, the recording process would not differ much, if at all, from conventional accounting practice. It would simply consist of entering the facts that have been counted into accounts as amounts (prices x units) placed either on the debit side or the credit side of the T-account (hereafter "account") according to a double-entry process whereby the position of amounts in the accounts symbolically represents the character of that amount (asset or expense = debit; liability, equity or revenue = credit). The only addition would be the need to create and maintain accounts that record the various additional exchange activities among primary stakeholders that become accountable as part of the VCSP Agreement. Thus, for example, to record value creation to customers, managerial accounting data that records Net Buyer Benefit – the value of the goods or services *above* the price charged to customers (Ghemawat, 1991)—will need to be included. (The reader will appreciate that such recording will enable the inclusion of more value created; which will also result in more value to be distributed.)

Q: How should amounts in VCSA accounts (the VCSP general ledger) be summarized?

A: The summarization process (often referred to as "closing the books") could be conducted based upon a two-step vs. a one-step closing process. Conventional closing practices are "commutative" in nature (i.e. addition- or subtraction-based). Entries to the books, having been posted to the accounts, are totaled, and these balances are combined such that the revenue-expense difference is "closed" to retained earnings as net income or loss. In VCSA this step would be similar, except that the accounts that have recorded amounts related to the assumption of risks would be closed separately. Hence, balances posted to the accounts would be totaled, combined such that the revenue-expense difference is "closed" to the partnership capital accounts as VCSP net income or loss (which, as previously noted, would differ from the entity-convention-based computation by including, for example, net buyer benefit: value to the customer). Then, Step 2 of the VCSP summarizing process would be "associative" in nature (i.e.

multiplication- or division-based) to accomplish the allocation of VCSP net income or loss to the VCSP partners according to VCSP Agreement-based proportions that it would now be possible to compute from (what we might call) the VCSP risk-assumption accounts.

Q: How would reporting for the VCSP differ?

A: In this hypothetical case, we envision a new financial report that contains comprehensive net income or loss; but which also contains additional computations that explain how the risk-bearing activities of the stakeholders/partners (SBRS or MBRS) created (or destroyed) the VCSP value to be distributed or allocated.

Q: How would VCSP-based reporting affect the capability of primary stakeholders (employees, customers, suppliers, financiers/stockholders and communities) to prudently and maximally/optimally manage MBRS and SBRS?

A: Prudence and maximization/optimization will be enabled by the additions to stakeholder knowledge made possible by the facts, data, and information counted, recorded, summarized, and reported in the VCSP Value Creation and Value Distribution Statement (as also noted in Table 3). As described previously, this statement will report how the terms of the VCSP Agreement have been applied to track value creation and to enable value distribution consistent with this agreement. Each primary stakeholder group will then be empowered to more effectively gauge the risks assumed and the risks rewarded—again, both on a stakeholder-by-stakeholder basis, but also overall.

While we recognize that this accounting sketch consists of a quite general theoretical description of a complex process; we offer it as a means whereby to illustrate that the conceptualization of value creation stakeholder accounting is not impractical in the abstract; and we also suggest that ultimately, it may also be practical in concrete terms as well. What we are able to assert, is that the notions of VCST (which suggest in four premises that value creation is a collaborative enterprise; and that this enterprise, when tracked (i.e. counted, recorded, summarized and reported) can produce more value), are to be taken seriously.

Conclusion

This paper is speculative and interdisciplinary. As such it is prey to limitations that can create confusion outside a given scholarly specialty. We have therefore attempted, through our theorizing, to offer *bounded* speculation. Hence, we do not "take on" the known ills of accounting in general; we try to avoid the "delusion of determinacy" (to suggest that "desirable" behavior, accountability, and easy comparison will naturally follow if only the "right metrics" are used (Phillips & van der Laan Smith, 2011); we do not claim that the simplified structure of accounting we use for theorizing (counting, recording, summarizing, reporting) is either restricted to "historical cost" activities only, or is a simplistic characterization of accounting *per se*; nor do we claim that stakeholders have values which are known and are static over time. Rather, we take on the limitations of the entity convention of accounting; we suggest that better information permits the making of better choices through communication and negotiation that can result from increased knowledge; we claim that a simplifying model of minimum accounting functions enables the extension of theory; and we claim that VCST-guided stakeholder accounting can enable the dynamic values existing within all stakeholders to surface, be made more explicit, and further the socio-beneficial enterprise of value creation.

Looking to the future of the research we hoped to have invoked by our writing a vision for VCSPs becoming a means whereby the necessary knowledge can be generated, through VCSA, to enable the premises of VCST to be enacted practically in the case of most if not all organizations and their stakeholders. What remains is for the leadership to emerge to enact these value creation stakeholder partnerships (of wealth creation and wealth distribution) such that value creation for all primary stakeholders—as bearers of both SBR and MBR—can, as suggested by VCST: redound to the benefit of all.

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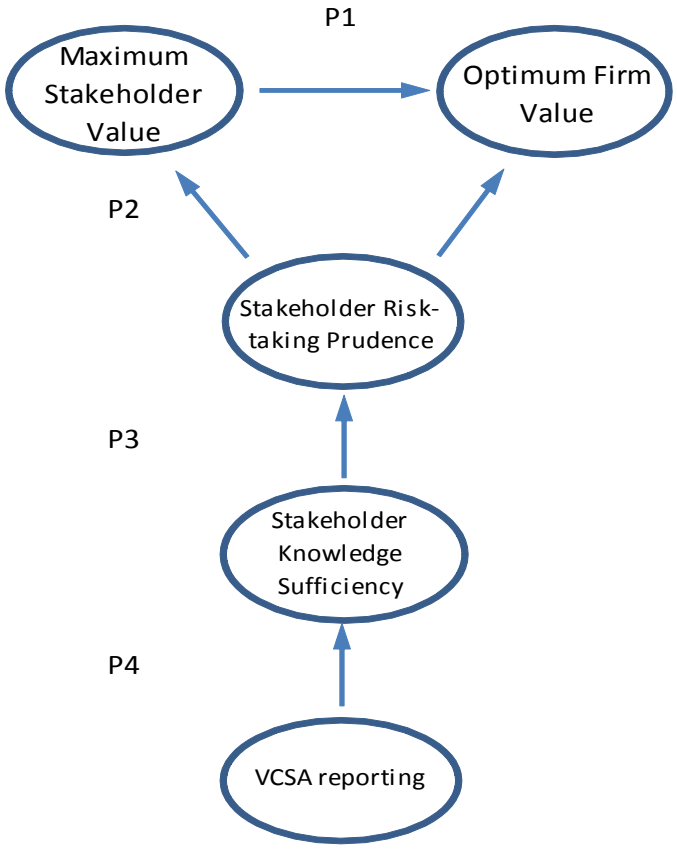
FIGURE 1
Theoretical Model:
Stakeholder Accounting and Value Creation



PROPOSITION SUMMARY:

Proposition 1. *Optimal value will be created for the firm to the extent that maximum value is created for stakeholders.*

Proposition 2. *Stakeholder and firm value creation is enabled by stakeholder risk-taking prudence.*

Proposition 3. *Stakeholder risk-taking prudence is associated with stakeholder knowledge sufficiency.*

Proposition 4. *Stakeholder knowledge sufficiency is more likely to occur where accounting practice (e.g. counting, recording, summarizing, & reporting) comports with Value Creation Stakeholder Theory (VCST) premises through Value Creation Stakeholder Accounting (VCSA).*

TABLE 1
The Structure of Knowledge-building and Accounting Compared

Knowledge	Accounting
Facts	Counting
Data	Recording
Information	Summarizing
Knowledge	Reporting

TABLE 2

The Application of VCST Premises to Accounting

Knowledge	Value Creation Stakeholder Theory	Accounting	*Example* Application
Facts	1. *The Activities Premise*. Exchange activities among primary stakeholders create or destroy value.	Counting	ID & measurement of "units" of activity to be counted (accounted for)
Data	2. *The Alignment Premise*. Stakeholder activities should be arranged such that incentives among stakeholders are aligned (that when managers make primary stakeholder A better off, they also make primary stakeholders B, C, D $_{\ldots n}$ better off).	Recording	Use of the "matching" principle to accrue (record) rewards and sanction units to match (align) risk reductions "earned" or risks (e.g., SBR + MBR) "incurred"
Information	3. *The Interaction Premise*. Value creation comes from the reconciling interaction of purpose, innovation, and morality.	Summarizing	Accounting "classification" principles to summarize data implications e.g., separate "real" from "nominal" accounts (what is deemed to last beyond or expire within a given time period) when seen as a purpose, innovation and morality integration
Knowledge	4. *The Reciprocity Premise*. Value creation for one stakeholder group implies value creation and distribution for many stakeholder groups.	Reporting	"Partnership" reporting of gain and loss distribution(s) where the balances and gains in risks contributed and rewards distributed are reported

TABLE 3

Comparison of Various Accounting Schemes

Knowledge	**Accounting**	**Financial Accounting**	**Balanced Scorecard**	**Triple Bottom Line**	**Value Creation Stakeholder Accounting**
		Entity Convention	*Entity Convention*	*Entity Convention*	*Proprietary Convention*
Facts	Counting	Historical cost activities (relating to stockholders)	Targeted activities	Arbitrary activities	Relevant price and cost activities (relating to stakeholders)
Data	Recording	Time-period accrual	Idiosyncratic recording	Idiosyncratic recording	• Time-period accrual • Managerial accounting data accrual
Information	Summarizing	Net income (loss) to retained earnings (equity holders)	Net-to-selected-target(s)	Net to 3 specific targets	Net value created (lost) to/ from partnership capital (of VCSP partners)
Knowledge	Reporting	Balance Sheet, Income Statement, Sources and Uses of Funds Statement	Customized reporting and application	Somewhat standardized reporting and application	Balance Sheet, Income Statement, Sources and Uses of Funds statement, and the VCSP Value Creation and Value Distribution Statement