Why Shareholder Value Has Primacy - The Co-Evolution of Accounting Systems, Corporate Purpose and Company Law

Colin Mayer*, Anette Mikes* and Sudhir Rama Murthy[1]**

14 September 2022

Abstract

Three salient business concepts of corporate purpose have emerged over the last few decades as alternatives to traditional shareholder value maximization. They developed in response to concerns about the human, societal and environmental impacts of shareholder primacy. Measurement is frequently upheld as key to reform and this paper examines that proposition in the context of the co-evolution of accounting systems, salient concepts of corporate purpose and company law.

The three alternatives to shareholder value maximization are: Enlightened Shareholder Value, Stakeholder Theory and Systems Stewardship. The paper begins by describing the evolution of the three alternative purpose-concepts to shareholder primacy. It argues that they address related but different issues and audiences regarding the outcomes and impacts of firms.

The paper then discusses the systems of accounting associated with these concepts and the way in which they have evolved in response to their requirements. It documents the influence of purpose-concepts on accounting systems and the reverse relationship of accounting systems on the evolution of purpose-concepts, in some cases accelerating their adoption and in others retarding them.

We contribute to the literature on normative theories of the corporation by highlighting accounting as an important driver of the diversity of corporate-purpose-concepts. Accounting systems, corporate purpose, company law and underlying societal pressures are co-evolving phenomena that have substantial effects on the way in which business practice and policy emerge. Corporate law comes to enshrine societal perspectives and ultimately determines what are regarded as legitimate accounting and business practices. But accounting systems evolve to serve the normative aspirations of alternative theories of business and corporate purpose and are critical to policymakers' and legislators' quest for corporate reform.

Keywords: **Accounting systems, business concepts, corporate law; shareholder primacy, fair value accounting; enlightened shareholder value, sustainable business, ESG; stakeholder theory, responsible business, social and environmental accounting; corporate purpose, systems stewardship, sustainability profit and true cost accounting.**

JEL Classification: K22, L21, M41

We are grateful to Konstantin Born for research assistance and to participants in the 2021 Management Accounting as Social and Organizational Practice Conference for helpful comments on a previous version of this paper.

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[1] *University of Oxford, ** University of Cambridge

1. Introduction

Following a long period during which shareholder primacy reigned supreme, there has been rapidly mounting interest in alternative concepts and practices of corporate purpose (henceforth "purpose-concepts"), ranging from enlightened shareholder value to stakeholder and stewardship formulations of corporate purpose.[2] Much hope is being pinned on the notion of stewardship, for example, to tackle the challenges of our planet in the 21st century – and on corporate managers to act as "agents not only of their shareholders but also of the system that sustains market capitalism" (Henderson & Ramanna, 2015: 5) and as stewards of social capital (Chen, 1975). Recent calls extend corporate stewardship responsibility to natural capital (Henderson, 2020), and demand that businesses account for their corporate social responsibility (CSR) activities[3] (Christensen, Hail & Lutz, 2021). Yet the recent backlash on stakeholderism, and on environmental, social and governance (ESG) accounting - exemplified by U.S. fund managers' recent U-turn on stakeholder-driven ESG-investment in favour of shareholder-value maximization - demonstrate that shareholder-value primacy still rules (Financial Times, 2022a).

In this article, we take a thematic-historical perspective and analyse the role of accounting in the evolution of four dominant and co-existing normative purpose-concepts: shareholderism, stakeholderism, enlightened shareholderism, and system stewardship. We show that accounting systems, acting both at the macro- level and inside organizations, are important framing devices, enabling, shaping (while also being shaped by) these multiple normative theories of the firm. Our aim is to explicate the specific normative theories underpinning the diverse discourses on corporate purpose, and how the various purpose-concepts have all evolved to fulfil the aspiration of animating the "sustainable" corporation, and understand how these concepts have been influenced, and enabled by accounting practices, which co-evolve with them.

We make three contributions to research agendas focused on explicating the normative theories of business. First, we distil the current broad discourse on corporate purpose into four categories, each characterised by different programmes and accounting technologies: shareholder value maximization, enlightened shareholder value, stakeholder theory, and systems stewardship. The second contribution is to argue that none of the first three theories have given rise to accounting that can accommodate externalities and the inevitable trade-offs that exist among the various stakeholders of a business. This, we argue, is in large part due to the insufficient attention that their corresponding accounting practices give to negative externalities and the trade-offs involved in delivering inescapably pluralistic corporate agendas (be they shareholder- or stakeholder-oriented). The third is to describe the rise of a new style of accounting – at least at the programmatic level – driven by the notion of corporate purpose as a form of "systems stewardship". Accounting systems based on sustainability profit redefine corporate purpose in line with the aspiration that "true profit" is about creating value without creating detriments for people and the planet.

The following sections describe the four thematic reviews of corporate purpose and their co-evolving accounting practices. We further analyze, compare, and contrast them in the

[2] We use the term "purpose-concepts" to denote diverse normative theories of the firm and its ultimate purpose (Donaldson and Preston, 1995), encompassing also the varied but distinct theories of value creation that businesses supposedly enact (Simons, 2005, 2010).

[3] In line with Christensen et al. (2021), we use the terms "sustainability" and "CSR" interchangeably in the discussions that follow.

discussion, highlighting key questions of divergence. Which accounting systems make it into operational practice appears to be determined by corporate law and the purpose-concepts that form the basis of future fiduciary responsibilities of directors. These in turn will be influenced by the quality and reliability of the associated accounting systems. We conclude that it is therefore corporate law that will be the ultimate adjudicator and determinant of the success of contending accounting systems and business practices.

2. Literature review

We distinguish four normative theories of corporate purpose: shareholder-value maximization; enlightened shareholder value; stakeholder theory; and systems stewardship. These purpose-concepts underpin diverse normative expectations on business and call for corporations that are 'sustainable', 'responsible' and 'purposeful'. They matter because they frame corporate managers' and board members' perception of the purpose of the corporation (George et al., 2021).

In determining the fate and influence of these normative conceptions of corporate purpose, the extant literature has emphasized the role of legal movements (Segrestin, Hatchuel &Starkey, 2020), the prevailing legal system and especially company law (Collison, Cross, Ferguson, Power & Stevenson, 2014). The law is important because it answers the question "in whose interests should companies be run?" (Collison et al., 2014: 5).

But accounting is also integral to these discussions because it determines, the surplus (profit) and wealth created by those parties and how they are to be distributed amongst them (Levy, 2014). Although accounting disclosures pertaining to the firm's impact on its stakeholders other than its shareholders have been largely voluntary, it is now becoming mandatory in many jurisdictions, prompting accounting professionals, consultants, and policymakers to advocate a plethora of new accounting practices, all competing to fulfil the mandate of accounting for corporate sustainability (Barker, Eccles & Serafeim, 2020). There have been corresponding advances in research agendas relating to what 'sustainability' and 'responsibility' imply for the purpose of the corporation (George, Haas, McGahan, Shillebeeckx, & Tracey, 2021), and to clarify how different normative theories of value creation relate to actual practices (Donaldson & Preston, 1995) and account for them (e.g. Burchell, Clubb & Hopwood, 1985).

Following Simons (2005; 2010) and George at al. (2020), our starting point is that in today's pluralistic business environment, different firms (and their leadership teams) may hold different theories of value-creation, some prioritizing shareholders (shareholder value maximization); others attempting at 'taking into account' or 'balancing' multiple stakeholders (enlightened shareholder value and stakeholder theory, respectively). Recently, corporate purpose as system stewardship has been put forward as a normative theory (Henderson, 2020) underpinning the idea of the 'purposeful corporation' that does not profit from causing detriments to communities and the natural environment (Mayer, 2018).

If the world was neat and tidy, the prevailing normative theories of value creation would be clearly definable and sequential, and their rise and fall could even resemble the structure of scientific revolutions, punctuated by paradigm shifts. Likewise, accounting would map on to the underlying changes in corporate purpose and demands for accountability. However, the world is more complex. As in auditing (Power, 1997) and value-added accounting (Burchell, et al., 1985), normative debates on corporate purpose and the ways we account for it may be

decoupled from each other, in the same way as audit practices and value-added technologies can be decoupled from the programmatic intentions of audit professionals and politicians. As Burchell et al. (1985: 382) observed, "the relationship of accounting to the social has tended to be stated and presumed rather than described and analysed." Recognizing the significant gap in present understandings of how accounting relates to the current diverse normative conceptualizations of business, the present discussion aims to bring clarity to how different notions of corporate purpose interact with different forms of accounting.

Accounting has been an active subject of research in two areas relevant to this essay. The first is historical accounting studies surveying the development of cost accounting and managerial control practices (Kaplan, 1984) and the history of profit (Levy, 2014) as well as environmental, social and governance (ESG) accounting (Brown & Fraser 2006). These studies suggest that accounting is contingent and corresponds to the prevailing notions of economic development, accountability, the power relations between corporate shareholders and other stakeholders, and the perceived role of the corporation. For example, some conceptualize the history of management accounting practices as the history of attempts to grapple with operational problems standing in the way of shareholder-value creation (Kaplan, 1984), while others document the rise of social and environmental accounting (SEA) as a response to external demands for corporate transparency to give account to other stakeholders (e.g., Brown & Fraser, 2006).

It has been frequently pointed out that externalities play a central role in sustainable and responsible business, and, depending on how externalities relate to firm disclosures, accounting provides different narratives of corporate sustainability and responsibility (e.g. Hines, 1988). Looking at profit and other measures of firm performance through this historical lens, accounting appears to be in flux, corresponding to the social, economic, and institutional demands of the day. Accounting historians demonstrated that the definition of profit is mutually constitutive of and constituted by the economic context in which it is calculated. As Levy (2014: 175) argues, "profit has a history as contingent and as eventful as any other […] The history of profit is a history of power." At stake is the redistribution of wealth created by the modern corporation between its shareholders, managers, and other stakeholders.

The second body of accounting research of relevance here focuses on the tension between actual accounting practices and normative expectations on companies and how they should account for themselves (Kurunmaki, 1999; Power, 2009; Bromley and Powell, 2012; see others reviewed in Miller and Power, 2013). In a seminal paper, Rose and Miller (1992) drew a distinction between programmes and technologies and argued that any practice of accounting can be characterized by programmatic (or normative) and technological (operational) elements. The former refers to the ideas and concepts that shape the mission of accounting practice and which, crucially, link the practice to broader policy objectives in the political / regulatory sphere. Policies and goals are formulated externally – and it is assumed that the practice can serve these goals. Technologies and operations are the concrete tasks and routines that make up the practice; in the case of stewardship (sustainability) accounting, for example, they involve recognition and measurement of both shareholder and relevant stakeholder impacts, the valuation of stakeholder-relevant liabilities, the definition of entity boundaries, the rules of materiality, and so on.

In the last three decades, there have been widespread debates about the purpose of a truly sustainable and responsible corporation (for a review, see George et al., 2021) and how business should – and does - account for its sustainability and impact on society at large (Gray

et al., 1997; Gray, 2003). We argue that accounting aspirations and practices developed in tandem to reflect various conceptualizations of business sustainability and corporate purpose, be that the maximization of profit ('surplus') for shareholders, or more broadly defined in relation to other stakeholders. Accounting changes when society changes, though the links between accounting and the social have been shown as interdependent and surprising – leading to unexpected consequences (Burchell et al., 1985).

In the sustainability accounting space, Gilling (1976:61) showed how "environmental demands lead to changes in accounting practice and changes in accounting practice lead to changes in environmental demands and expectations." In-between the social and accounting sphere, we find the realm of disappointments, frustrations and crises as a result of the inescapable mismatch between form and substance: between what accounting systems can formalize, and the essence of the phenomenon they try to capture. It is due to the gap between form and essence that accounting and performance assessment systems rarely function according to their blueprints, and calls for reform are incessant (Power, 2004).

Links between societal aspirations, expectations, and accounting are therefore loose and variable, but the underlying social and institutional forces at work can be (and need to be) explicit. This is necessary if we are to avoid the trap of allowing technical reform to take precedence over social understanding, turning accounting change into fatal remedies (Sieber, 1981; Power, 1999). We ask: how do different notions of corporate purpose interact with programmatic aspirations for accounting, and actual accounting practice? And how may accounting programmes and technologies accelerate (or retard) the adoption of various purpose concepts? We answer these questions by a historical-thematic review of the co-evolution of different concepts of purpose and the various accounting practices that have been mobilized in their name, both at the programmatic and technological level.

The historical review points to the centrality of corporate law in reflecting prevailing societal perspectives and laying the foundations of the determinants of both corporate purpose and accounting systems. It is in company law that enduring influences of societal considerations are to be found and it is in company law that the principles which govern duties and responsibilities of directors of companies are enshrined. These in turn are the basis on which legitimate business conduct is established and the forms of accounting and reporting required to support them are derived. While company law comes to enshrine societal perspectives and ultimately determines what are regarded as legitimate accounting and business practices, multiple co-existing accounting systems have evolved to serve the normative aspirations of various concepts of corporate purpose and are critical to policymakers' and legislators' quest for corporate reform.

3. Shareholder Primacy and Accounting for Shareholders

Shareholder primacy has its roots in Adam Smith's assertion that individuals are led by an invisible hand to further the interests of society, that individual owners are entitled to the profit of their property, and that they deploy their property and labour efficiently to accumulate profits for themselves. (Smith, 1776). This sole proprietorship justification for shareholder primacy extends to manager-run companies through the presumption of an equivalence of shareholder owned firms to sole proprietorships, and the resolution of the agency problem of management-run firms by regarding shareholders as the sole concern of management, placing their interests ahead of those of any other party including management itself. This is the basis of the

Friedman Doctrine of there being "one and only social purpose of business…..to increase profits, so long as it stays within the rules of the game" (Friedman, 1970).

There are three critical links to the case for shareholder primacy. The first is the assertion that market forces drive individual self-interest of sole proprietors to those of the collective interests of society; secondly, that the collective property view of a sole proprietorship extends to a property view of the stockholder corporation; and thirdly that there should be a complete alignment of the interests of management with their shareholders. In other words, shareholder primacy rests on a combination of competitive markets, collective property rights and complete resolution of agency problems. The chain is as strong as its weakest link and all three are questionable – market dominance versus competition; 'shareholders do not own firms in a conventional sense; and 'business judgment rules' of directors.

Nevertheless, the case of John and Horace Dodge, minority shareholders in the Ford Motor Corporation, brought against the founder and majority shareholder, Henry Ford, in relation to the suspension of payment of special dividends asserted the primacy of shareholders when the Michigan Supreme Court in 1919 concluded that:

> "A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among its stockholders in order to devote them to other purposes."

While some attempted to restrict interpretation of the case to distribution of profits, it has been presented as a demonstration that the "theory of shareholder wealth maximization has been widely accepted by courts over an extended period of time" (Bainbridge, 2012: xx)

The importance of this historical perspective on corporate purpose is, first, to suggest that there is nothing in the origin or development of the corporation that intrinsically or necessarily associates it with maximizing profits. Purpose has been dictated by need and that is sometimes predominantly private and profitable in nature and at other times public and social, and frequently a combination of the two.

Second, history reminds us that the sustainable business debate reaches back well before current discussions of the roles and purpose of corporations. In the UK, the major turning point came with the election of Margaret Thatcher as prime minister in 1979. Rejecting the post-Second World War Tory consensus with Labour, Thatcher's economic policies set out to dismantle the mixed economy. Abolishing capital controls, reducing union power and privatizing state-owned enterprises created not only the setting for the 'new capitalism' (Sennet, 2006), but also ushered in a new managerial ethos – shareholder primacy. Nevertheless, the triumph of shareholder primacy was conditional on major societal challenges and changes. It cannot be assumed to last longer than its historical determinants and the role it fulfils.

Third, history teaches us that the shareholder primacy versus stakeholder theory debate is an at least two-century long contest among the constituents of the corporation, in which the redistribution of wealth and power to non-shareholder constituencies has been at stake (Brown & Fraser, 2006). Shareholders did not always rule supreme. For example, in The American Business Creed, Sutton, Seymour, Kaysen and Tobin (1956: 65), referred to management's

"sphere of unhampered discretion and authority which is not merely derivative from the property rights of owners." For "stockholders" had "no special priority; they are entitled to a fair" return on their investment, but profits above a 'fair' level were seen as "an economic sin".

The Creed emerged in an era of unprecedented corporate generosity towards employees and communities – managers actively pursued what the transaction-cost economist Oliver Williamson in 1963 referred to as "discretionary" or "non-profit" goals – justified and rationalized by the long-term focus implicit in the premier performance metric of the day: return on investment (ROI), measured over the business cycle (Levy, 1994; Kaplan, 1984). Indeed, in corporate law, the "business judgment rule" granted the managers and directors of the "soulful corporation" wide discretion, while ROI created the performance framework for other values and concerns, even of the "non-profit" variety**,** to be brought back into the for-profit corporation. The Fordist corporation was not a profit-maximizing corporation – it was the "soulful corporation" investing in local baseball clubs, research and development budgets, factory architecture, or free cafeteria lunches.

With the decline of Keynesianism, the erosion of competitiveness of the U.S. and U.K. manufacturing industries, started a new economic era of deindustrialization. The sustainable corporation was viewed in financial terms as a "financially sustainable" firm and as a portfolio of financial assets. Corporate finance and agency theory reigned supreme, and with them, the "soulful corporation" came to be seen as wasteful, and its managers and directors as investing in employees and communities at the expense of shareholders.

From 1978, the Business Roundtable, an elite business lobbying group, periodically issued Principles of Corporate Governance that included language on the purpose of a corporation. In 1981, the Roundtable promoted the enlightened shareholder view by giving a nod to stakeholders (and the previous era), declaring that "balancing the shareholder's expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management" (Business Roundtable, 1981:9). By 1997 its focus had swung firmly to shareholders: "In the Business Roundtable's view, the paramount duty of management and of boards of directors is to the corporation's stockholders; the interests of other stakeholders are relevant as a derivative of the duty to stockholders. The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors" (Business Roundtable, 1997: 3).

While it is Milton Friedman who is most often credited with shareholder-maximization, his much-cited opinion piece in the New York Times, entitled, "*A Friedman Doctrine-- The Social Responsibility Of Business Is to Increase Its Profits"* went largely unnoticed at the time. It came of age only a decade after its original publication, once the Anglo-Saxon world saw a striking resolution of all three of the assumptions underpinning shareholder primacy. First, the association of ownership with dispersed shareholders was addressed through the emergence of markets for corporate control – the conglomerate movement, hostile takeovers and later shareholder activism – which required management to maximize shareholder value to avoid becoming targets of bidders and activists. Second, the alignment of managerial interests with those of shareholders was achieved through high powered management incentive schemes involving shares and stock options. Finally, dominant firm abuse was tackled through intensification of anti-trust and competition policy.

By the beginning of the 1980s it appeared that all the conditions needed to justify shareholder primacy were in place and the theory reigned supreme, ushering in the economic doctrine of

neoliberalism. However, cracks have been showing since the ultimate repercussions of neoliberal economic policies became evident in the UK and the U.S. Under the pressure of impatient shareholders, fuelled by financial deregulation and hostile takeovers, corporate culture was changing. Managers figured out that the easiest way to deliver quick profits was through downsizing - reducing workforces and minimizing investments - while ‘corporate raiders’ engaged in asset stripping, regardless of its impact on the long-term viability of target companies or communities in which they operated.

That Western capitalism sought to transcend the industrial crisis of the 1970s through financial profit-making is by now a well-known story. But the shift entailed not only a purging of fixed capital, and a subsequent reallocation of capital to financial activity, it also entailed an utterly different definition of profit. The traditional historic-cost-based profit metric – return on capital invested - which was suited to manufacturing industry until its decline from the late 1970s due to competition from low-cost economies and inadequate industrial policy-support, became obsolete. By the turn of the twenty-first century, profit was increasingly computed as a rate of return on equity (ROE) according to new “fair value accounting” (also known as ’mark-to-market‘) criteria. This financialization of accounting went hand in hand with the rise of narrative reporting. History records that, whenever measurement reaches its practical limits, narratives rush in to fill the resulting vacuum (Chahed, 2021). In 2006, the Financial Accounting Standards Board (FASB) defined fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (FASB, 2006:1). Mark-to-market accounting challenged historic cost accounting and signified a new era of capitalism.

Historic cost accounting emerged in the wake of the industrial depression of the 1890s and the resulting Great Merger Movement of 1895–1904. In pursuit of the full integration of the firm’s internal operations and external transactions into a singular accounting “entity”, accounting adopted the “entity” concept and historical cost accounting emerged to value assets on their balance sheet from historical book values. In large manufacturing firms taking the multidivisional form, depreciation of fixed assets (physical capital) loomed large. Post-war central headquarters employed ROI metrics to hold disparate operating divisions to account. ROI stretched the timespan of profit as it was calculated (in the case of companies that were willing to earn an average satisfactory return) over the entire business cycle (Kaplan, 1984).

One of the founding members of the Securities and Exchange Commission, Robert Healy was a particularly strong proponent of the SEC’s insistence on historic-cost accounting, based on his experience of leading the Federal Trade Commission’s investigation into manipulation by public utilities. Write-ups of assets above historic cost were commonplace in the US in the 1920’s but were in general modest in scope, except in utilities where they were extensive and substantial (Walker, 1992). This practice went under the name of ’proprietary‘ theory. The idea was that corporate accounting should reflect value creation considering the corporation’s proprietary owners—its stockholders. Managerial ‘entity’ historical cost accounting triumphed instead, with most assets on twentieth-century industrial corporations’ balance sheets being non-financial assets: factories and machinery. Therefore, during this period, “management [saw] itself as responsible to stockholders, employees, customers, the general public, and perhaps most important the firm itself as an institution” (Kaysen, 1957: 313). The “soulful corporation” was born.

Historic-cost accounting remained in force until the 1970s when rising inflation prompted an acceptance of current-cost accounting by the SEC (Zeff, 2007). Two additional events then

promoted the move to fair value accounting and mark-to-market in the 1980's and 1990's. The first was the Savings and Loans Crisis, which revealed the deficiencies of historic cost during periods of significant loan losses, and the second was the growth of derivative markets, which emphasized the significance of market valuations. The International Accounting Standards Committee (IASC) included fair value in various accounting standards relating to leases, property, and business combinations from the end of the 1970s onwards.

With the move from historic cost to fair value and mark-to-market, the pendulum swung back to proprietary theory. Fair value seemed fit for the historic context: as financial value replaced historic-cost accounting and return-on-equity replaced return-on-investment, accounts began to narrate "market histories of finance capital" (Levy, 2014). With ongoing deindustrialization and the simultaneous rise of takeover markets in the U.S. and U.K., capital took increasingly financial forms, and the "profit maximizing" corporation was born. Short-term time pressure pushed the non-profit out of the for-profit firms, replaced assets with outsourcing, and put an end to the era of "soulful" corporations. With asset-light business models and securitization, it became possible to generate substantial earnings with little fixed capital investment.

This shift was in line with economists' formulations of valuation as described in Irving Fisher's (1907) translation of accounting concepts of profit and capital into income and wealth, and John Hick's (1946) notion of income as being the maximum amount someone can consume during a period without being worse off at the end of it. According to the new academic 'agency theory', inspired by financial economics, a corporation was merely a 'nexus of contracts' among self-interested parties. Managers were not 'public trustees'. Rather, they existed to pursue the short-term maximization of 'shareholder value'.

Mark-to-market directly challenged historical cost accounting by saying that asset values should be updated to reflect, "the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction." But an actual market transaction did not have to happen. If corporations had their own stocks - and / or other securities - on their own balance sheet, these could be updated to reflect going market valuations. If historical-cost accounting was (as claimed by its opponents) simply the manager's self-interested history of capital, prone to profit smoothing and the sentimental treatment of profit-seeking capital as communal wealth, mark-to-market was said to offer a more transparent financial snapshot. ROE became a market history of finance capital, compressed into a single price that reflected all known information about the future.

The shift had a profound effect on management. Instead of being concerned with the resourcing of the long-term productive potential of the firm, management's focus moved to the short-term consumption that can be derived from earnings creation. In line with shareholder primacy and the Friedman Doctrine, management objectives are – to this day – primarily measured in terms of enhancing shareholder value. Fair value and shareholder primacy are therefore natural bedfellows and the emergence of the two in tandem was no coincidence.

4. Enlightened Shareholder Value and the Emergence of Narrative Accounting

Enlightened Shareholder Value (ESV) represented a growing dissatisfaction with the social and environmental repercussions of neoliberal economics, and so-called "free-market capitalism." In the U.S., ESV has been present in ideas such as 'instrumental stakeholder theory' (Donaldson & Preston, 1995) and 'creating shared value' (Porter & Kramer, 2006). In

general, advocates maintain that business can transform social problems relevant to the corporation into business opportunities and drive greater profitability along the way. In the UK, ESV has been codified in the UK Companies Act (2006), which integrated CSR thinking with commentators arguing that to redress the excesses of business, the shareholder primacy principle should be moderated. The Act was the outcome of an extensive process of consideration and consultation beginning with a consultative paper in 1998 (DTI, 1998).

Most contentious was the question of directors' duties (House of Commons, 2003). The Company Law Review Steering Group

> "expressed the opinion that the law ought to be revised to bring it into line with existing best practice, encouraging directors to look beyond maximising short term returns to institutional shareholders towards the longer term and to recognise the roles that relationships with other stakeholders, such as employees, suppliers, customers and others affected by the company′s commercial activities, play in the success of the company" (House of Commons, 2003: 7).

There were two views about how this should be achieved. The first - Enlightened Shareholder Value (ESV) - maintained that the primary duty of directors is to maximize shareholder value. However, in so doing, particularly in promoting the sustainability of the company for the benefit of its shareholders in the long-term, it emphasized the importance of a company's relationships with other parties – employees, customers, suppliers, communities, and the environment – in realizing this objective. ESV did not therefore represent a fundamental change in law but instead a codification of what was involved in promoting the interests of shareholders.

The second view, which the Company Law Review Group categorized as "Pluralist" was essentially stakeholder theory, namely that directors should consider the interests of stakeholders in their own right, and regard shareholders as just one of the parties whose interests have to be taken into consideration. This alternative approach was rejected by the Review Group on "the grounds that it would confuse the issue of directors' duties, giving directors little in the way of guidance in decision-making. It also ran the risk of creating a litigious climate for business where those parties who felt they had not been treated as they would have liked by a company's directors sought recompense through the courts" (House of Commons, 2003: 7).

In accepting ESV, UK company law therefore adopted shareholder primacy but with the inclusion of long-term sustainable value creation. In emphasizing the success of the company in the long-term it acknowledged the interests of other parties but only in so far as they promote the interests of shareholders over the long-term. It therefore relegated other parties' interests to those of shareholders. Put another way, it meant that companies could still minimize wages and expenditures on the working conditions of their employees, produce addictive products, avoid paying taxes, and pollute the environment, provided any long-term, sustainable shareholder value benefits thereby created are not offset by adverse reputational or regulatory consequences. The water-extraction and plastic-waste scandals of Nestle[4], an ardent advocate of 'creating shared value', and criticisms of Unilever, sustainability champion *par excellence*,

[4] Nestle has a particularly mixed track record, which also involves a general criticism of processed-food industry business models that advocate health and wellbeing while "deliberately addicting customers to high content of sugar, salt and fat in their main business". See for example: Crane et al. (2014).

illustrate the point (Financial Times, 2022b).

Overall, we see that shareholder-value accounting misses several externalities (positive and negative) of the realities of managing a for-profit firm. First, with its distaste for managerial ‘slack’ and the ‘soulful’ corporation, it focussed the attention of accountants (and ultimately, of investors and managers) on short-term financial returns. Its intellectual foundation, agency theory also omitted the role of knowledge and innovation as a source of value creation in the firm (Kaplan, 1984). It also missed a host of intangible options that entrepreneurial firms could exercise to enhance value: more imaginative marketing, product and process improvements, training and motivating employees, and improved quality and maintenance policies. Measuring progress on these non-financial aspects of business required the rise of a new kind of accounting: one that added non-financial metrics to financial performance measurement. It is this need – “widely recognized during the 1980s” - to improve operational performance measurement that lead to the rise of the balanced scorecard in practice (Kaplan, 1998:99).

The balanced scorecard, as an internal, management-accounting practice, promised an internal, strategic view of a firm’s performance – a potentially detailed and all-encompassing view that external disclosures had not afforded to anyone. In the wake of the corporate disasters of the late 1990s and early 2000s, investor demand for seeing the firm as if through the eyes of management rose. Regulators and standard setters around the globe (including the SEC, the European Commission and the International Accounting Standards Board) placed increased emphasis on explanatory statements as an integral part of corporate reporting to capital markets (Chahed (2021). Guideline setters came forward to propose that companies voluntarily disclosed non-financial aspects of their operations – thus, partially sharing their own “balanced-scorecard” view - ranging from how their operational and supply-chain practices affect communities and the environment through their treatment of their employees to their other actions related to CSR.

According to a recent review, CSR reporting differs from traditional financial reporting in a number of important ways, including: i) the larger potential audience for CSR reporting; ii) the broad range of topics covered by CSR; iii) the multiplicity of objectives addressed by CSR reflecting the different preferences of stakeholders; iv) the non-monetary basis of much CSR measurement; v) the largely voluntary disclosure of CSR (although this is changing rapidly in many jurisdictions); vi) the lack of association of CSR with a firm’s strategy; and vii) the importance of externalities in CSR activities and reporting (Christensen et al., 2021).

It is in this context of enhanced narrative reporting and the CSR movement that the disclosure of Environmental, Social and Governance (ESG) factors was first proposed in a report produced by the United Nations and the Swiss Federal Department of Foreign Affairs in 2004 (U.N. Global Compact, 2004). It began by stating that a better inclusion of environmental, social and corporate governance (ESG) factors in investment decisions will ultimately contribute to more stable and predictable markets, which is in the interest of all market actors.

The original objectives of ESG were therefore the inclusion of factors beyond financial performance that were material to the stability and functioning of markets. It followed the principles of ‘Triple Bottom Line’ accounting for environmental and social as well as financial performance proposed by John Elkington (1997) to capture the concept of sustainable development defined by the U.N.’s Bruntland Commission in 1987 (U.N., 1987).

The two decades since the first Global Compact report have seen the emergence of a large industry devoted to the determination and narrative reporting of ESG factors and other CSR activities. The supporting accounting technology has developed much along the lines of the concept of ESV in two respects. First, it seeks to incorporate factors beyond financial performance and, second, it was established by the investment industry to enhance the functioning of markets. It is therefore perceived as contributing to the sustainable performance and resilience of financial investments through incorporating the impact of business on other parties, namely the environment and society.

ESG operates in parallel to existing systems of financial accounting and reporting, supplementing them with additional information relevant to financial performance. It does not seek to amend or replace existing systems of accounting. Furthermore, ESG-related activities are generally seen as consistent, not in conflict, with the financial performance of firms, creating benefits for both shareholders and other stakeholders. The ESG agenda is in other words a supplement to shareholder-value maximization and fair value accounting, not an alternative to them.

This is not to say that it is impossible to determine ESG factors that are associated with the intrinsic interests of stakeholders *per se* rather than through the lens of investors and derivative of those of financial markets. Indeed, that is what some parties, such as the Global Reporting Initiative (GRI), have advocated - reporting in relation to all stakeholder not just financial materiality. To influence business and investor conduct, according to advocates for reform, ESG needs to be supplemented with (1) an honest discussion of the trade-offs implicated by the plurality of 'stakeholder view'; (2) true accountability and institutional (legal) change to create incentives for managers to protect stakeholders, and (3) a single unit of account by which impacts on different parties can be measured and compared. That is what stakeholder theories of the firm seek to achieve and to which we now turn.

5. Stakeholder Theory and Accounting for Stakeholders

In contrast to ESV, stakeholder theory suggests that business should take account of the interests of all its stakeholders in promoting the success of the company (Freeman, 1984). As Edward Freeman and colleagues, the leading proponent of this managerial theory wrote, "[c]ertainly shareholders are an important constituent and profits are a critical feature of this activity, but concern for profits is the result rather than the driver in the process of value creation." (Freeman, Wicks & Parmar, 2004: 364). According to stakeholder theory, a company should seek to create value for all those contributing to and affected by the firm. All those who affect or are affected by the firm play a role in the success of the company and should be regarded as an end, not just a means to an end. So, management should seek to balance the interests of all its stakeholders (Keay, 2011).

The "Constituency Statutes" introduced in the US in the 1980's and 1990's were the legal manifestation of stakeholder theory (Davids, 1995). They allowed, and in some states required, directors to take account of the interests of stakeholders beyond their shareholders. They were in part a response to the takeover wave in the US of the 1980s (Springer, 1999).

In practice, there is much scepticism as to the degree of protection that constituency statutes afford stakeholders. Part of the problem appears to be a reluctance of courts to interpret statutes in anything other than a shareholder primacy context (Bisconti, 2009). Another is that

stakeholders have no means of seeking redress if directors fail to take their interests into account (Springer, 1999). Combined with concerns about the practicality or desirability of businesses adopting stakeholder practices (Bebchuk & Tallarita, 2020), some observers conclude that "constituency statutes failed to deliver the benefits to stakeholders that were promised or hoped for in the push for the adoption of these statutes" (Bebchuk, Kastiel & Tallarita, 2021: 102).

Another legal form that originated in the US which promotes stakeholder interests beyond shareholders is the benefit corporation (also known as the public benefit corporation). Benefit corporations are formally established under state statutes that require for-profit entities to pursue a dual mission of profits and social purpose (Vaughan & Arsenault, 2018). Maryland was the first state to adopt a benefit corporation law in 2010 and 38 states including the District of Columbia have now passed one.

Critics claim that benefit corporations will be used for "purpose washing" (El Khatib, 2015) and that new legislation is unnecessary as existing legislation permits directors sufficient latitude (Heminway, 2018). There are very few empirical studies of benefit corporations, largely reflecting the paucity of data available on them. One study finds that there is much inactivity amongst benefit corporations, and many are not delivering any social or environmental benefits (Berrey, 2018). Another concludes that, contrary to concerns that benefit corporations will fail to attract investors, they are receiving significant amounts of investments largely because they are concentrated in consumer-facing sectors where their benefit status is a driver of sufficient financial returns to justify investments (Dorff, Hicks & Solomon, 2021). If this is the case then benefit corporations will be restricted to companies for which it is a form of enlightened shareholder value, conferring superior sustainable financial returns as well as public benefits in the long-term.

Attempts to promote stakeholder interests through either enlightened shareholder value or stakeholder-oriented legislation have arguably therefore failed to deliver much variation from conventional shareholder primacy. Empowering directors to adopt practices that incorporate the interests of parties beyond shareholders does not appear to be sufficient on its own. This should come as no surprise when authority to seek redress for failures on the part of directors resides in each case solely with shareholders. None of them incorporate accountability to any other party and, even if they did, then there is little basis on which courts could arbitrate between the interests of the different parties. Ultimately, except in the most egregious cases, directors are likely to be granted discretion in exercising business judgment.

Much of what companies have described and undertaken as their CSR work is largely misplaced, ineffective and even counterproductive. CSR is plagued with a chronic lack of accountability, and a lack of recognition of the inescapable trade-offs involved between making investments to benefit one stakeholder often at the expense of, or overlooking the needs of, another. The well documented CSR disasters of Coca Cola and Nike illustrate the point (Plucker, 2021). As Bebchuk and Tallarita (2020: 6) argue, given current incentive systems and corporate legal frameworks, "corporate leaders (both directors and CEOs) have strong incentives to enhance shareholder value but little incentive to treat stakeholder interests as an independent end."

The existence of a mindset to account for projects and firms in a unidimensional way tends to encourage unidimensional decision-making (Morgan, 1988). Thus, a particular form of accounting may grasp an aspect of "the reality" of the organization, but (due to its omissions

and blind spots) can have a disturbing effect on others. Before return on equity and fair value accounting reigned supreme, and especially during the de-industrialization in the U.S. and U.K, multiple, competing notions of what constitutes a profitable factory were heard. Historians show us the diverse views of profitability that were involved in these debates, as well as in court cases and industrial negotiations between disgruntled unions and management over supposedly "unprofitable" or "uneconomic" plants and pits.

Chief Justice George Edwards, presiding over the case of The United Steel Workers of America v. The United States Steel Corporation (1980) - concerning the closing of two Youngstown, Ohio, steel mills, which were deemed unprofitable by management and profitable by the union - noted that profit was not an obvious, neutral, or timeless economic benchmark. Rather, it was a calculative practice open to interpretation. Edwards acknowledged that "with a different definition of profit," the "outcome of an accounting analysis could be made to be non-profitability" (Levy, 2014: 172)

Accounting scholars advocating pluralistic stakeholder-accountability view large corporations as quasi-public institutions, and seek to promote a more open, transparent and democratic society (Brown & Fraser, 2006). They introduce the notion of 'plural accountability' and assume that a corresponding accounting practice – which they call 'social and environmental accounting' (SEA) - can create transparency and informed public dialogue and debate through civic institutions. Information disclosure is viewed as a vital pre-requisite for informed participation (Brown, 2000). Greater access to SEA information is viewed as an essential part of increasing transparency surrounding corporate activity and its consequences for stakeholders. Accounting thereby helps to create new visibilities and facilitates discussion and debate among interested parties.

Accordingly, SEA advocates argue that the decision regarding what constitutes an "economic" or profitable firm (be that a coal mine or a Silicon-valley giant) is underpinned by social and political choices, and that the accounting and economic principles used in actual decision-making capture only a small aspect of the wider socio-political decisions being faced. Therefore, SEA promotes dialogue among stakeholders. The challenge facing accountants is to develop processes that emphasize how accounting statements and insights should be regarded and used as elements of a conversation or dialogue, rather than as foundational claims asserting a particular kind of objectivity or 'truth' (Morgan, 1986). The aim is to open up conversations, not close them down with 'incontrovertible bottom lines' (Boyce, 2000). SEA proponents firmly reject the dominance of shareholders and capital markets, and assume that given accountability and transparency, stakeholders will respond by exercising the three Hirschmanian options: exit, voice or loyalty.

The technology of SEA would include third-party 'shadow accounts' and external environmental (and/ or social) audits. In practice, plural accountability and SEA has not delivered its promise, and many argue, even backfired. Radical change has not occurred in the formal incentives surrounding corporations and managers. As Bebchuk and Tallarita observe, SEA advocates largely failed to pay attention to legal constraints that preclude many companies from approaching stakeholder interests as an independent end. In the absence of the legal and institutional frameworks that would make alternative accounts count, instead of occupying centre stage, social and environmental issues remain 'appendages which drop off when the going gets tough' (Brown & Fraser, 2006).

The focus is still on what is value adding for companies. Business still sets the agenda, and in practice, SEA has been submerged into narrative reporting – ESG and CSR reporting. It is for this reason that pluralistic stakeholder-accountability theorists are dismissive of much current ESG and CSR practice. In addition, these practices are criticized for their poor quality (e.g., in terms of their incompleteness, selective nature and inadequate audit) and managerialist focus, offering little, if anything, in the way of real accountability.

Alongside the limitations of the shareholder primacy, enlightened shareholder value and stakeholder theories of responsible business, there are therefore corresponding deficiencies of their forms of accounting – fair value, narrative reporting, and plural-accountability notions of SEA.

6. Systems Stewardship and Accounting for Purpose

The last decade has witnessed a re-emergence of the debate around purpose in the for-profit firm. What has motivated this has been a realization and concern about the problems created, as well as not addressed, by a pre-occupation with corporate profits. These problems relate particularly to the environment, inequality, social exclusion, and the spate of corporate failures and scandals that have blighted business over the past two decades.

The initial response has been in essence a refocusing of purpose away from its raw shareholder primacy form to enlightened shareholder value, seeing the potential for both enhanced financial performance, and environmental and social benefits.[5] But a recent review observes that we are seeing more fundamental changes in the purpose-debate. There is a pronounced divergence in the ethical commitments implied by the various conceptions of responsible business. On the one hand, there remains a goal-based perspective on corporate purpose, while on the other hand, a duty-based conception of purpose is emerging too. The latter explicitly links purpose in the for-profit firm to wider societal responsibilities (George et al., 2021). Shareholder value is a goal-based, instrumental theory, while stakeholder theory, and the more recent 'purposeful company' notions represent a shift towards a duty-based view of the firm.

Under the duty-based view, we look to corporations, first, to use their distinctive advantages of separate legal form, perpetual existence, limited liability, and capital raising to help address the problems we face as individuals, societies, and the nature world. Second, we look to corporations to take real responsibility for their people and communities by strengthening our institutions (Henderson, 2021). Third, we look to them to do so in a way that is commercially viable, financially sustainable, and profitable. So, the British Academy Future of the Corporation programme defines the purpose of business as being "to produce profitable solutions to the problems of people and planet" (British Academy, 2018, 2019 & 2021).

However, there is a second part to the British Academy definition which is particularly critical to this paper and that is that companies should "not profit from producing problems". This highlights the issue of the definition of a profit. At present, the reigning economic notion of profitability (i.e. the return-on-equity ratio) is simply the net financial earnings of a company over and above the equity it employs.[6] It takes no account of whether in the process a company

[5] Several recent pronouncements regarding corporate purpose can be interpreted in this way, for example, Business Roundtable (2019)

[6] Jonathan Levy (2014) demonstrates how the notion of profit and profitability evolved over the last two centuries of Western capitalism. Interestingly, Return on Equity (ROE) emerged as the accompanying performance-measurement mechanism of the financial conglomerates and the increasingly financialized, asset-light,

profits at the expense of other parties through, for example, making employees or suppliers redundant or imposing negative externalities on third parties, such as communities and the natural world.

There are two illustrative proposals competing to operationalize the aspiration of redefining profit by adjusting it for externalities: impact-weighted accounting and true cost accounting. The Impact Weighted Accounts Project at Harvard Business School seeks to attach monetary valuations to a company's positive and negative impacts on employees, customers, the environment, and society (Serafeim, Zochowski & Downing, 2019). Its methodology focuses on determining the impact of firms on humans, societies and the environment, deriving monetary values from actual or imputed prices and discounting them back to the present. However, it raises significant practical and conceptual issues, analogous to those that afflict stakeholder theory. The Impact Weighted Accounts Project builds on a balance-sheet view of listing all assets (including "ecosystem services") that a corporation draws on. As George Serafeim (2016) puts it:

> "According to estimates, $125-$145 trillion is missing from our collective balance sheets. That's the estimated value of the chemical, biological and physical processes, or "ecosystem services" delivered by Earth to its inhabitants annually. This is by no means trivial as it represents more than 50% of the total assets of all publicly listed companies. Because of that blind spot it is now estimated that the unpriced externalities of business practices in land use, water consumption, GHG emissions, air, land and water pollution, and waste generate costs to society of some $4.7 trillion per year. Lacking the means to measure the value of ecosystem services, corporations and society have treated them as free inputs. It's easy to see how and why they could be mismanaged".

The projection of benefits, detriments, prices, shadow and imputed prices associated with non-financial assets is often a formidable task and the determination of appropriate rates at which to discount benefits and costs back to the present are equally demanding. At present, the Impact Weighted Accounts Project leaves measurement largely unassured and to be produced at the discretion of corporations. It states that - at the programmatic level - its "ambition is to create accounting statements that transparently capture external impacts in a way that drives investor and managerial decision making"[7]. However, the project organizers observe that in actual accounting practice, "with the exception of a few companies that have published environmental or total profit and loss accounts, impacts are not valued nor integrated in accounting statements to illustrate their value implications". This is a clear example of the gap between programmatic and actual accounting practices, which is still to be narrowed through standardization. As the Impact Weighted Project leaders surmise, the "aim is that companies measure and disclose impact through impact-weighted accounts that eventually become standard management and governance tools." (ibid.) In the meantime, there remains, inevitably, a large degree of subjectivity and scope for self-serving company disclosures.

"intangible" corporation. Forms of capitalism where manufacturing still reigns deploy return on capital employed (ROCE), or return on investment (ROI), taking account of physical – not just financial- capital. None of these notions of profit take account of externalities imposed by the firm on others.

[7] https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx?source=content_type%3Areact%7Cfirst_level_url%3Aarticle%7Csection%3Amain_content%7Cbutton%3Abody_link Accessed on 11 July 2022.

In addition to the methodological challenges, there are also significant conceptual issues. impact-weighted accounts are still instrumental in taking an anthropocentric view of capital measurement. While that is reasonable in relation to human capital, it can be highly problematic for natural capital. Measuring the benefits that humans derive from nature does not ensure or promote the preservation or enhancement of nature; indeed, valuations of natural assets may increase as the state of nature of declines if prices rise in response to its growing scarcity. Similarly, in reporting net benefits, impact-weighted accounts do not ensure the protection of stakeholders where the benefits to one party, for example increased employment, outweigh the costs to another, for example environmental degradation.

The aspiration of sustainability profit accounting (Barker & Mayer, 2021) is to create 'real accountability' around corporate stewardship, and visibility around profits earned to the detriment of stakeholders, versus income that a firm has earned after redressing negative externalities – true cost. It corresponds to the emerging societal expectation of a new concept of business, expecting business to design products and services with the realization that humans are environmental stewards of the planet and have an obligation to consider the welfare of future generations (McDonough & Braungart, 2002). This represents a radical departure from the traditional profit-maximizing view of corporate purpose (George et al., 2021). At the very least, this accounting is predicated on a sense of urgency to reduce environmental externalities and to cost the remainder correctly to incentivize environmentally conscious design.

Barker and Mayer (2021) argue that sustainability profit accounting is different from impact weighted accounts in its focus on embracing 'ecological materiality' (as opposed to financial materiality from the point of view of the firm) - something is ecologically material if its omission would affect users' understanding of a company's impact on natural capital (Barker and Mayer, 2021). This is predicated on taking a precautionary approach to the maintenance of natural capital as an end in itself. It focuses on 'critical natural capital' with no substitute. Accordingly, sustainability profit accounting encompasses notions of ecological and social materiality by considering a company's impact not only on critical natural, but critical social capital, too.

Further, in contrast to the Impact Weighted Accounts Project, Barker and Mayer (2021) argue that it is not appropriate to produce a balance sheet of a company's natural and social assets because a company does not have exclusive ownership of ecosystem services and social capital on which it depends. Instead, they advocate the use of an income-statement approach in which account is taken of the state of natural capital and the cost of maintaining it over the relevant period (maintenance cost accounting). The approach of maintenance cost accounting described in Barker and Mayer (2021) departs from the extrinsic form of accounting systems that view the world from the perspective of shareholders, or humans in the case of nature, rather than those directly affected by the firm's activities, and thereby avoids the problem of determining subjective and unreliable valuations. Measuring these costs of detriments is a challenge but the history of cost accounting suggests it is not an insurmountable one (Kaplan 1984).

What is involved in adapting maintenance cost accounting to incorporate externalities is a recognition that the determination of the costs should no longer be (and arguably should never have been) defined by the legal boundaries, ownership, or contracts of firms. Ruth Hines in a famous article in 1988 wrote that "Financial accounting controversies are controversies about how to define the organization. For example, what should "assets" and "liabilities" include / exclude" (Hines, 1988: 258). These are societal debates about the boundaries of the firm. "Once

the organization becomes accountable for something", Hines continued, "we must account for it, sooner or later" (Hines, 1988: 254).

The question that the new 'purpose as system stewardship' logic raises is: should negative externalities be counted as within the boundaries of the firm? Impact-weighted accounting and sustainability profit accounting answer this question with a resounding 'yes' – at the level of programmatic aspirations, certainly. However, the answer to this question will not be given by accountants (or academics) alone. As Hines cautioned, accountants "could not do something as big as that on our own. Social change… we could not change the picture as radically as that and get away with it. But the day will come, when people so clearly "see" [negative externalities] as part of the organization, that we will have to include it in the picture". (Hines, 1988: 255).

Whether the day has come and in relation to which externalities and how that internalization will be technically executed, is not just an empirical question but also a matter of law. Ultimately it is for the law to determine the fiduciary responsibilities of directors and whether they should relate to a purpose of profitability solving problems without creating problems. We believe we are closer to the day when that is the case and societal pressure requires recognition of preservation of environmental, natural world, employee and community interests as part of the responsibilities of firm. If we have developed systems of accounting to support this, then and only then will legislators feel justified in enshrining the new view of the firm in corporate law.

7. Discussion and Conclusions

This paper has described how different forms of accounting relate to alternative concepts of corporate purpose. It has pointed to four partly overlapping and partly competing conceptualizations of purpose as being prevalent at present – shareholder primacy, enlightened shareholder value, stakeholder theories, and purpose as systems stewardship.

Shareholder primacy and ESV both put shareholder interests at the heart of their purpose-concepts. ESV introduces the relevance of other stakeholders but in an instrumental sense of promoting shareholder interests and only in so far as they further the interests of shareholders. In contrast, stakeholder theory and systems stewardship both recognize the significance of other stakeholders in an extrinsic sense in their own regard.

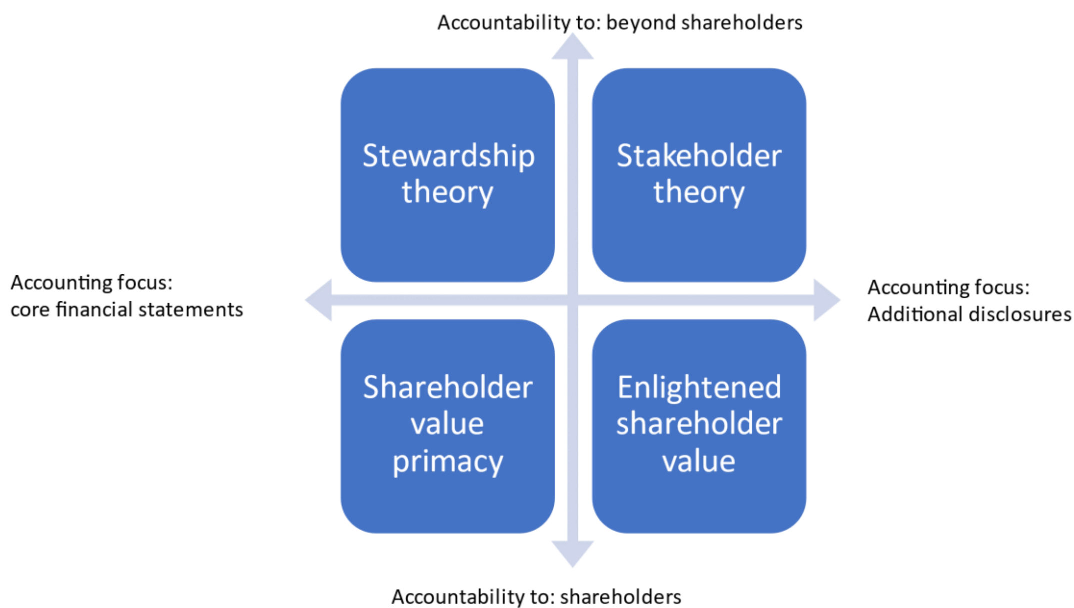
But there is one respect in which shareholder primacy and systems stewardship are similar and distinct from both ESV and stakeholder theory and that is regarding accounting. The great strength of shareholder primacy and the reason why it has been such a powerful driver of business practice is that a system of accounting emerged to support it in the form of fair value and mark to market accounting. Both these aligned balance sheets, P&L and cash flow statements with the pursuit of shareholder value.

In contrast, ESV has made little headway in protecting stakeholder interests because, while systems of non-financial reporting have emerged, in the form of ESG, they are supplements to, not replacements for, core accounting in balance sheets, P&L and cash flow statements. In other words, the fundamental form of performance measurement remained focused on conventional financial measures with supplementary disclosures in non-financial statements. They were embellishments not revisions of a profit maximizing driven business model.

This lack of alignment between accounting systems and purpose-concepts is even more prevalent in stakeholder theories. Again, they have failed to revise the existing accounting system and have only established additional supplementary forms of reporting, most notably SEA, rather than fundamental redefinitions of core balance sheets, P&L and cash flow statements. This misalignment is even more serious in the case of stakeholder theory than ESV because of the emphasis of stakeholder theory on the intrinsic interests of non-shareholders, not just the extrinsic interests of ESV.

In contrast to ESV and stakeholder theory, systems stewardship theory has recently given rise to accounting proposals that seek to redefine balance sheets in, for example, the form of Impact Weighted Accounts, and P&L and cash flow statements in Barker and Mayer's (2021) cost-accounting proposal to reflect the extension of the boundaries of firms from their legal to their effective ones, incorporating environmental and societal impacts as well as contractual and ownership claims.

The following figure summarizes the contrasts between the four different purpose-concepts in terms of the parties to which they are accountable, namely only shareholders, and stakeholders beyond shareholders, and the extent to which their accounting focus is on the core financial statements or on additional disclosures. It places shareholder primacy and ESV on the same side of the accountability divide, and systems stewardship and stakeholder theory on the other. But it places shareholder primacy and systems stewardship on the same side of the accounting divide, and ESV and stakeholder theory on the other.



If successful, the suggested revisions to core accounting in systems stewardship lend credibility to it redefining the nature of business models of the future, in a way in which ESV and stakeholder theory have to date failed to do. But this then raises the question of the process by which such a fundamental revision of dominant accounting systems comes about.

This article has emphasized the importance of societal pressure in promoting accounting reform. It has also emphasized the significance of societal pressures in bringing about changes

in legal as well as accounting systems. The two are very likely to be closely intertwined in the process of reforming accounting systems of the future. Some parties have advocated for corporate law reform (see, for example, British Academy (2021)). But statutory changes in law are complex and, as the history of the UK Companies Act (2006) illustrated, can be long, drawn-out processes (Collison et al., 2014).

In some cases, the necessary reforms do not require legislative changes in statutes but merely judicial interpretations of existing laws. For example, s.172 of the UK Companies Act states that the directors of a company should promote the success of the company for the benefit of its members (i.e., its shareholders) and "in doing so have regard to (amongst other matters) the likely consequences of any decision on the long-term" and its impact on other stakeholders.

This statement can be interpreted in the extrinsic sense of ESV as implying that directors *may* take other stakeholders into account in so far as this promotes the interests of their shareholders. But it could equally well be interpreted as implying that directors *must* take account of (i.e., protect) the interests of their stakeholders in promoting the success of the company for their shareholders. In other words, they should not profit shareholders at the expense of other stakeholders, as suggested by systems stewardship.[8]

The most likely trigger for promoting a change in judicial interpretation is societal pressure, placing greater significance on protection of the environment and social interests. But this will be moot if the judiciary does not have the accounting system needed to measure whether profit is being earned at the expense of other stakeholders. Therefore, the legal system could in some jurisdictions provide the catalyst for promoting the development of a systems stewardship form of accounting without requiring legislative changes.

This paper points to the critical interrelationship between the triad of accounting systems, purpose-concepts and the law with all three evolving in response to societal pressures and interacting in promoting changes in each other. The complex nature of that inter-relationship is illustrated by accusations of "greenwashing" that have recently been levelled against ESG.[9] In essence, that reflects a misalignment between ESG reporting and an unreformed underlying shareholder value accounting system that incentivises greenwashing to enhance shareholder value.

However, in the process of undermining ESG, such accusations also threaten discrediting more coherent reforms under a generic accusation of 'woke capitalism' – a Gresham Law of 'bad accounting driving out the good'. Congruence of accounting, espoused business purpose and law is therefore urgently required not only to bring about the changes in business practices needed to address the environmental and societal challenges of the 21st century but also to avoid the process of reform being drowned in a sea of scandal.

[8] In contrast, in a draft restatement of the objective of a corporation, the American Law Institute suggests it is to enhance the economic value of the corporation within the boundaries of the law for the benefit of the corporation's shareholders and in doing so, a corporation *may* consider the interests of other stakeholders. It therefore excludes a requirement to protect other stakeholder interpretation of the law.

[9] For example, see Financial Times (2022c) for the implications for greenwashing at HSBC of the statement by its global head of responsible investing of 19 May 2022 regarding global warming,

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