STAKEHOLDER INCLUSION AND ACCOUNTING FOR STAKEHOLDERS

Ronald K. Mitchell
Texas Tech University

Harry J. Van Buren III
University of New Mexico

Michelle Greenwood
Monash University

R. Edward Freeman
University of Virginia

Pre-publication version
As accepted for publication in: *Journal of Management Studies*

STAKEHOLDER INCLUSION AND ACCOUNTING FOR STAKEHOLDERS

ABSTRACT: Stakeholder inclusion in organizational decision making, and the resulting issue of value creation, is one of the thorny problems that stakeholder theory has sought to address. Yet progress has been slow, we suggest, because present accounting theory and practice does not address the decision-making needs of all stakeholders who are at risk due to the activities of organizations. In this paper we develop an intentionally transdisciplinary theory of value creation stakeholder accounting (VCSA) based on stakeholder risk-sharing as a superior rationale for stakeholder inclusion. We introduce value creation stakeholder partnerships (VCSPs) as a promising mechanism for the implementation of VCSA. VCSA is derived from a fusion of accounting, value creation/entrepreneurship, and stakeholder theory, and the VCSP mechanism emerges from distinguishing proprietary-convention (partnership) from entity-convention (corporate) accounting. Using this framing we summarize and situate the articles in this Special Issue on Stakeholder Accounting.

INTRODUCTION

The lack of broad inclusion of stakeholders in organizational decision making has been attributed, at least in part, to the assertion that "… any organization must have a single-valued objective as a precursor to purposeful or rational behavior" (Jensen, 2002: 237). Consequently, the argument goes, managers may over-rely on shareholder wealth maximization as the single-valued objective of the corporation (e.g., Jones & Felps, 2013a, b; Mitchell, Weaver, Agle, Bailey & Carlson, 2016 forthcoming). In this paper and in this Special Issue, we argue that the problem of broad stakeholder inclusion in organizational decision making also arises because of inadequate accounting theory and practice. Accounting for stakeholders thus is the focus of this paper and of the Special Issue that this article introduces.

While non-financial reports have been developed to address the problem of sub-optimal stakeholder inclusion in organizational decision making, claiming to make organizations accountable to a range of stakeholders, these non-financial accounting reports (such as sustainability, social responsibility and ethical reports) actually are of limited value for stakeholder-focused decision making (Greenwood & Kamoche, 2013; Riise-Johansen, 2010). Our analysis suggests that such limitations arise *not* from the objectives of the reports themselves, but rather from an overall weakness in the underlying premises by which their production is justified. Specifically we argue that, as with current financial reports, present non-financial reporting lacks: (a) a comprehensive rationale in that it does not directly and effectively address the full range of risks borne by stakeholders, and (b) a sufficiently inclusive mechanism: it uses the more-restrictive "entity" convention of accounting instead of the more-inclusive proprietary" (or partnership) convention. We therefore offer a counter-narrative to suggest that accounting for stakeholders must be inclusive of the *value-creating/risk-sharing partnership* among an organization's stakeholders.

This counter narrative is accompanied by a plurality of perspectives within this Special Issue. Our part in constructing this stakeholder accounting counter-narrative is to contribute both a rationale and a mechanism that are required for greater stakeholder inclusion through greater stakeholder-focused accounting theory and practice. The rationale—which we term value creation stakeholder accounting (VCSA)—is derived by our producing a transdisciplinary theory of accounting that combines accounting, value creation/entrepreneurship, and stakeholder theories based upon the concept of risk sharing. The accounting mechanism—which we suggest to be value creation stakeholder partnerships (VCSPs)—is derived by our outlining a practical stakeholder-focused accounting system based upon the principles of partnership accounting.

In this article we therefore: (1) analyze accounting, value creation/entrepreneurship, and stakeholder theory research to identify relevant theoretical connections that can be used to frame VCSA as a rationale for the new field of accounting for stakeholders; (2) offer a general theoretical framework for value creation stakeholder accounting—both a justifiable rationale (VCSA) and a practical mechanism (VCSPs)—and compare this framework to other stakeholder-inclusive approaches such as balanced scorecard and triple-bottom line accounting; and (3) on the basis of the framework developed, situate and introduce the papers in this Special Issue.

THEORETICAL CONNECTIONS

As a framework for conceptualizing the notion of accounting for stakeholders, we envision connecting three disciplines: accounting, value creation/entrepreneurship and stakeholder research. We hope this fusion can enable new transdisciplinary theorizing which—unlike multidisciplinary research or cross-disciplinary research—seeks to create *a new common-denominator field* with a synthesis of ideas from contributing domains (Rosenfeld, 1992).

Reliably making such theoretical connections is a problem of effective knowledge classification, and "… the crucial problem of knowledge classification is the choice of *Invariant*" (Ranganathan, 1965: 34-35). The identification of an invariant element from within a domain of otherwise varying phenomena permits us to ascertain from among a variety of potential class descriptors, a common denominator—the element in each domain which is to be held constant to become the basis upon which all the other elements in proximity may be arranged. The choice of a common denominator element (Invariant), however, is best made on the basis of "usability" or "usefulness." Sayers (1926: 26) has argued that "… the value of a classification scheme to its user is its cardinal quality." So, we avoid fetishizing definitions by adopting this pragmatic view that vocabularies are relevant to the problems to be solved, and therefore have identified the notion of *risk sharing* as the common denominator for our development of a transdisciplinary theory of value creation stakeholder accounting. Accordingly, for each field—accounting, value creation/entrepreneurship and stakeholder theory—we explain how the common element of risk sharing may be used as the common denominator across all three fields. Second, we order the elements of each field according to that unvarying (for purposes of the analysis) risk-sharing-based attribute. Third, we examine these sets of ordered classes to arrange them to provide a transdisciplinary rationale for accounting for stakeholders based on various types of stakeholder risk bearing and thereby propose value creation stakeholder accounting (VCSA).

To contribute to the stakeholder inclusion narrative we move beyond a firm-centric approach to accounting and value creation. We do this because extant accounting systems, even those proposed as more stakeholder-inclusive alternatives to traditional financial accounting, implicitly assume that that the firm is at the center of the analysis, whether in terms of how value is created or from whose perspective the task of accounting is undertaken. Our goal in developing the notions of VCSA is to conceptualize accounting for value creation as a genuine

partnership between a firm and other risk-bearing stakeholders. But our goal is also to draw on the three contributing disciplines (accounting, value creation/entrepreneurship and stakeholder theory) in ways that uncover further potential for stakeholder inclusion.

Thus, in the following three subsections we analyze accounting, value creation/entrepreneurship, and stakeholder theory research to identify within each the theoretical connection to risk-sharing that can be used to undergird the new field of VCSA. First, for the field of accounting, where accounting's purpose is "informative" or "explanatory" communication of vulnerabilities (cf. AICPA, 1987), we develop the idea that where risk arises through lack of precision (Goldberg, 1965: 356), stakeholder inclusion in the accounting process can be improved though attention to the *sources of imprecision*. We therefore suggest that the states of knowledge development (lowest-to-highest) as they are used in practice (Goldberg, 1965) hold the key to VCSA: improved counting, recording, summarizing and reporting for stakeholders (Goldberg, 1965). Second, for the field of value creation/entrepreneurship theory we propose four premises that capture the *key processes of stakeholder value creation* through risk-sharing: activities, alignment, interaction, and reciprocity premises. Third, we propose, for the field of stakeholder theory an ordering process, according to the extent of risk-bearing (Clarkson, 1995) by those who affect or are affected by the firm (Freeman, 1984). Thus, in the case of stakeholder theory, we suggest that the common-denominator criterion in this case would be based upon the process of grouping stakeholders on the basis of their *exposure to total risk* as the sum of two types of risk as later explained more fully: both "sink-the-boat" and "miss-the-boat risk" (Dickson & Giglierano, 1986).

Theoretical Connections in Accounting: Knowledge Development Process

We have adopted the assumption that the purpose of accounting is to develop and to communicate the knowledge required for decision making, specifically: the making of "… a

judgment as to the relative importance of facts, and the precise language in reporting them" (Goldberg, 1965: 6). In this section we therefore outline a hierarchical conceptual structure for accounting, based upon the notion of an accumulation process, to attempt to explain how precision in knowledge development (from not knowing to knowing) occurs. We then proceed to suggest how the four primary accounting processes (Goldberg, 1965) follow this hierarchy in knowledge development. Consequently, we argue that there is an ordered process whereby the development of "knowing" proceeds: (1) from facts to data, (2) from data to information, and (3) from information to knowledge. On the basis of this foundation we are then are able to propose more-precise principles for the accounting function as transdisciplinary. In this section we therefore assert: (1) that knowledge-building in accounting has an underlying and stable structure and (2) that the underlying structure of knowledge-production in accounting is the basis for four accounting processes that are fundamental to precision in every accounting system (Goldberg, 1965). We note, however, that since accounting is purely conventional (or as some might say, "socially constructed") we make these claims without committing to any underlying foundational epistemological principles.

The structure of knowledge building. Knowledge building, i.e., creating work products of the human mind—from lowest to highest level of refinement—can be classified as facts, data, information, and knowledge (Mitchell & Mitchell, 2012). We do not mean to suggest, however, that "facts" can be separated from "values" in a clean and dichotomous way (Putnam, 2004). However, the literature does suggest an accumulative process whereby each fundamental state of knowledge can be identified by what is uniquely added as level of usability increases from facts to knowledge, as follows (cf. Mitchell & Mitchell, 2012):

- **Facts** = phenomena (generally but not exclusively observable phenomena; Ackoff, 1989);
- **Data** = facts + symbols (Ackoff, 1989: 3; Davis, 1974: 33);

- **Information** = data + meaning (Davenport & Prusak, 1998: 2; Davis, 1974: 32; Tushman & Nagler, 1978: 614; Drucker, 1988: 46; Checkland & Scholes, 1990: 303); and
- **Knowledge** = information + application (Davenport & Prusak, 1998: 5; Kuhlen, 1991: 98; Nonaka & Takeuchi, 1995: 58-59).

This four-part (simplified) hierarchical process of knowledge-building is useful when coupled with the general four-part hierarchy in accounting processes.

Accounting processes and the structure of knowledge building. As earlier noted: (1) accounting theory suggests that the minimum requirements of accounting process are counting, recording, summarizing and reporting (Goldberg, 1965); and (2) each of these four accounting processes appears to follow the structure of knowledge-building (such that the underlying structure of knowledge-production can be seen to be the basis for four general but fundamental accounting processes), as shown in Table 1:

{Insert Table 1 about here}

This interconnection is unsurprising, given the pervasive influence that latent structures have upon manifest phenomena (Merton, 1968). Thus, to create a viable accounting system, *counting* requires some underlying 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* produces meaning with the addition, to data, of ordering. One example of this ordering process is accounting classification of data into real vs. nominal accounts or the current vs. long-term listing of assets and liabilities. Another example is account-based closing conventions: how a meaningful "*net* something" is obtained, thus producing information. *Reporting* occurs through application: when information enables the reader to assess, compare, evaluate or otherwise analyze information relative to some purpose or goal. For example, reporting reveals the

financial position of shareholders as residual claimants to company assets (cf. Riahi-Belkaoui, 2004).

Hence, according to this logic, we conceptualize a hierarchical knowledge-development process (from not-knowing to knowing), and also suggest how the four primary accounting processes follow this sequence. Based on our analysis, problems of application due to knowledge insufficiency in reporting exist at the top of the hierarchy (e.g., some stakeholders lack sufficient knowledge to make effective risk-taking decisions). In the next section we explain how a stakeholder logic for value creation relationships supports and comports with knowledge building and more effective risk-taking.

Theoretical Connections in Value Creation Relationships

Freeman, Harrison and Wicks (2007) and Freeman et al. (2010) have suggested value-creation stakeholder theory (VCST) as a way to understand how stakeholder relationships create value. We therefore present four premises that derive from but are not reducible to the most-basic foundations of value creation: i.e. exchange activities in the context of relationships. We accept the idea that exchange activities are the result of buyer/seller alignment behaviors (Hayek, 1937). We also accept that exchange activities produce the justification for the essential value creating/risk-sharing relationship: a value creation stakeholder partnership (VCSP). Accordingly, we specify the following premises of VCST as the four key risk-sharing stepping-stones in a stakeholder-centric value creation process: activities, alignment, integration, and reciprocity premises. Helpfully, these premises parallel the previously specified hierarchy in VCSA (Table 1).

1. Activities. As a beginning point, we observe that all businesses through their *activities* for and with their primary stakeholders create (or destroy) value. For purposes of this paper we have therefore defined “activities” to be exchanges between/among primary stakeholders (Clarkson, 1995) set within relationships that are ongoing and persevere through time. This

definition 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), each bearing her/his share of risk in the exchange (Knight, 1921). 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 (VCSA) in the traditional basics of value creation through exchange (e.g., Carter, 1989; Larson, 1992). The traditional view of value creation through exchange, we argue, is incomplete without this relationship-based context.

We observe as axiomatic that without the freedom to engage in voluntary risk-assuming transactions that further the interests of the parties involved, no system of business can emerge. And without the freedom and ability to form lasting relationships, no business can be sustainable in any sense of that word. Given grounding in the notion of long-term voluntary exchange, we can then offer 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 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:

The Activities Premise. Exchange activities that occur in the relationships among primary stakeholders create or destroy value.

We note here that, for purposes of our argument, we have defined "primary or definitional stakeholders" generically. The literature includes as primary stakeholders: employees, customers, suppliers, financiers/ shareholders and communities (Agle, Mitchell, & Sonnenfeld, 1999; Clarkson, 1995; Mitchell et al., 1997), because the activities of these

stakeholders provide the resources needed for firms to survive as going concerns and as such, potentially put these groups at risk (Clarkson, 1995). However, we also recognize that there are differences within industries, cultures, and sectors, which may expand or contract this list somewhat depending on the specific context.

2. Alignment. Next, VCST suggests that organizations which optimize their value do not, in their activities, thoughtlessly trade off the interests of one stakeholder for the interests of another. Rather, VCST suggests that where the interests of stakeholders can be *aligned*, more overall value is likely to be created, because (as we later explain) through such alignment the total of risk to be shared is minimized.

Some 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 should be aligned more risk sensitively so that, for example, when managers make customers better off, they also make suppliers and shareholders 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," since trading off at least partially disables risk sharing and it sacrifices the benefits of managing paradox (Cameron, 1986; Mitchell et al., 2016 forthcoming). 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 can induce risk-sharing value-creating relationships through

aligning value distribution with value creation, and the resulting interconnectedness-based stabilization support the presumption of continuity (i.e. a going concern; Goldberg, 1965) upon which accounting depends. Accordingly:

> *The Alignment Premise. To create optimal value, stakeholder activities should be arranged such that stakeholder interests are aligned (that when organizational managers make primary stakeholder A better off, they also tend to make primary stakeholders B, C, D* $_{\ldots n}$ *better off).*

***3. Interaction*.** Additionally, we argue that the inevitable tensions from the competing interests of stakeholders can be reconciled through common purposes shaped by innovation, and guided by moral norms. Each element (purpose, innovation, and morality), arises from the risk-sharing relational context among primary stakeholders.

While there are many ways to understand the specifics of how interaction creates 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, seeking to accomplish goals that extend beyond profit seeking (cf. Mitchell et al., 2016, forthcoming). Conflict among stakeholders can be fuel for innovation—transforming the energy generated by conflict into energy for innovation (e.g., Cameron, 1986). For instance, if project A is pursued then customers will be satisfied, but the up-front 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/shareholders and communities than would a zero-sum 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, we argue that it is a false choice to pose creating value for shareholders against creating value for non-shareholder stakeholders (cf. Mitchell et al, 2016, forthcoming). Rather, as suggested by Freeman, Harrison, and Wicks (2004) interactions that maximize value for stakeholders can also maximize value for shareholders. VCST suggests that in the long run, stakeholder interests converge as the interaction of purpose, innovation, and morality reconciles and to a great extent helps to coordinate effort. Thus:

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

4. Reciprocity. A final part of VCST is that value creation best occurs in the context of *reciprocity* (Phillips, 2003). VCST posits that value creation occurs within stakeholder networks (Rowley, 1997) of which the firm (represented by its managers) is one participant. Reciprocity within such networks, we further argue, is essential to the sustainability of repeated interactions.

At the core of VCST, then, is the idea that the risk that one stakeholder incurs is at least partially determined by the way that other relationships are managed. Because such stakeholder relationships are at least partially reciprocal, the usual distinction between value creation and value capture becomes less important because when stakeholder A contributes to value creation, value for stakeholder B is also created; and the focus shifts from distributing (and fighting over the distribution of) a limited pie to making the pie bigger for everyone, and distributing value based upon contribution to value creation. In this respect, what we cast as reciprocity is a statement about: (1) how value within a network of relations among stakeholders and between a firm and stakeholders, and (2) the ethical obligations of parties in the relationship to return value to each other over time. Consequently:

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 considered as a whole, the process of value creation becomes more explicit: as a sequential risk-sharing process of stakeholder organization (from activities to alignment, to interaction, to reciprocity) toward the end of value creation. We further observe that each of the processes suggested by the foregoing premises may also be (respectively) counted, recorded, summarized, and reported (Table 1). As we previously have argued, in accounting systems: (1) it is exchange activities that produce the focal-phenomena events that are counted; (2) it is such processes as alignments (e.g. matching) that provide the conventions for recording; (3) it is processes of interaction that guide summarization (e.g. real vs. nominal, *net*-based reconciliations); and (4) it is processes of reciprocity (based in comparison) that invoke reporting norms (Table 1, Col 3).

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 explore the implications of the risk-sharing notion within stakeholder theory for the development of transdisciplinary theory to underpin the VCSA rationale for stakeholder inclusion.

Theoretical Connections in Stakeholder Theory: Risk and Relationship Process

In exploring stakeholder theory to extract from it a common-denominator theoretical structure, and thereby be transdisciplinary, the idea emerges that *shared risk* is central to the task of accounting for (and, we argue, thus creating) stakeholder value. We begin with the idea of risk in its traditional role in business theory as *the hazards that the firm encounters as it seeks to create the most value it can for stakeholders*; but for purposes of our reasoning, beginning with financiers in particular. We might call this risk Firm-Stakeholder Risk (FSR) and our analysis

thus begins with this traditional way of understanding risk to financiers—as the variance of returns (Fama, 1968; Markowitz, 1999; Sharpe, 1964).

But when we conceptualize accounting for stakeholders as a vehicle for creating rewards through partnering in new value creation, the scope of risk broadens, and the resulting notion of risk becomes more complex. For example, variance of returns—likely to be affected, for example, by performance uncertainty—is in fact an uncertainty in the ability of the firm to satisfy the basic interests of a stockholder so that this stakeholder does not leave the firm's sphere to find an alternative way of creating value (see Clarkson, 1995 for a clear elaboration of this risk-sharing argument). And this type of performance uncertainty is even more comprehensive. For example, a firm's ability to satisfy customers may well be dependent on its ability to satisfy other stakeholders in the relationship, such as employees, financiers, suppliers, and other stakeholders. Thus on one hand, comprehensive risk assessment requires that we must consider possibilities where firm assets will be lost; and on the other hand we must consider possibilities where value creation opportunities will be missed: that is, to not be seen nor acted upon at all.

We therefore import into this analysis a total-risk approach suggested in the marketing literature by Dickson and Giglierano (1986). We utilize the idea of total risk to conceptually manage the wider scope of stakeholder-sensitive risk just noted: where the possibility of "acting" and losing, is distinguished from the possibility of "waiting" and losing. Both of these types of risk are considered to be *hazards that the firm encounters as it seeks to create the most value it can for stakeholders.* Thereby we are able to separate the risk applicable to a firm's stakeholders into "acting and losing risk": Sinking the Boat Risk for the Firm (SBRF); and "waiting and losing risk": Missing the Boat Risk for Firms (MBRF). Based on this distinction, it is therefore easier to see that a system of accounts which relies on the primacy of financiers (i.e., the debt

and equity holders), is more likely to ignore, and therefore understate Missing the Boat Risk for Firms (MBRF), simply because it does not take into account sufficient relevant information as required in accounting's Conceptual Framework.[2] Under a broad reading of the Conceptual Framework, lenders and other creditors are under-served when it comes to "accountability-to-opportunity" (cf., Agle et al., 2008: 177). Also, as suggested by VCST the relevant information must include the information needed to bring other potential stakeholder contributions into alignment, which results in "lost-opportunity" risk, or MBRF.

Thus, 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 (cf. Agle et al., 2008) by engaging stakeholders to create opportunities which pursuit of their interests can bring into existence. But missing such opportunities, or not making the effort to create them, also carries risk for the firm. We illustrate this important point by citing the example of 3M Company, which rejects a "waiting and losing" *status quo* and instead takes overt action to create opportunities for the firm, thereby reducing MBRF by engaging its employees in an innovation-focused dialogue (but admitting thereby, to a willingness to incur more SBRF). 3M's response to its 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," is an employee (stakeholder) engagement approach. This approach demonstrates accountability to opportunity not yet discovered, thus explicitly targeting accountability to opportunity, leading to MBRF reduction. For example, 3M's accountability to opportunity is manifest in 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.
- Regularly holding New Product Forums, where divisions can share their latest products and developers can solicit support for a new product, idea or technology.

- Making available Genesis Grants to researchers. The grants provide significant funding to individuals or teams to pursue embryonic new product ideas or concepts (3M, 2012).

Such actions, we suggest, illustrate the operationalization of the activities, alignment, interaction, and reciprocity premises previously developed in VCST. In particular, embedded in the ways that 3M relates to its employees is the assumption that ongoing reciprocity is essential to *future* value creation. We believe that there is a growing body of evidence to suggest that good managerial practice can seek to minimize total risk: *SBRF plus MBRF* (Dickson & Giglierano, 1986); and that these two components of stakeholder risk are connected through stakeholder engagement (cf. Sisodia, Sheth, & Wolfe, 2007). The vision of stakeholders as risk bearers was illuminated in early stakeholder theory; but, we observe, it has not been deeply scrutinized or developed since. Indeed it was Clarkson's (1994, 1995) view that the reason for identifying stakeholders as bearers of risk was to wrestle the issue of definition and stakeholder priority to the ground, to decide once and for all who really is a stakeholder in the firm: a priority-centric argument. While others have tackled this question using other lenses (Mitchell et al., 1997; Phillips, 2003; Van Buren, 2001), the risk-bearing lens has lain somewhat dormant. But in our view risk bearing is fundamental to better conceptualizing accounting for stakeholders. With the emergence of value creation stakeholder theory (VCST; Freeman, Harrison, & Wicks, 2007; Freeman et al., 2010), and with our use of the risk-bearing notion as a common denominator herein to enable the conceptual fusion accounting, value creation and stakeholder research for transdisciplinary theory building, the issue of risk bearing is once again focal in the conversation. Specifically, a more comprehensive consideration of risk bearing is a helpful part of the new incentives-centric arguments of VCST because of the relative tangibility of risk, as we further explain.

Clarkson's view was that risk to stakeholders could meaningfully be distinguished by understanding those who voluntarily accepted a risk and those who did not voluntarily accept risk, but instead had risks thrust upon them. He therefore defined "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 a going concern and will be able to produce the requisite spare parts, service, etc. This buyer's 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 redeployability: what has been termed "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 or to surface opportunities (Greenwood, 2007). 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. Together SBRS and MBRS summed as total risk offer a more tangible means for the identification of (and as we later argue), for accounting for stakeholders.

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 collectively to strive for the best alternative. In the case of stakeholders both 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 may now term "a stakeholder view of value creation." In this view, where stakeholders unite 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).

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). Should the knowing acceptance of risk be relevant, and if so, 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 the possibility of obtaining relevant knowledge as constrained by what is included within accounting reports. Here we posit that good management is consistent with assembling, disseminating, and using accounting information to create superior mutual value between firms and stakeholders. If these reports are 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 the accounting reports that enable volition. A second problem that arises in this analysis is that if the assertions of VCST (as further explained in the following subsection) are to hold, then the total risks to a particular stakeholder (SBRS +

MBRS) are correlated (as illustrated in Figure 1); and by extension, risks to voluntary stakeholders would, in any event, be affected by the response of involuntary stakeholders. We therefore define total risk in the stakeholder case to be stakeholder risk: *the combined hazards consequent to stakeholder engagement that arise from both sinking-the-boat and missing-the boat risk.*

{Insert Figure 1 about here}

Thus, we argue, the problem of inclusion/exclusion may be seen not to be one of having or not having volition; but rather as one of knowing or not knowing. In this respect, a theory is required that synthesizes the "knowing" produced by accounting, with the "knowing" produced by classifying stakeholder according to a total risk criterion. This combination—of "accounting-based knowing" with "stakeholder-risk classified knowing"—is presented in Table 1, column 4; and is illustrated according to the underlying process of minimizing total risk, as depicted in Figure 1.

Table 1 supported by Figure 1 presents the idea that, at the lowest level of the knowledge hierarchy, where it is the facts that are in question and where the only decision-making element available is simple counting, that total risk—due to the unknown—is highest = SBR + MBR (Figure 1: 1.1). Table 1 then suggests that at the second level of the knowledge hierarchy (which, interestingly, occurs after the longest decision-making time period where MBR being high is the reason for the next highest level of total risk), the data are in question, for example, as a result of obtuseness or obliviousness by management, opportunity may be missed or not even register let alone be recorded (Figure 1: 1.2). Then at the third level of the knowledge hierarchy, Table 1 conveys the idea that at the point where SBR and MBR intersect, total risk is next-to-lowest (Figure 1: 1.3). We note that it is at this point in decision-making that most managers are expected to act (Dickson & Giglierano, 1986); and we can explain this expectation by further

noting that where SBR = MBR, the meaning of the available data achieves clarity because the significance and implications of data are clear, thus becoming actionable information. But most interesting in Table 1 is the fourth level of the knowledge hierarchy, where a counter-intuitive expectation is suggested: total risk is lowest *because* MBR is lowest (Figure 1: 1.4). And MBR is lowest, we argue, due to greater stakeholder inclusion. We therefore ask: Why is total risk lowest so early in the decision process? We suggest that broader inclusion of stakeholders within the decision-making framework according to the premises of VCST makes better reporting possible, thereby making it possible for managers to take action at a moderate level of SBR. And *because* MBR is lowest due to the "broad net" that is in operation (due to the inclusion of stakeholders in value creation), opportunities can be surfaced and engaged earlier. Stakeholder accounting can thus be argued to enable more value creation due to minimizing total risk.

Summary

In this section of the paper we have proposed that points of theoretical connection may be made from stakeholder theory to accounting, and from stakeholder theory to value creation theory, through the notion of stakeholder risk-bearing. We have argued that these connections may be made using *total risk* (i.e., financier + non-financier; SBRS + MBRS; voluntary + non-voluntary) as the common-denominator criterion (cf. Dickson & Giglierano, 1986: 64, and as more-fully explained therein). As shown in Table 1, we have thereby offered a theory of value creation stakeholder accounting: where stakeholder risk is minimized as the four counting, recording summarizing and reporting processes support the four value creation premises: activities, alignment, interaction, and reciprocity, respectively. Practically speaking, this step toward transdisciplinary theory suggests a theory of value creation stakeholder accounting (VCSA) that is a superior rationale for stakeholder inclusion.

Is there an accounting mechanism equal to the practical task of implementing VCSA? In answer, we now offer a general conceptual framework for VCSA: a *partnership* among risk-bearing/risk-sharing stakeholders.

ACCOUNTING FOR STAKEHOLDERS: FROM RATIONALE TO MECHANISM

To this point we have argued that the theory suggested by VCSA can better enable stakeholder inclusion, and better create value by mitigating total stakeholder risk (Figure 1, Table 1). Such an outcome is, however, contingent upon accounting reports that credibly enable value distribution to follow value creation.

The accounting theory obstacle that hinders value distribution from following value creation arises because 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). It should come as no surprise that if we conceptualize businesses as sets of stakeholder relationships (Hill & Jones, 1992), then focusing on only one entity, the firm, will prove to be unsatisfactory. 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 (i.e., from corporation to partnership accounting). This shift is supported by the transdisciplinary theory of VCST previously argued. Thus in this section of the paper we will first, explore briefly the proprietary convention of accounting (partnership accounting) as a practical mechanism for implementing VCSA; second, examine current practices in financial accounting to situate them relative to the theory developed herein; and third, propose a workable VCSP mechanism:

methods for counting, recording, summarizing and reporting in value creation stakeholder partnerships (VCSPs).

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 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. Yet, as we have asserted in the VCST premises previously stated, value creation for one group is inexorably linked to value creation for all, though perhaps—we now suggest—in proportions decoupled from ownership according to the value created using appropriate metrics (counting, recording, summarizing and reporting). Additionally, partnership accounting provides for the possibility that one partner can serve as a general partner (say, for example, the corporation as a corporate general partner), and 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 a partnership agreement.) For the sake of illustration, we are conceptualizing the general partnership role as a task for management writ large on behalf of the entire network of stakeholders. And since under the proprietary convention: (1) ownership and distribution of gain or loss are decoupled, (2) 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), and (3) broader stakeholder inclusion is likely to minimize the total value creation risk; we predict that more value will be created through such a partnership. Under the proprietary convention (partnership accounting) it follows that the value created (and accounted for

accordingly) may then be distributable to all primary stakeholders according to their agreed-upon respective risk-bearing accounts, made possible through the application of VCST to accounting for the VCSP.

Helpfully, from the juxtaposition of these two very different but generally accepted accounting conventions (entity vs. proprietary 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 seeking (possibly inadvertently) to inappropriately apply accounting for a corporation (using an entity-convention approach). As we shall later argue, current attempts to include stakeholders, such as balanced-scorecard or triple-bottom-line accounting, are deficient because they are not oriented toward partnership at all. Rather, each to some degree places the firm at the center of the analysis, which we argue is contrary to either efficient or effective stakeholder-inclusive theory and practice.

Hence, we argue that partnership accounting is better suited to stakeholder-inclusive theory and practice.[3] And furthermore, it is also 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 mechanism for making VCSA a reality.

We do not assert these arguments naïvely. Rather, we readily acknowledge these arguments as a first step for the development of a more-inclusive stakeholder accounting system. But we also assert that using a VCSP as the mechanism to operationalize VCSA provides a workable specification of a theoretically-consistent and rigorously derived framework upon

which to build. We therefore argue that partnership accounting (VCSPs as a mechanism), as adapted to include the principles of VCST to create VCSA (as the rationale), offers to the solution of the stakeholder accounting inclusion problem a proven accounting convention and organizational structure that can provide this starting point. And we further argue that this approach is superior to current attempts at stakeholder-inclusive accounting.

In the remainder of this section, we therefore address the shortcomings in both current practices in financial accounting and in two selected examples of attempts to create socially responsible accounting systems (balanced-scorecard, and triple-bottom-line accounting). We then explain how the addition of partnership accounting (VCSPs) makes VCSA practical for stakeholders as risk.

Analysis of Current Practices in Financial Accounting

The knowledge available to stakeholders comes primarily from reports that are financier-focused. While the social issues in management and other research literatures enumerate the shortcomings of financier-focused financial reporting (e.g., Agle et al., 2008), and the accounting literature enumerates 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 2 provides a summary of this analysis. As noted in columns three through five of Table 2, the generally accepted counting, recording, summarizing, and reporting processes of corporate accounting are insufficiently stakeholder focused, principally due to accounting theory and practice that is geared for a too-limited set of activities (they are entity-centric), which then constrains further knowledge-building as these facts are turned into data, information, and highly focused knowledge. Table 2 also summarizes the stakeholder-inclusiveness shortcomings of "balanced-scorecard" and "triple-bottom-line" accounting.

{Insert Table 2 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. As displayed in Table 2, balanced-scorecard accounting fails to fully enable VCSA, primarily because: (1) it still implicitly places the firm and its goals at the center of the analysis, (2) it excludes *many* risk bearers, and therefore excludes many stakeholders; and (3) the balanced scorecard is not really "balanced" according to an underlying theory that addresses the minimization of total risk to the enterprise and the stakeholder network.

***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 2, the TBL accounting approach sets up an arbitrary set of purposes (economic, ecological and social) that seeks to produce 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 disability, 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 through matched value distribution; and once again it is grounded in the entity convention of accounting. Hence, it is our conclusion that in most cases TBL accounting would not fulfill the requirements of VCSA,.

***Summary*.** In the foregoing paragraphs, we have attempted to describe a likely scenario for the implementation of VCST through the VCSP mechanism, to accomplish the VCSA rationale. The parallel-structure theory underlying VCSA (created by coupling the VCST premises with the four fundamental knowledge creation/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 management and accounting research attention to VCSA, is to develop VCSP agreements among various sets of partners (stakeholders) as to relative risk-bearing and reward-sharing. How would VCSP accounting work in practical terms? In the next section we attempt to answer several of the most likely queries concerning accounting for VCSPs.

Accounting for VCSPs

Specifically, one might wonder, how a VCSP would count, record, summarize, and report consistent with VCSA such that value creation can be enhanced? In this section we very briefly sketch a possible scenario to this effect. For the sake of simplicity, we present this possible

scenario in the form of a "thought experiment Q & A," that addresses counting, recording, summarizing and reporting theoretical explanations, 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 observables, such as assets (e.g., inventory and fixed assets). Thus, where the Activities Premise suggests that exchange activities must be counted, VCST suggests that we should count the underlying elements of 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 arise from and would expand to include the activities specified in the partnership agreement of a given 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 stakeholders are enabled to set forth their covenants concerning the SBR or MBR activities that lead to value creation through the assumption of various 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 ("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. We posit 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 from current financial accounting?

A: 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/shareholders and communities) to effectively manage MBRS and SBRS?

A: Decision making effectiveness 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 2). As described previously, this statement will report how the terms of the VCSP partnership 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 and overall.

While we recognize that this accounting sketch consists of a quite general conceptual description of a complex process; we offer it as a means to illustrate that the mechanisms for implementing value creation stakeholder accounting are not impractical in the abstract; and we also suggest that ultimately, they 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.

Toward Transdisciplinary Theory

VCSA, as the transdisciplinary theory proposed within this article is speculative, we admit, because 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 complete characterization of accounting *per se*; nor do we claim that stakeholders have values which are known and are static over time. Rather, to articulate a viable implementation mechanism, we take on the limitations of the entity convention of accounting with regard to the risk-bearing activities of stakeholders. We suggest that proprietary-convention accounting for stakeholders better permits stakeholder inclusion, including: the making of better risk-taking choices by stakeholders 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, we hope also to have invoked by our writing, a vision for Value Creation Stakeholder Partnerships (VCSPs) becoming a mechanism whereby additional knowledge communication can be generated within VCSPs for the greater inclusion of stakeholders; and through adherence to the rationale for Value Creation Stakeholder Accounting (VCSA), to enable the premises of Value Creation Stakeholder theory (VCST) to be enacted practically in the case of most if not all organizations and their stakeholders. Next, we foresee that leaders must emerge to enact these value creation stakeholder partnerships 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. We now introduce the papers in this Special Issue organized somewhat according to the transdisciplinary perspective we have developed in this article.

INTRODUCTION TO THE PAPERS IN THIS SPECIAL ISSUE

The Call for Papers for this Special Issue invited prospective authors to consider a disciplinary fusion: how a genuine integration of accounting theory and stakeholder theory might bring about new insights concerning value creation. As we stated in the Call for Papers for this SI: "… [t]he potential for accounting to enhance value creation and to help organizations and stakeholders manage risk has not been fully actualized, largely due to a lack of good theory and empirical research. Similarly, accounting theory and practice might benefit greatly from integration with insights from stakeholder theory. Further, critical analyses of accounting raise important questions about whose interests accounting serves. We wish to explore how these questions can be better viewed through the prism of stakeholder theory."

Consistent with the mission of the *Journal of Management Studies*, we sought papers that create genuinely new theoretical insights. The four papers and the invited article accepted for publication in this Special Issue together offer such insight. and rather than summarize in turn each of the papers—all of which we commend to the attention of readers interested in the topics we have discussed in our article—we instead view them through the risk-sharing/stakeholder-inclusiveness lens of counting, recording, summarizing and reporting, using some of the key questions that the authors ask in pursuit of this transdisciplinary conversation, as points of departure.

What is Counted in Accounting for Stakeholders?

Consistent questions in the papers accepted for this Special Issue include: what phenomena are relevant to accounting for stakeholders, whether appropriate counting measures currently exist, and consequently what reconceptualization is required? The issue of measurement is of course fundamental to the counting that is the basis for accounting, and in this respect there are a variety of positions taken by the authors within this SI. Crane, Graham, and

Himick suggest in their paper "Financializing Stakeholder Claims" that financial accounting as it currently exists already provides the metrics needed to coordinate stakeholder claims. While noting that not all stakeholder claims can be financialized and not all financialization of stakeholder claims is achievable by accounting alone, they argue that the accounting representation of a claim is dependent on three dimensions—time (presenting past claims and (dis)counting future claims), security (reflecting obligations and (dis)closing expectations), and priority (contextualizing and revealing or concealing details about stakeholder claims). Using the case of pension accounting at General Electric over a 25-year time period, which affected stakeholder groups as diverse as plan participants, employees, retirees, and shareholders, these authors explain how accounting for stakeholders shapes stakeholder claims, and is used by stakeholders and managers to trade-off claims, demarcate claimants into groups, and reconstruct claims during negotiations. Much like Andon, Baxter, and Chua, they argue that accounting is adaptable enough to account for stakeholder interests and to shape and enable negotiation among stakeholders.

Hall, Millo, and Barman, in their paper "Who and What Really Counts? Stakeholder Prioritization and Accounting for Social Value," take a different tack in addressing counting and accounting tasks. Focusing on the non-profit sector, they examine changes underpinning managers' prioritization of stakeholders and focus on how managers' attention to salient stakeholders is represented and communicated in a firm's accounting and reporting system. Specifically, they explore how Social Return on Investment (SROI) reporting emerged to incorporate stakeholder perspectives on value creation into the accounting process. They argue that while the epistemic beliefs of managers and the material conditions facing the organization also affect how managers prioritize stakeholders, that SROI allows for the inclusion of a broader range of stakeholder interests than do traditional accounting metrics and measures.

Arguing that financial reporting privileges financial investors to the detriment of other stakeholders that bear risk in the firm, Harrison and van der Laan Smith in their paper "Responsible Accounting for Stakeholders" lay a normative foundation for objecting to the recent retreat of the public accounting profession away from accountability to a broader group of stakeholders (FASB, 2010; IASB, 2010). Using institutional theory, they posit that moves toward responsible accounting for all stakeholders and their interests are inevitable despite the inherent risk aversion of many participants in current accounting regimes. Their analysis has implications for the role of the public accounting profession with regard to providing non-financial stakeholders with the information that they need to manage their risks related to interacting with the firm.

What is Recorded? – Specifically, the Role of Stakeholders in "Accounting for Stakeholders"

Another question probed by the authors in this Special Issue is the involvement of stakeholders themselves in accounting for stakeholders. In their paper "Dialogic Accountings for Stakeholders: On Opening Up and Closing Down Participatory Governance," Brown and Dillard argue that dialogic accounting moves beyond the shareholder focus of conventional accounting, allowing for the inclusion of constituencies that they argue are poorly served by traditional accounting. In their analysis these authors suggest that accounting "technologies"—using insights from science and technology studies—should seek to bring about participatory governance with regard to the conceptualization, reconstruction, and evaluation of accounting in ways that allow for our better recording the recognition and fulfillment of stakeholder rights and responsibilities. Brown and Dillard also place value creation within the ambit of pluralism, suggesting that dialogue among stakeholders and managers brings about opportunities for value creation, even as a pluralistic analysis suggests that conflict is still embedded in such relationships.

Similarly, Hall et al. suggest that stakeholders have an essential role to play with regard to accounting processes vis-à-vis value creating, noting that we know far less than we should about the processes managers use—and perhaps should use—to ensure the inclusion of stakeholder voices in accounting system recording. Harrison and van der Laan Smith similarly advocate for greater accountability to a broader range of stakeholders than financial investors, and Crane et al. note that existing financial accounting measures can be used by stakeholders to advocate for their claims during negotiations with organizations.

Common to all of the papers accepted for this Special Issue is the presumption that extant accounting methods, as practiced by organizations, are deficient with regard to the stakeholder inclusiveness question. Concerns related to governance processes (Brown and Dillard), accounting standards boards (Harrison and van der Laan Smith) and the mobilization of stakeholder interests Andon et al. (as further discussed below) all suggest that the recording priorities of organizations stakeholder are insufficiently inclusive. The challenge (it seems to the editors of this Special Issue), is to develop (1) stronger theory that connects stakeholder inclusion in recording processes with possibilities for enhanced value creation, and (2) sturdier normative logics for including stakeholders in accounting recording processes.

What is Summarized? Examining the Role of Risk

Our article has addressed the idea of total risk associated with the activities of firms: risk that is shared among firms and stakeholders. Part of the goal of this introductory article has been to return to the insights of early stakeholder theory to better utilize the centrality of risk in understanding relationships among firms and stakeholders, a theme addressed in each of the SI papers. As we have argued in an earlier section, in accounting for stakeholders, summarization would include all accounts that have recorded within them amounts related to the assumption of total risk (both MBR and SBR). Further research in this area might examine notions of risk from

the perspectives of both firms and stakeholders, seeking to understand better how accounting for stakeholders can allow affected parties to ameliorate those risks while also bringing about opportunities for value creation.

What is Reported and to Whom?

The role of managerial reporting in accounting for stakeholders is also examined in the papers found in this Special Issue. Hall et al. propose that managers' epistemic beliefs affect how they conceptualize accounting for stakeholders while also noting that stakeholder prioritization is only in part a managerial decision. The interplay between epistemic beliefs and other inputs—such as stakeholder voices—affects how value is communicated to stakeholders through accounting processes. Crane et al. argue that managers can and should use existing financial accounting information to balance stakeholder interests while simultaneously providing stakeholders with the knowledge needed to negotiate on more equal terms with managers. In a more critical vein, Brown and Dillard propose that dialogic accounting must seek to move beyond a managerial ethos in order to better meet the needs of plural communities.

Andon et al. suggest that managers perceive accounting in terms of its operational character. The search for accounting "truth," they argue, is fated to fail because accounting is made useful in practice; while accounting reports are not themselves a concrete reality. In this respect managers view accounting pragmatically, seeking to make decisions on the basis of information that is good enough to be useful. In operational terms, these authors suggest, "the usefulness of accounting information is contingent on the operational capacity of accounting information to inform and be informed by networks of stakeholder interests associated with it mobilization." They thus differentiate between accounting *for* stakeholders and (in our parlance) reporting *to* stakeholders.

These authors further argue that rather than seeking to get the specific form of accounting "right," it is more important to "redirect a preoccupation with the fidelity and supremacy of various accounting techniques toward a consideration of their morality and effects." This is suggested to occur through complex networks of practices that then move beyond a fixation on making accounting useful and instead focus on making it a moral enterprise. This article, we suggest, can be read as a companion to the papers in the Special Issue, and indeed as a critique of the original impetus for the SI.

In various ways, these four papers suggest that either reconceptualizing the use of extant accounting information (Crane et al.), including stakeholder perspectives within the various tasks associated with accounting (Hall et al.; Brown and Dillard) or changing the expectations placed on the accounting profession (Harrison and van der Laan Smith) will improve the knowledge available through accounting reports in ways that are relevant to stakeholders. However, Andon et al. challenge the claim that accounting can necessarily be made better in this regard. This debate, we believe, is useful to further development in the emerging field of accounting for stakeholders.

Ongoing Theoretical and Empirical Challenges in Accounting for Stakeholders

Our goal in initiating this Special Issue was transdisciplinary in its intent: to help to create a new field: accounting for stakeholders, with stakeholder inclusiveness in mind. The articles published in this Special Issue and this article, we hope, will make some contribution in this regard. In the process of editing this Special Issue, we have become aware of some theoretical and empirical challenges in moving forward the field of accounting for stakeholders.

First, we note that bringing together fields such as accounting, value creation and stakeholder theory is challenging both for authors and for readers. Arguably these separate fields have common concerns related to the functioning of organizations. Specifically, we note the

challenges in the development of the negotiation patterns essential to the development of VCSPs, especially in the measurement (counting, recording and summarizing) to support reporting potential distributions of value created.

Second, in our view the idea of value creation stakeholder theory—and accounting—merits more managerial attention. We have proposed that more value is created when firms include in their accounting processes those stakeholder groups whose risk bearing contributes to the fulfillment of joint purposes. More theory related to how value creation stakeholder accounting brings about superior value creation would thus be highly valuable in this conversation.

Third, it is clear to us that accounting for stakeholders is an undertaking with deeply normative roots. We suggest that the ways in which value is counted, recorded, summarized, and reported have not only operational but also normative implications. We concur with the analysis of Andon et al. that engaging with power relations through the work of accounting is essential to embracing the ethical responsibilities of organizations and organizational stakeholders. Including plural stakeholder interests through dialogue in accounting processes, Brown and Dillard argue, may help to counteract the effects of power relationships that may work to the detriment of some stakeholders. Embedded within accounting is responsibility to and for stakeholders, as Harrison and van der Laan Smith note. We agree that inherently accounting is operational; but we also assert that accounting has normative implications for which accounting itself is accountable.

Fourth, because we seek to create new theory and empirics, and because accounting for stakeholders is an emerging area of research, effective data gathering will be important. We note that in this SI, one paper (Crane et al.) uses secondary data and another (Hall et al.) uses qualitative methods. This, we believe, is a sound beginning that may be further amplified through use of a broader array of data sources and research methods.

Our goal in editing this Special Issue has been to elicit new theory relevant to accounting for stakeholders, a field that we believe has considerable promise for understanding how organizations create value through stakeholder relationships. We are grateful to all authors who submitted work for this Special Issue, to all who have served as reviewers, to our outstanding Editorial Board, and for the support of Texas Tech University, the University of Virginia, Monash University, the University of New Mexico, and the *Journal of Management Studies*.

REFERENCES

3M.com (2012). http://solutions.3m.com/wps/portal/3M/zh_CN/global/sustainability/our-people/employee-engagement/ (retrieved February 4, 2012).

Ackoff, R. L. (1989). 'From data to wisdom'. *Journal of Applied Systems Analysis*, **16**, 3–9.

Agle, B. R., Donaldson, T., Freeman, R. E., Jensen, M. C., Mitchell, R. K., & Wood, D. J. (2008). 'Dialogue: Toward superior stakeholder theory'. *Business Ethics Quarterly*, **18**, 153.

Agle, B. R., Mitchell, R. K. and Sonnenfeld, J. A. (1999). 'Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values'. *Academy of Management Journal*, **42**, 507-525.

AICPA (1987). Report of the Task force on risks and uncertainties. New York: AICPA, July 1987.

Cameron, K. S. 1986. 'Effectiveness as a paradox: Consensus and conflict in conceptions of organizational effectiveness'. *Management Science*, **32,** 539-553.

Carter, A. P. (1989). 'Knowhow trading as economic exchange'. *Research Policy*, **18**, 155-163.

Checkland, P., & Scholes, J. (1990). *Soft Systems Methodology in Action*. Chichester, England: John Wiley & Sons.

Clarkson, M. B. E. (1994). 'A risk based model of stakeholder theory'. *Paper presented at the the second Toronto conference on stakeholder theory, Toronto*.

Clarkson, M. B. E. (1995). 'A stakeholder framework for analyzing and evaluating corporate social performance'. *Academy of Management Review*, **20**, 92-117.

Collins, J. and Porras, J. (1994). *Built to Last*. New York: Harper Books.

Davenport, T. H. and Prusak, L. (1998). *Working Knowledge: How Organizations Manage What They Know*. Cambridge, MA: Harvard Business School Press.

Davis, G. B. (1974). *Management Information Systems: Conceptual Foundations, Structure, and Development*. New York: McGraw-Hill, Inc.

Dickson, P. R. and Giglierano, J. J. (1986). 'Missing the boat and sinking the boat: A conceptual model of entrepreneurial risk'. *Journal of Marketing*, **50**, 58-70.

Donaldson, T. and Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence and implications. *Academy of Management Review*, **20**, 65-91.

Drucker, P. F. (1988). The coming of the new organization. *Harvard Business Review,* **66**(1), 45–53.

Fama, E. F. (1968). Risk, return and equilibrium: Some clarifying comments. *Journal of Finance*, **23**, 29-40.

Financial Accounting Standards Board (FASB). (2010). *Statements of Financial Accounting Concepts No. 8*. The Financial Accounting Foundation, Norwalk, CT.

Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston: Pitman.

Freeman, R. E. (2011). Some thoughts on the development of stakeholder theory. In R. Phillips (Ed.) *Stakeholder Theory: 25 Years Later*, 212-233. Cheltenham, UK: Edward Elgar Publishing.

Freeman, R. E., Harrison, J. S. and Wicks, A. C. (2007). *Managing for Stakeholders: Reputation, Survival and Success*. New Haven, CT: Yale University Press.

Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L. and de Colle, S. (2010). *Stakeholder Theory*. New York: Cambridge University Press.

Ghemawat, P. (1991). *Commitment: The Dynamics of Strategy*. New York: The Free Press.

Gilman, S. (1939). *Accounting Concepts of Profit*. New York: Ronald Press.

Goldberg, L. (1965). *An Inquiry into the Nature of Accounting*. American Accounting Association Monograph No. 7. Menasha WI: George Banta Company, Inc.

Greenwood M. (2007) Stakeholder engagement and the moral treatment of stakeholders: Beyond the responsibility assumption. *Journal of Business Ethics* **74**, 315-327

Greenwood M. and Kamoche K. (2013) Social accounting as stakeholder knowledge appropriation. *Journal of Management and Governance* **17**, 723-743

Hayek, F. A. v. (1937). Economics and knowledge. In F. A. v. Hayek (Ed.) *Individualism and Economic Order*, 33-54. London: Routledge and Kegal Paul.

Hill, C. W. L., & Jones, T. M. 1992. Stakeholder-agency theory. *Journal of Management Studies*, **29**, 131–154.

International Accounting Standards Board. (2010). *The Conceptual Framework for Financial Reporting 2010*.

Jensen, M. C. 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, **12**: 235-256.

Jones, T. M., & Felps, W. 2013a. Shareholder wealth maximization and social welfare: a utilitarian critique. *Business Ethics Quarterly*, **23**: 207-238.

Jones, T. M., & Felps, W. 2013b. Stakeholder happiness enhancement: a neo-utilitarian objective for the modern corporation. *Business Ethics Quarterly*, **23**: 349-379.

Kaplan, R. S. and Norton, D. P. (1992). The balanced scorecard: Measures that drive performance. *Harvard Business Review*, **70**, 71-79.

Kuhlen, R. (1991). Information and pragmatic value-adding: Language games and information science. *Computers and the Humanities*, **25**(2), 93–101.

Knight, F. H. (1921). *Risk, Uncertainty and Profit.* New York: Kelley and Millman, Inc.

Larson, A. (1992). Network dyads in entrepreneurial settings: A study of the governance of exchange relationships. *Administrative Science Quarterly*, **37**, 76-104.

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

Markowitz, H. M. (1999). The early history of portfolio theory: 1600-1960. *Financial Analysts Journal*, **55**, 5-16.

Merton, R. K. (1968). *Social Theory and Social Structure*. New York: The Free Press.

Mitchell, R. K. (2002). Entrepreneurship and stakeholder theory. *Business Ethics Quarterly* (The Ruffin Series), 175-196.

Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Towards a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22, 853-886.

Mitchell, B. T., Mitchell, R. K. (2012). "Digital Content Reuse in Dynamic Settings: An Organizing Typology for Digital Content Users," Proceedings of JAIS Theory Development Workshop . Sprouts: Working Papers on Information Systems, **12**(18). http://aisel.aisnet.org/sprouts_all/505

Mitchell, R. K., Weaver, G. R., Agle, B. R., Bailey, A. D., & Carlson, J. (2016, in press). Stakeholder agency and social welfare: Pluralism and decision making in the multi-objective corporation. *Academy of Management Review.*

Mourkogiannis, N. (2006). *Purpose: The Starting Point of Great Companies*. New York: Palgrave.

Nonaka, I., & Takeuchi, H. (1995). *The knowledge-creating company: How Japanese companies create the dynamics of innovation.* New York, NY: Oxford University Press, Inc.

Phillips, R. (2003). *Stakeholder Theory and Organizational Ethics*. San Francisco, CA: Berrett-Koehler.

Phillips, R. & van der Laan Smith, J. (2011). Accounting for stakeholders from a business policy and strategy perspective. *Personal Correspondence.*

Putnam, H. (2004). *The Collapse of the Fact-Value Dichotomy*. Cambridge, MA: Harvard University Press.

Ranganathan, S. R. (1965). *The Colon Classification*. New Brunswick, NJ: The Rutgers University Press.

Riahi-Belkaoui, A. (2004). *Accounting Theory*. New York: Thompson.

Riise-Johansen, T. (2010). Employees, non-financial reports and institutional arrangements: A study of accounts in the workplace. *European Accounting Review*, **19**, 97-130.

Rosenfeld, P. L. (1992). The potential of transdisciplinary research for sustaining and extending linkages between the health and social sciences. *Social Science and Medicine*, **35**, 1343-57.

Rowley, T. J. (1997). Moving beyond dyadic ties: A network theory of stakeholder influences. *Academy of Management Review*, **22**, 887-910.

Sen, A. (2000). Consequential evaluation and practical reason. *The Journal of Philosophy*, **97**, 477-502.

Sharpe, W. F. (1964). Capital asset prices: A theory of market equilibrium under conditions of risk. *Journal of Finance*, **19**, 425-442.

Sayers, W. C B. (1926). *A Manual of Classification* (3rd edition). London: Andre Deutsch.

Sisodia, R., Sheth, J. and Wolfe, D. B. (2007). *Firms of Endearment: How World-class Companies Profit from Passion and Purpose*. Philadelphia: Wharton School Publishing.

Tushman, M. L., & Nadler, D. A. (1978). Information Processing as an Integrating Concept in Organizational Design. *The Academy of Management Review*, **3**(3), 613–624.

Van Buren III, H. J. (2001). If fairness is the problem, is consent the solution? Integrating ISCT and stakeholder theory. *Business Ethics Quarterly*, **11**, 481-500.

Venkataraman, S. (2002). Stakeholder value equilibration and the entrepreneurial process. *Business Ethics Quarterly* (The Ruffin Series), 45-58.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism.* New York: The Free Press.

TABLE 1

A Transdisciplinary Theoretical Structure for Accounting for Stakeholder Risk

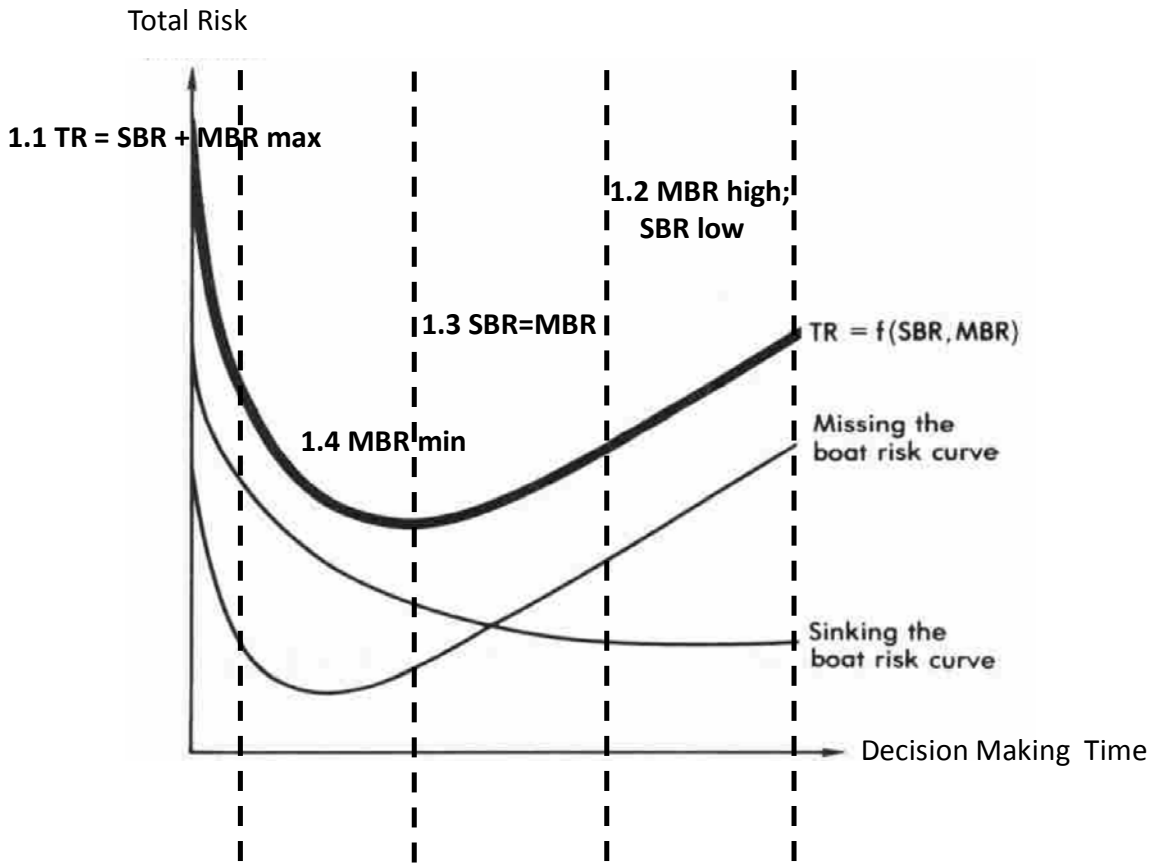
(1) Knowledge Stages	(2) Accounting Usability Functions	(3) Value Creation Premises	(4) Stakeholder Relationship Total Risk Impact Over Time
Facts	Counting	Activities	*Too early (Fig. 1.1):* TR high = SBR max + MBR max
Data	Recording	Alignment	*Too late (Fig. 1.2):* MBR high; SBR low
Information	Summarizing	Interaction	*Second-best (Fig. 1.3):* SBR = MBR
Knowledge	Reporting	Reciprocity	*Optimal (Fig. 1.4):* MBR min; SBR rapidly declining

TABLE 2

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 (VCSPs)*
Facts	Counting	Historical cost activities (relating to shareholders)	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

Figure 1: Components of Total Stakeholder Risk



Adapted from Dickson & Giglierano 1986: 64

NOTES

[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.

[2] The objective of financial reporting as 'providing financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions about providing resources to the entity' (FASB, 2010; IASB, 2010).

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