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Accounting Models between Shareholder and Stakeholder Capitalism: State of the art and New Research Perspectives

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Abstract

While accounting models increase efficiency and profitability, they also uncritically promote shareholder value maximization as the sole objective to be optimized. The failure to consider other legitimate interests has decreased employee share of wealth, led to the use of questionable social practices, and resulted in poor environmental stewardship. COVID-19 has served as a wakeup call and highlighted the inequities and social injustices of *shareholder capitalism* that privileges the interest of shareholders above all others. This paper discusses how accounting models – both financial and managerial – are complicit in supporting this ideology. Further, we discuss how the movement toward *stakeholder capitalism* can overcome this bias toward sole concern for shareholder disclosure and reporting. After discussing the major differences between the two competing models of capitalism and the role of accounting calculations in supporting these views, we show how management accounting research and practice can contribute toward enacting a more inclusive society by balancing the interests of all stakeholders.

Key words: accounting, shareholder capitalism, stakeholder capitalism

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1. Introduction

Accountants have a special obligation to be mindful of the ideology and hegemonic interests embedded in their models because accounting models don't just capture reality – they enact, create and shape reality by the visibility they give to chosen events. All accounting models, whether dealing with financial reporting and disclosures or supporiting management decision making have long fostered the hegemonic ideology of *shareholder capitalism* that privileges the interest of shareholders above all others. This paper shines a light on the economic and societal inequities created by adhering to the ideology of *shareholder capitalism* and proposes a way for accounting models to embed wider interests and concerns.

The research question which motivates this paper is: What are the areas where accounting research and practice can contribute toward creating a more inclusive society by balancing the interests of all stakeholders? Differently said, what can accounting do to enact *stakeholder capitalism*?

Unlike accounting models that preserve the interests of actors other than shareholders by non-financial calculations into existing financial accounting models, we propose, through a concrete example of a leading cost and profit management model, an endogenous change to the calculus and internal logic of profitability calculations.

The paper is organized as follows: The next section discusses competing models of capitalism. Section 3 outlines how the financial calculus of accounting have mirrored and supported the ideology of *shareholder capitalism*. In section 4, we trace the main theoretical movements towards a stakeholder perspective. Next, in section 5, we clarify some methodological notes. Section 6 looks at the state of the art of the (un)realized stakeholder perspective in accounting models. In section 7, we show how we can incorporate the multi-stakeholder perspective into leading management accounting models. Section 8 summarizes our conclusions and outlines the limitations of the study and future research avenues.

2. Competing Models of Capitalism

Since the 1970's, the ideology of *shareholder capitalism* has been on the rise. Its intellectual foundations are rooted in the Chicago School of Economics that champions free market over regulation and shareholder interests as paramount over other interests (Friedman,[3] 1962). Shareholder capitalism is firmly rooted in neoclassical economic theory (Smith, 2003) and it assumes that the pursuit of profits is the sole social responsibility of business (Bénabou and Tirole, 2010; Wood, 2008). The view assumes that shareholder value maximization will result in

[3] As Milton Friedman wrote, "*There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it ... engages in open and free competition, without deception or fraud.*" (Friedman, 1962; p. 133)

furthering the interest of all stakeholders (Jensen, 2002) as they are “collateral beneficiaries” (Argenti, 1997). Put differently, since shareholders are residual cash flow claimants (after all commitments to suppliers, employees, creditors, and the government) they are incentivized to maximize the total value of the firm and this behavior will result in an advantage of all stakeholders (Sundaram and Inkpen; 2004). Those embracing this view believe that maximizing shareholder wealth also maximizes social welfare. Furthermore, they argue that business managers are not the right people to make decisions about social good – stockholders as private citizens should decide which social causes to support.

Shareholder capitalism assumed an increased importance in the 1970’s from two concurrent events –the economic stagflation resulting from the oil price shock after the Arab Israeli war in 1973 and the perceived excessive power of labor unions. This economic environment resulted in the election of political leaders such as US President Ronald Reagan and the UK Prime Minister Margaret Thatcher who embraced free market economic philosophy and were opposed to labor unions. They set in motion a political movement that defined shareholder capitalism in four significant ways.

First, there was a systematic dismantling of business regulations particularly in the areas of anti-trust and environmental protection. The Reagan administration endorsed this move “with its enforcement priorities, judicial appointments, and amicus briefs to the Supreme Court.” (Stucke and Ezrachi, 2017).

Second, there began a systematic effort to reduce taxes. The move was justified by using trickle-down economics based on the Laffer curve (1981). The Laffer curve was used to argue (without any empirical data) that tax cuts for wealthy individuals and corporations would increase tax revenues and create a rising tide of wealth that would lift all boats.

Third, a hostility to organized labor that allowed President Reagan to bust unions by firing all air traffic controllers when they went on strike in 1981. This emboldened employers to confront other labor unions and resulted in a decline in labor’s ability to negotiate wage increases. Globalization and mechanization further reduced the demand for higher paid labor putting additional pressure to keep wages low. Politicians of both parties threw their support behind deregulation and free market reforms.

Finally, government spending particularly on social safety net programs such as welfare, access to healthcare, food stamps, unemployment insurance, etc. also came to be viewed with disfavor. Reagan’s political campaign for president rested on the twin images of a mythical “welfare queen” who supposedly was living high on the hog using welfare money and the need to make government small enough so it could be drowned in a bathtub.

The collapse of socialist economies of the Soviet bloc, the major ideological opponent, vindicated the superiority of free market capitalism over its closest rival. Scholars such as Fukuyama (1992) proclaimed the end of history and declared that western style liberal democracy supported by a market economy had won over socialism.

Another important factor that explains the acceptance of shareholder capitalism is that it provides enough "trickle down" benefits to keep people on the lower economic rungs from complaining or subjecting it to critical scrutiny. This is consistent with Gramsci (1971, p. 133) who argues that hegemony can be maintained only if the economic interests of the controlled group are to some extent realized and their consent is secured (Bates, 1975). Shareholder capitalism thus became a consent based economic model through a combination of trickle-down benefits and concentration of corporate power[4]. Its hegemony contributed not only to the formation of a collective will; it also was an enactment and unfolding of a specific conception of the world.

The firm-centric approach to accounting, value creation and distribution embedded in shareholder capitalism has been the object of growing criticism over the last half century. Edward Freeman (1984) first proposed an alternative view, *stakeholder capitalism.* He argued for an economic system that would foster greater cooperation and fair value sharing between all corporate stakeholders -- shareholders, labor, government, customers, suppliers and society.

Stakeholder theory is a political-economic discourse on how best to reconcile different stakeholder interests and hopes (Crilly and Sloan, 2012; Donaldson and Preston, 1995; Freeman et al. 2010; Post *et al.*, 2002; Levy, 1997; Levy and Egan, 2003; Levy et al. 2010). Some articles, even in this journal, have opened reflections on the good purpose of the firm (Donna, 2020) and on the challenges to address strategic management towards the common good combined with value creation (Donna and Lombardo, 2015).

Stakeholder capitalism rejects the neoclassical orthodoxy that shareholder wealth creation increases the welfare of all other stakeholders. Instead of *maximizing* the interest of a single stakeholder (share owning class), it proposed *satisfying* the needs of the many stakeholders of a corporation. Stakeholder capitalism, therefore, offers a parallel economic theory that challenges the view that unfettered pursuit of profit is good for everyone in society and argues for corporations to be the guardian for the interests of all stakeholders. It rejects the notion that maximizing profits is the same as maximizing social good.

As evidence, it points to the dysfunctions and bad social outcomes created by shareholder capitalism from its early inception to today. For example, colonialism in large part was the result of commercial companies such as British East India and the Dutch East India Companies using political subjugation to protect shareholder profit (Adams, 1996; Clegg, 2017). Third world nations are still struggling to overcome the legacy of colonialism left behind by profit merchant companies. The US is still trying to shake off the legacy of slavery and racism that protected the profits of large farms and plantations (Williams (2020). Even today, a handful of individuals hold more personal wealth than entire nations and this wealth concentration enhances inequalities (Di Matteo, 2018; Lindert and Williamson, 2016; Schneider et al., 2016)

[4]Gramsci's interpretation of hegemony is intended not as domination, but as "cultural directorship" (Gramsci, 1971), i.e., the affirmation of a superior capacity for interpreting history, solving the problems it poses, shaping and organizing consent.

while homelessness and drug abuse is on the rise in every major wealthy western country (Harrison, 2020). Union busting has marginalized labor power and wage increases have been stagnant (Naidu et al., 2018; Ross, 2008). The unregulated access to natural resources, particularly by the fossil fuel industry, has created an existential climate crisis (Harper and Snowden, 2017). Competition, the self-correcting mechanism of capitalism, has evolved into "crony capitalism" (Hamm, King, and Stuckler 2012; Kang 2002; King 2002; Macey, 2014; Reinsberg et al. 2021) which unfairly protects big companies from competition or government regulation.

For critics, the bottom line is that shareholder capitalism concentrates wealth and economic power in the hands of one stakeholder to the detriment of other legitimate interests and thus is bad for society as a whole. Paradoxically, the concentration of market power keeps market forces from disciplining a firm from its own bad choices. Too much power removes the self-correcting mechanism that markets rely on. As the 2008 financial meltdown shows, instead of a free competitive market penalizing the financial firms that had made poor investment decisions, the government stepped in to protect these large firms from the consequences of their mistakes using a "too big to fail" philosophy (Cunningham, 2006; Kaufman, 2015). Andrew Sorkin, (2009), documents this inside story of protection rather than correction as posited by the free market theory.

Concentration of economic power also leads to undue influence in the political process. It allows firms to control legislation electing representatives who are friendly to their needs (Zingales, 2017). In 2010, the US Supreme Court in its Citizens United v Federal Election Commission ruling upheld that a corporation like an individual was entitled to spend unlimited sums of money to support or oppose political candidates (Werner, 2011). The result is that U.S. elections are by far the most expensive of any country. Wealthy donors have expanded political power and "dark money" groups have emerged as political powerhouses that shape who wins and what legislation passes (Skidmore, 2016). Like the climate crisis, the US now faces a political crisis in its democracy.

Recent events provide evidence that shareholder capitalism has increased wealth and prosperity for a few people at the top of the economic ladder while leaving a large number of people behind.[5] This has created a growing wave of dissatisfaction and social discontent against distributive injustice throughout the world (Latouche, 2015). The COVID-19 pandemic has shined a bright light on these inequities and brought them into sharp relief (Di Carlo, 2020). It has laid bare the fragility of the economy (Falato et al., 2021; Goldstein et al., 2021) and the marginal existence of many people unemployed due to COVID-19 lock downs with no social safety network (Sharone, 2021). In every layer of society and for every human activity, the difference between the rich and the poor was starkly on display during this pandemic. Low-income grocery store workers and delivery personnel risked their lives on the front line delivering much needed food and essential supplies even

[5] Pew Research reports that in the US 61% of the households lived in middle class as opposed to 51% in 2019 and that the share of income for upper-income households increased from 29% to 48% while lower income families went from 10% to 9%.

when they themselves had no healthcare coverage. The COVID-19 infection rates in poor communities has been considerably higher than affluent neighborhoods. White-collar workers were able to work from home and not miss a beat while blue-collar workers in meat packing plants were pressured into going back to work in unsafe working conditions. Teachers and students in affluent countries and neighborhoods shifted to on-line learning while those in poor countries and neighborhoods struggled without computers or internet connection. Global supply chains were unable to cope, and essential supplies became vulnerable to national interests (Free and Hecimovic, 2020; Velayutham et al., 2021).

The most significant acknowledgment that things have become unacceptable comes from two influential bodies. In 2019, the Business Round Table acknowledged the legitimacy of other stakeholder interests in a corporation. Major business executives in the US signed on to its statement affirming, “each of our stakeholders is essential” and committing to “deliver value to all of them, for the future success of our companies, our communities and our country.”[6] The World Economic Forum followed by launching a new Davos Manifesto in 2020. The new Manifesto recommends stakeholder capitalism as the best response to today’s social and environmental challenges.[7] It promotes stakeholder capitalism over shareholder capitalism or state capitalism for setting the direction of the economy in emerging markets. Most relevant from the perspective of this paper, by positing private corporations as trustees of society, the Manifesto put an emphasis on the important role of performance metrics for moving towards a better kind of capitalism[8].

3. Accounting and Shareholder Capitalism

One major reason for the supremacy of shareholder capitalism is that it has a large body of metrics and measurements – particularly financial – that skew the way in which we account for and report corporate economic activity. The financial calculus used in accounting models has historically evolved alongside the development of capitalism. Winjum (1971) comments on the debate about the extent to which the invention of the double-entry bookkeeping system enabled growth of capitalism. Toms (2010) shows that profit as a return for capital employed became a formal part of the accounting calculus in the 20th century with the rise of large capital-intensive enterprises. Richard (2015) goes even further and

[6] For full text of the Statement, see Business Round Table “Statement of Purpose of a Corporation”, https://opportunity.businessroundtable.org/ourcommitment/, August 2019.

[7] “*Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives. Executive remuneration should reflect stakeholder responsibility*” (https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/).

[8] A recent movement called “conscious capitalism” is attempting to do the same. Their mission is to promote capitalism that “serve, align, and integrate the interests of all their major stakeholders.” See https://www.consciouscapitalism.org/credo.

argues that since the industrial revolution, profit calculus has evolved to the point that it contributes to regular financial crisis. Yet, over the past two centuries, social theorists, such as Max Weber, Werner Sombart, and Joseph Schumpeter, highlighted the relevant role played by accounting calculations in enhancing rationality and favouring the development of capitalist methods of production (Carruthers and Espeland, 1991).

Finally, more than a half-century of accounting research supports the conclusion that accounting is not a neutral discipline that captures and reports economic reality. It often serves as a hegemonic tool to support state ideology – both capitalism and socialism. Cooper (1995) shows how accounting can serve capitalists by obscuring issues in a political struggle between management and workers. Goddard (2002) focuses on the profession of accounting and not the calculus. He concludes that the accounting profession has played an important role in enabling hegemonic control of state ideology over other class interests. Ashraf & Uddin (2015) document how management accounting controls in a public sector company changed in response to a struggle between two dominant social groups. Cushen (2013) studies the same social hegemony dynamics in employer-employee relations. He shows how financial narratives in an organizational context can cause increased insecurity, distress, anger and finally a reluctant acceptance among knowledge workers. On the other side, Ansari et al. (1992) show accounting supported state socialist ideology in then communist East Germany. Yee (2009) and Ezzamel et al., (2007) document how the Chinese State has used the accounting profession to further its economic agenda and how change in political direction from Mao to Deng also changed the way in which accounting is viewed by Chinese society.

The reason that accounting enables and supports ideologies is because accounting constructs and shapes reality (Hines, 1988). It creates places of encounters and exchange through its mediating role in connecting worlds (Miller and O'Leary, 2007). The impact of accounting goes far beyond the economic scene. Accounting, with its array of instruments, processes and ways of thinking that codify, trace, assemble, disassemble, add and subtract things to the theatre of the world, does not so much represent but creates economic reality (Revellino and Mouritsen, 2015). Accounting numbers also influence the way we live and behave as attested to by the explosion of rankings, statistics and, more generally, infrastructures of traceability leading to the so called "audit society" (Power, 1999).

It is therefore unsurprising that the calculus and reporting embedded in existing financial and managerial accounting models have enabled the growth of shareholder capitalism at the expense of other stakeholders. The rhetoric of financial narrative is oriented to the unregulated utopian pursuit of continuous growth and high returns to capital. This overarching value for money principle holds sway even in the not-for-profit organizations (Hendriksen et al., 2016) and public sector organizations (Hood, 1995; Kurunmaki et al., 2003; Lapsley, 1998; Power and Laughlin, 1992).

4. The Evolution of Stakeholder Capitalism

Until recently, stakeholder capitalism was less a unified philosophy of capitalism and more an effort to correct the visible excesses of shareholder capitalism. This concern for correcting excesses or minimizing damage from the unconstrained pursuit of profits has evolved over the years into three distinct movements – environment protection, corporate social responsibility, and distributional equity. We provide a brief overview of each evolution next.

4.1 Environmental Protection

Concern over the negative impact of corporate actions on the health of citizens (for example through polluted air or water) and the destruction of the environment (Nakao et al., 2007; Flammer, 2013; Bansal and Song, 2017; Russo, 2003; Russo & Minto, 2011) recognized that environment, and consequently society, was a stakeholder affected by corporate actions. The environmental movement demanded that corporations ameliorate their impact on society and nature. This literature, while recognizing other stakeholders (Starik, 1995; Driscoll and Starik, 2004; Flammer, 2013), was predominantly concerned with "externalities" where firms passed the cost of their actions on to society. Smokestack industries with their excessive carbon emissions were the early target of a nascent environmental movement calling for corporations to pay their fair share of cleanup costs. Note that the early environmental concerns were not a challenge to shareholder capitalism. The concern was framed within the existing neoclassical economic paradigm as an externality that simply wanted industry not to bear the full production cost and not pass part of it on to society.

More recently, the focus has shifted from externality costs to climate change as an existential crisis (Wright and Nyberg, 2017). With climate change, nature becomes a real stakeholder. Rather than passively accept costs after they are incurred, the climate change movement is looking at what is produced, how it is produced and how these decisions impact the climate. Nature is now a stakeholder in much the same way that customer preferences influence product and process decisions in shareholder capitalism. Rather than pollute now and remediate later, the focus is now on producing goods and services in ways that do not exacerbate the rate of climate change.

4.2 Corporate social responsibility

Another approach to stakeholder interests comes from scholars who have been concerned about corporate social responsibility (CSR). A *residual view* on CSR has been largely predominant since 1960s, particularly in the American context (Freeman et al. 2010, p. 257). This perspective conceptualizes CSR as a non strategic activity, which is not integrated with value creation and does not challenge profit maximization, which remains the primary pourpose of business. This view of CSR is more consistent with shareholder capitalism, which sees stakeholders as collateral beneficiaries. A different large body of literature has looked at the moral foundations of corporate social responsibility (Phillips, 1997; Phillips and Reichart, 2000). It expands stakeholders beyond environment to include society as a whole. This literature looks at CSR as part of the corporate stakeholder framework (Davis, 1960; Evan and Freeman, 1988; McGuire et al., 1988; Roberts, 1992; Herremans et al. 1993; Pava and Krausz, 1996; McWilliams and Siegel, 2000; Barnett, 2007; Carroll, 1979, 1999).

In contrast to the externality cost view embedded in the environment literature, CSR was initially based on what scholars have called a charity-based view of corporate responsibility (Brammer and Millington, 2004; 2005). Corporations could (and should) maximize profits but then appropriate some of the profits for worthy social causes. It is not intended as a right for all parties that have an interest at stake in the corporation (Saiia et al. 2003; Maas and Liket, 2011; Cantrell et al. 2015). Rather it is seen as a virtuous act that corporations should undertake. Indeed, corporate philanthropy has supported many worthy causes like fighting poverty, improving educational access, distributing vaccines, feeding homeless, and so on. Corporate reporting literature provides evidence of how corporate giving programs shape corporate social responsibility (Peloza and Shang, 2011).

A body of strategic management research endorses the view that CSR is strategically important for corporations and leads to greater profitability (Porter and Kramer, 2006). Porter and Kramer (2006) make an interesting argument in support of CSR. They argue that CSR activities, if approached strategically, can be much more than just a charitable deed. They can be a powerful force for social change because it produces business returns, opportunity, innovation, and competitive advantage for corporations—while solving pressing social problems. This line argues that doing good improves competitive position (Gallardo-Vazquez and Sanchez-Hernandez (2014), increases profitability and is socially beneficial (Bhattacharya and Sen, 2010; Elkington, 1994, 2001). Others (Hillman and Keim, 2001) observe that shareholder wealth increases by building better relationships with primary stakeholders – that is, those who bear some forms of risk in a firm by investing some form of capital, human or financial (Clarkson, 1995). A key stream of these CSR studies examined how CSR efforts improve performance (McGuire et al., 1988; Herremans et al., 1993; McWilliams and Siegel, 2000; Wingard and Vorster, 2001). More recently, we have seen formal ESG (environmental, social, and governance) metrics to measure the impact of CSR efforts (Chatterji et al. 2009). On a similar vein, a growing literature around Harvard Business School uses ESG data to understand their relationship with other important organizational and market outcomes (Christensen, Serafeim and Sikochi, 2022), including stock market performance, accounting performance and financial constraints (Cheng, Ioannou, and Serafeim 2014; Khan, Serafeim, and Yoon 2016).

The difficulty with both the charity and the strategic view of CSR is that they take a pure efficiency-oriented view of the role of corporations in business and society

(Crane et al. 2014). There is an ambiguity about who is served by CSR. Strategic CSR (Mackey and Sisodia, 2013) uses donations and community programs to gain sustainable competitive advantage (Sen et al. 2006). However, the firm can appropriate value using its bargaining position (Hoskisson et al. 2018) to be the ultimate and outsized beneficiary of such efforts. Both charity and strategic CSR views do not address the harmful effects of unconstrained profit maximization in the process of generating profits. Rather they seek to ameliorate the harm after it has taken place. As we know, once we damage the environment, it is impossible or at least not easy to reverse such damage. It takes years to regrow burnt forests or repopulate animal or bird species, once decimated, or refreeze melted glaciers. Charity may alleviate hunger, but it does not pull people out of poverty. Permanent solutions to intractable environmental and social problems require an on-going proactive model of value creation and appropriation.

Finally, in the last decade, a *CSR 2.0* concept emerged as a powerful metaphor for enacting change in CSR practice and theory. This approach moves from a corporate level to a systemic level, such as the industry sector, the policy reforms and cultural values grounded on more responsibility towards society and the ecosystems (Visser, 2014). Such a conceptualization, that Visser (2014) defines as 'transformative', complements other four modes of CSR, that the author names as 'defensive, charitable, promotional and strategic'. As Visser observes, these four stages of CSR, dubbed as CSR 1.0, are the most common CSR approaches but they "have failed to have any significant impact on the most serious global social, environmental and ethical challenges" (Visser, 2014; p. xi).

4.3 Distributional Fairness

More recently, there has emerged a "distributional" literature that looks at who is getting the most benefit from a corporation doing well. This small but significant body of academic research investigates how the economic value created by a firm is appropriated by its stakeholders (Garcia-Castro and Aguilera, 2015; Lieberman et al., 2017; Lieberman et al., 2018). One implication arising from this literature is what we can call "distributional justice", a concept that looks at who is getting the most benefit from a corporation doing well. Lieberman et al (2017), through their value creation and appropriation (VCA) model, estimate the economic value created and distributed by major U.S. airlines and global automakers. They provide empirical evidence of the patterns of value captured by the different stakeholder groups and show how the gains of the shareholders in the airlines "were far lower and negative in several cases". The reason for the poor performance of air carriers was ticket price reductions which meant that all (or most of) the value created by the airline was appropriated by customers. The VCA model is interesting in another important way. It shows how to use financial metrics to understand value creation and appropriation and to determine how value is distributed across a diverse group of stakeholders.

5. Methodological notes

From a methodological perspective, we are interested in mapping out the mainstream research strands pertaining to the literature on stakeholder capitalism. We did this work using a kind of thematic analysis (Braun and Clarke 2006) which permitted us to identifying and report on the main recurring patterns (themes) within the literature on stakeholder capitalism and the connected metrics.

A thematic analysis differs from a systematic literature review which is an extensive rendering of the field of inquiry. Thematic analysis is based on the selection of a representative sample of the relevant literature and the identification of the main themes. In doing this we followed a stepwise approach involving inductive and deductive processes. Well-cited papers and a wide selection of journals helped us in identifying the sample of the literature we have represented in section 4. This sample is sufficient for our purpose as it describes the current research landscape and it is broad enough to span different themes within the literature.

We went through the selected articles through a narrative analysis which led to identifying the three main themes, or movements, which characterize stakeholder capitalism: environmental protection; corporate social responsibility, and, finally, what we have called as "distributional fairness".

We adopted the same thematic analysis even for identifying the main accounting research dealing with stakeholder theory. In this last case, we used the search words 'stakeholder' or 'sustainability', which is a close concept as it involves the consideration of a broad range of stakeholders. Among the accounting papers we analyzed, we selected the two main research streams which have the ambition to extend accounting reporting and management accounting beyond pure financial perspective by taking into account different interests at stake. These two movements were identified, in section 6, in the integrated reporting initiative and the balanced scorecards.

While several pertinent articles were not included in our selection, these were not relevant to the research themes covered in this paper. This is because our search focuses on uncovering the main themes around stakeholder capitalism and its supporting metrics. Adding more references would not result in more themes.

This qualitative approach facilitated a text-driven review (Collins and Fauser, 2005) of the selected articles shedding light on these main research trends and opening insights on possible future research paths. Through this inductive process, which allowed us to grasp a wide theoretical understanding of what was going on, we realized the abundance of metrics to account for and disclose stakeholder-oriented practices. However, these metrics play a very limited role in shaping practice and redistributing value among the wider stakeholder groups. This awareness induced us to consider that management accounting research and practice needs to reassess models that embed an ideological bias in favor of *shareholder capitalism*.

Empirically the study draws insights from the collaboration the authors had with the *Consortium for Advanced Management International* (*CAM-I*), an international collaborative forum of thought leaders — among industry, government, and research organizations — for improving business processes and practices. One of the authors has decades of extensive experience with the consortium and was one of the scholars who led the way in developing and disseminating operations, cost, and profit management models, such as target costing, in the 1980s and 1990s.This article builds on our engagement with a relevant ongoing CAM-I project that aims to rethink previous CAM-I work in cost-and-profit management — such as ABC, target costing, capacity measurements, work processes, performance management, supply chain management, and risk management — to take a more inclusive view of stakeholders.

6. Accounting models and the (un)realized Stakeholder perspective: the state of the art

The movement toward stakeholder capitalism is also accompanied by the emergence of new metrics. However, the bad news is that such movements are not being led by accountants who need to come to this party and not leave it to others.

The role of accounting models to make stakeholder capitalism real is pivotal. As observed by Andy Karsner (who was the principal U.S. climate negotiator in Bali in 2007 and whose Elemental Labs is now building more tech tools for market-based solutions for climate change): "*You can have a scale impact on the climate when you can measure, monitor, manage and monetize the value of saving a forest or a watershed*"[9].

There have been attempts to incorporate the stakeholder perspective into accounting and financial reporting (Arjaliès & Bansal, 2018, Barman, 2015) with the ambition to address the widely diverging but interconnected concerns for the natural environment, social welfare, and economic prosperity (Hahn et al., 2014). The desire to have accounting address these multiple interests has led to the development of the sustainability and integrated reporting discourse (Milne and Gray, 2013; de Villiers and Maroun, 2017). This is a disclosure perspective that attempts to incorporate the voice of multiple stakeholders' into organizational practices through the construction of an appropriate accounting and reporting system (Hall et al. 2015; Neville et al., 2011). It is considered as an antecedent of value creation within an organization (Perrini and Tencati, 2006). Others argue that superior ESG performance leads to superior financial performance (Eccles et al. 2020; Grewal and Serafeim, 2020). This line of research supports the idea that sustainability and integrated reporting practices may have a role in the production of value. However, the way such economic value is distributed in and around organizations remains quite ambiguous.

This ambiguity is due not only to the fact that the sustainability discourse around integrated reporting remains transcendental (Gibassier et al., 2018), but also

[9] Quote from Tom Friedman's column NY Times 11/10/2021.

to the observation that this discourse is an open signifier (Frame and O'Connor, 2011), and a pluralist concept (Byrch et al. 2015). It uses very little financial information and it relies on the use of narratives and non-financial indicators (Amoako et al. 2017) about an organization's performance to external stakeholders. It is this multiplicity of approaches that led Gray (2010) to question whether accounting for sustainability is really accounting for sustainability.

The problem is that environmental and social information that does not easily integrate into financial numbers tends to be disregarded and remains around a legitimation exercise in corporate disclosure. It follows that despite the calls for a more expansive view of accounting and reporting systems through developing measures of value creation that take into account the perspectives of different stakeholders (Hall et al., 2015), efforts have not gone far, and accounting is largely stuck with its legacy shareholder perspective.

If we move from accounting disclosure to management accounting, we could realize that the dominant ideology of *shareholder capitalism* is hard-wired into the way we build and deploy cost management models and thereby help to perpetuate a system biased in favor of stockholders over other stakeholders. This is visible in six areas summarized in Figure 1.

Figure n. 1- Areas of influence between Management Accounting Models and the Shareholder Capitalism Ideology

Shareholder value maximization.	Most management accounting models assume that the goal is to maximize shareholder wealth. The formal calculus of the models does not consider the interest of other stakeholders.
Economies of scale.	The main tool for reducing costs is economies of scale. Assets are fixed costs and the way to reduce average fixed costs is to "bleed the asset" – that is, maximize output.
Customer focused product design.	The voice of the customer should be the prime driver of product and process design. Other stakeholders are merely instrumental in achieving profits.
Lowest Cost Suppliers.	Suppliers evaluated mainly on quality, cost, and delivery criteria. Labor laws, social practices, and environmental stewardship are not part of the selection process.
Performance Management Using Output and Behavior Controls	Performance management systems rely mostly on output or behavioral forms of control. The approach is to give employees specific goals and then observe their behavior to ensure they achieve the goals.
Risk Value Tradeoff	Risk management focused on getting the right tradeoff between risk taken versus extra value created.

Source: Authors' elaboration

A quick look at some of the leading management accounting models shows how they facilitate the shareholder perspective in both wealth creation and wealth transfers. For example, activity-based costing allows organizations to reduce costs and increase efficiency by critically examining what they do and shed so-called "non-value-added activities" that have no benefit for the customer – that is, increases shareholder wealth by eliminating activities that may be of value to other stakeholders.

Capacity measurement models increase productivity and reduce costs through economies of scale but do not consider the impact of increased asset utilization on human resources. Global supply chains move manufacturing to countries with low labor costs (sometimes use of child labor) and no environmental regulations.

Target costing, the focus of later discussion, uses customer focused product designs to guide cost reductions. However, the model never explicitly addresses whether the design is socially and environmentally friendly, requires a process that protects worker health, does not use child labor, and reduces pollution. These product features are important to society (and probably to customers) but because they are invisible, they are not part of the value analysis in designing products. All these management accounting models focus on how to increase shareholder wealth and do not consider any other stakeholder in their calculus.

Despite the attempt by the balanced scorecard (Kaplan and Norton, 1992; 1996) to encompass broader and more inclusive perspectives and worldviews (Qu & Cooper, 2011), the model remains anchored to the hegemonic logics of markets, competition, and profit enacted through a financial perspective (Mouritsen et al., 2005).

To sum up, while some accounting models have attempted to move beyond pure shareholders' financial and economic interests, more often than not they fail to meet this aspiration. So, what could be the possible way ahead? We propose, in what follows, to embrace new research avenues which incorporate the stakeholder perspective into the mainstream management accounting models that managers use to take decisions, and not relegate this task to supplementary reporting.

7. The possible way ahead: incorporating a stakeholder approach in management accounting models

In tune with research that supports a financialization view of sustainability[10], we propose that profit and cost-based performance measurements can facilitate the adoption of an extended stakeholder view by incorporating multiple stakeholders' interests in the base calculus of decision-making as opposed to supplementary reports.

How could we incorporate a more inclusive approach into management accounting models? Here are a few examples.

[10] See for example Atkins et al. (2015) who, to address environmental risks, propose to mobilize accounting and finance discourse by monetizing the costs of climate change for organizations.

Activity-based costing and management currently define a "non-value added activity" as one that is not essential to meeting customer requirements. A stakeholder view would also ask whether the activity will harm employee health or increase environmental damage. When activities are combined to form a process, these questions become even more salient. A stakeholder view of a process would examine how the process impacts all interested parties. If meat packing plants were to consider employee health as part of a multi-stakeholder perspective, they would not force workers to work amid a pandemic in densely packed assembly lines for long periods.

A stakeholder view of performance measurement would look beyond customers and shareholders to include metrics that also would ask how we look to our employees, to our suppliers, and to our community. Measures that focus on productivity and work-life balance would be beneficial for both sides as they will verify that alternate working environments do not have to tradeoff increased productivity. Society will benefit because those with differing capabilities, lifestyles or personal challenges will find an opportunity to compete equally with others. We can also measure the social environmental impact of work policies by explicitly measuring productivity against increase in diversity and reduction in the carbon footprint. So, a balanced scorecard would report metrics beyond sales, profits and ROI to productivity per employee, employee satisfaction, workforce diversity, carbon footprint and others as part of a single scorecard.

A multi-stakeholder perspective in designing the supply chain would broaden the scope of the make or buy decision to consider other impacts. Instead of evaluating suppliers just on quality, cost, and time, the organizations would ask whether outsourcing will result in job losses in the local community. Also, it would ask whether suppliers are socially responsible in their labor and sustainability practices. For critical supplies, firms would explicitly consider risk to the community if the supply chain were disrupted.

Until now, we dealt with a few leading management accounting models to illustrate in broad terms how a multi-stakeholder perspective could be incorporated into these models. Given the limited length of this paper, we did not deal with specific calculations. In what follows we have chosen one management accounting model – target costing – to take a deeper dive into how the multi-stakeholder perspective would alter some of the calculations in the model. We show how it may be rethought in order to facilitate a pluralistic, non-hegemonic and more balanced rendering of the interests at stake in organizations and their wider social and natural environments.

A target cost is the allowable amount of cost that can be incurred on a product and still earn the required profit from that product. It is a market driven costing system in which cost targets are set by considering customer requirements and competitive offerings. Cost targets are achieved by focusing on product and process design and by making continuous improvements in all support processes. The equation below captures the essence of the target costing model, while Figure 2 shows the stakeholders represented in this equation.

(1) Target Cost (C) = Price (P) – Profit Margin (M)

Figure n. 2 – The stakeholders in the traditional target costing model

Source: Authors' elaboration

There are only three stakeholders in this model. Price represents the customer and what he/she is willing to pay; profit margin represents the stockholder; and cost represents the firm's management. Target costing rightly recognizes that in a competitive market for products and capital, price and margin are independent variables and cost is a dependent variable. Further, the technique recognizes that target cost is achieved early in the design stage by focusing on product and process design. When a product is in production, it is too late to get costs out as most of the costs are locked in.

Expanding this model to other stakeholders would require a slight modification to the target costing equation (1) which will now look like this:

(2) $TC = (P + \alpha P) - (M - \beta M)$

Where P is the original price

αP = Additional price customer willing to pay for sustainable and socially responsible product

βM = Margin contributed by shareholders for sustainable and social responsible product

The next step is to decompose the target cost in different components that make tradeoffs between stakeholder requirements transparent. Decomposing this cost, we get:

$\sum (C_c + C_p + C_d + C_e + C_a + C_s + C_r)$

C_c = Component cost from suppliers

C_p = Production overhead cost

C_d = Sales and distribution costs other than salaries

C_e = Employee wages and salaries cost

C_a = Executive salaries and administrative support

C_s = Sustainability cost

C_r = Social responsibility spending

The basic target costing equation (Customer Price minus Shareholder Profit = Target Costs) is expanded to include employees, suppliers, society and environmental considerations (Figure 3 shows the expanded set of stakeholders).

Figure n. 3 – The stakeholders in the extended target costing model

Source: Authors' elaboration

The resulting equation defines "target cost" as one which meets customer expectations, shareholder profitability requirements, employee equity, socially desirable supplier practices, and environmentally friendly products. It allows for the cost target to be adjusted in ways in which each side provides a fair contribution toward the desired goal of a product that harmonizes the interests of all stakeholders. This methodology focuses on design, so it allows product and process design to consider stakeholder requirements explicitly at the right time. Too late to worry about environment once the product or process design is locked in. Also, too late to create employment if once the capital/labor ratio is locked in.

8. Conclusions, limits and future developments

Leading cost and profit management models in accounting have been complicit in supporting the ideology of *shareholder capitalism* that privileges the interest of shareholders above all others. Models such as activity-based costing, target costing, supply chain management and capacity measurement have played a central role in enabling the hegemony of corporate shareholder interests over the interest of employees, suppliers, society and environment.

This paper shows how to use the power of accounting to make visible and to elevate the interest of all stakeholders as co-equals to shareholders. We argue that stakeholder capitalism will largely remain aspirational unless there are metrics, measurements and reports that provide visibility about how a firm is meeting the needs of diverse stakeholders.

Contrary to current approaches that use supplemental reports in financial statements, we want to include stakeholder interests explicitly in the calculus of profitability by reforming management accounting models in use. Accounting models create reality. If stakeholder interests are in a supplemental report, they will continue to be secondary to shareholder value. They will remain invisible or at best relegated to the backbench. As we said earlier, it is better to incorporate multiple interests upfront rather than ameliorate the aftereffects later.

Within the domain of accounting, management accounting is the right place to begin because its metrics and models inform management decisions and are useful instruments to include the interests of all stakeholders. Financial reporting is after actions have taken place. It can inform whether managerial actions meet the interests of other stakeholders, but it cannot change the reality on the ground. The challenge is how to incorporate the interests of all stakeholders such as employees, suppliers, environment, and the community at large into the basic *calculus of management accounting* models and not wait for disclosure in supplementary reports.

This paper offers a thought piece reflecting the damage that the accounting models have done by focusing exclusively on shareholder interests. The limitation of this paper is that it is a critique and a reflection but not a comprehensive formula for reforming accounting theory and practices. It is our hope that future accounting research will develop and revise accounting theory based on the stakeholder perspective. Another limitation of a theoretical paper such as this one is that it requires rigorous field testing to ensure that the stakeholder perspective will lead to material improvement for all stakeholders and not just a redistribution that leaves some stakehlders better off at the expense of leaving others worse off. Finally, the paper only touches and alludes to a set new metrics and models. It does not provide a specific framework for the development of such metrics.

These limitations, while valid, are too broad in scope to fit into a single paper. Our aim is to motivate future research that can develop a more concrete framework for accounting models based on a stakeholder perspective. Hopefully, the paper motivates further research into alternative metrics and accounting models and also subjects these metrics and models to rigorous field testing. These theoretical and practical developments can make accounting a practical instrument to create economies and societies that fairly distribute wealth, promote social justice, and protect our environment from the ravages of climate change.

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