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ABSTRACT Through a critique of existing financial theory underlying current accounting practices, and reapplication of this theory to a broad group of stakeholders, this paper lays a normative foundation for a revised perspective on the responsibility of the public accounting profession. Specifically, we argue that the profession should embrace the development of standards for reporting information important to a broader group of stakeholders than just investors and creditors. The FASB has recently moved in the opposite direction. Nonetheless, an institution around accounting for stakeholders continues to grow, backed by a groundswell of support from many sources. Based on institutional theory, we predict that this institution and the forces supporting it will cause changes in the public accounting profession, even if through coercion. We also provide examples of stakeholder accounting, building from the premise that a primary responsibility of accounting is to provide information to address the risk management needs of stakeholders.

Keywords: accounting principles, corporate responsibility, FASB, stakeholder accounting, stakeholder theory

INTRODUCTION

> *So it has come to this. The global biodiversity crisis is so severe that brilliant scientists, political leaders, eco-warriors, and religious gurus can no longer save us from ourselves. The military are powerless. But there may be one last hope for life on earth: accountants.*
>
> Jonathan Watts, Guardian, October 28, 2010

The reporting climate for social accountability purposes has changed dramatically in the last few decades. Worldwide interest in environmental sustainability has led to initiatives such as the ISO 14000 standards, the Greenhouse Gas Protocol, the Social Accountability Network's SA8000 standard and the work of the Global Reporting Initiative™ (GRI, 2013), among many others, resulting in significantly more reporting on the environmental and social impact of firm operations. It has also become accepted

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practice for large, global companies to issue sustainability reports; and in 2013, 93 per cent of the 250 largest global companies (G250) did so. Further, approximately 59 per cent of these G250 firms engaged outside experts to independently assure these reports (KPMG, 2013). Of course, this means that the remaining 41 per cent of these firms did *not* seek outside auditing, and in a broader sample among the largest 100 companies across 41 countries (4,100 companies) the rate of assurance is only 38 per cent. Further, within the USA only 16 per cent of companies issued assured sustainability reports in 2013 (Environmental Leader, 2014). Since most nonfinancial reporting efforts are voluntary anyway, they paint a picture of inconsistent reporting that is of limited use to investors and other stakeholders who are now or are considering engaging with a particular firm.

The view from a financial reporting perspective is quite different. In the wake of corporate scandals and financial stress, the US Government instituted new mandatory disclosure regulations, such as the Sarbanes-Oxley Act, that place more responsibility on corporate leaders for ensuring the accuracy and completeness of financial reporting, as well as on auditors to ensure the credibility of these disclosures. The climate is right for the public accounting profession to step up and institutionalize nonfinancial disclosures similar to the manner in which financial reporting disclosures have been institutionalized; that is, through accounting standard setting and assurance processes.

Unfortunately, the public accounting profession seems to be moving in the opposite direction, as reflected by changes in the objectives of financial reporting by the Financial Accounting Standards Board (FASB). Specifically, FASB Statements No. 1 and 2 (issued in 1978 and 1980 respectively) provided guidelines for the Conceptual Framework for Financial Reporting that included responsibility to a broad group of stakeholders. These guidelines were revised substantially in 2010 through the issuance of Statement of Financial Accounting Concepts No. 8. Ernst & Young (FASB, 2010, p. 1) describe the results of these revisions: 'The revised Framework limits the range of addressees of general purpose financial reporting. It lists as primary users of financial statements, existing or potential investors, lenders and other creditors. The existing [1978, 1980] Framework, in contrast, identified in addition to the addressees listed above, employees, suppliers, customers, governments and the general public'. As this description suggests, the primary objective underlying current financial reporting is to provide information that is useful to investors and creditors, based on the premise that they need information that will allow them to make rational investment decisions and 'assess the prospects for future net cash inflows to an entity' (FASB 2010, Concepts Statement No. 8, OB3). Given that the FASB is the organization responsible for establishing accounting and reporting standards in the US, this premise becomes the foundation for financial reporting.

This is a reasonable approach to help protect financial investors; however, it disregards the fact that much more than operating capital is invested in a firm. Employees, customers, suppliers and communities also provide essential resources to the firm, without which the firm would cease to exist (Freeman and Reed, 1983). Like financial stakeholders, these stakeholders take risks when they invest in firms because their own outcomes are directly affected by the activities of a firm (Clarkson, 1994). Similarly, they need reliable information in order to assess what they might be expected to receive from a firm in exchange for the resources they provide (Harrison et al., 2010). This paper argues that the public accounting profession has a responsibility to these stakeholders, contrary to the recent actions of the FASB. We affirm the call given to accounting researchers by Moser and Martin (2012, p. 799) to consider a research perspective that extends beyond the traditional shareholder view of the corporation, specifically with regard to disclosures that 'serve different or broader purposes than other traditional corporate financial disclosures'.

The overriding objective of this paper is to provide a stronger theoretical and practical rationale for integrating investor-focused financial reporting principles with stakeholder theory, which emphasizes recognition of multiple stakeholder interests. If we take a broad perspective on firm value creation, and recognize that much of the value a firm creates (or destroys) is nonfinancial (Harrison and Wicks, 2013), then it is also logical that firms should measure and report nonfinancial results of their value creation processes. In addition to the benefits to stakeholders from being better able to manage risks associated with their investments of nonfinancial (as well as financial) resources in a firm, new disclosures of information pertinent to a broader group of stakeholders may have the added benefit of providing management with more tools to help sustain or build a successful strategy (Freeman et al., 2007; Harrison and Wicks, 2013; Harrison et al., 2010).

It is important to create some boundaries for our paper from the outset. Global forces are providing an impetus for broader stakeholder reporting; however, the complexity associated with these forces, and the variability in rules and regulations pertaining to so many different situations, are too vast to tackle in one paper. Thus, our emphasis is on reporting in public corporations headquartered in the USA. We recognize that the USA currently is not a leader in the reporting of corporate social responsibility or sustainability information (Kolk and Perego, 2010) and, in fact, is one of the most shareholder-focused countries in the world (La Porta, et al., 1998; Stout, 2012). It is for this reason that the public accounting profession in the USA is an excellent subject for our arguments. We also acknowledge that changes in the US reporting system can have implications for reporting elsewhere in the world. Ernst & Young (2012) published a study comparing US Generally Accepted Accounting Principles (GAAP), established by the FASB, to International Financial Reporting Standards (IFRS), which are controlled by the IASB. They observed that the Boards of the two organizations are continuing to work together on specific convergence projects, evidence that what happens with US guidelines and principles can have a broader impact over time. Further, many corporations headquartered in the USA have foreign subsidiaries, which provides another vehicle for influencing global reporting.

This paper is both theoretical and normative in that it challenges the conventional wisdom underlying current financial reporting practices to embrace a stakeholder perspective. Herein we are integrating existing stakeholder theory with existing financial and accounting theory and applying a combined theoretical perspective to a reporting structure that is already *partially* in place, but is not uniformly or universally applied. We also apply institutional theory as a lens for understanding the forces moving this reporting institution forward – to predict that eventually the institution of public financial accounting will be compelled to embrace the institutions developed around accounting for stakeholders, and that these institutions will converge. More than anything else, this paper challenges the reversal of the public accounting profession regarding its responsibility to provide nonfinancial resource-providing stakeholders with the information they need to manage risks associated with their engagement with the firm. Our analyses demonstrate that it is in the best interests of the accounting profession to embrace broader stakeholder reporting sooner rather than later. Towards the end of the paper we also provide some examples of existing measures that might serve as starting points for integration of broader stakeholder-based measures into the domain of public accounting.

SHORTCOMINGS OF THE SHAREHOLDER-DOMINANT PERSPECTIVE

Darrell West (2011), director of Governance Studies and a senior fellow at Brookings, examined law and business school curricula and student perceptions over a decade, and found some results he considers 'troubling'. Among his findings, he discovered that for classes that deal with the purpose of the corporation, the focus is on maximizing shareholder value. He also found that after students complete school they are most likely to consider shareholder value as the most important goal of the corporation, compared to other possible goals such as employee welfare or satisfying customer needs. West's findings are confirmed in a new general management text by a major publisher: 'Although more managers are adopting a broader stakeholder approach to managing their firms, the primary goal of the firm is still to maximize profits, but to do so in an ethical and responsible manner' (Gulati et al., 2014, p. 92).

The current approach of the public accounting profession, which emphasizes the responsibility of a firm to its suppliers of financial capital, is justifiable on the basis of popular financial theory (i.e., Brealey et al., 2003; Danielson et al., 2008; Jensen and Meckling, 1976). That is, the notion of shareholder primacy provides a rationale that is supportive of current accounting standards and procedures. After all, if the corporation exists primarily to generate returns for those who have provided the capital, then the focus in financial accounting on reporting for those stakeholders is justifiable. However, there are flaws in this argument, one of the greatest of which is that shareholders are the only stakeholders that bear residual risk linked to outcomes from corporate activities (Easterbrook and Fischel, 1991; Williamson, 1985). A broader stakeholder perspective suggests that many stakeholders experience residual risk and that the leaders of corporations (top management teams and directors) are responsible for protecting the interests of more residual risk bearers than just the stockholders (Asher et al., 2005; Brink, 2010; Stout, 2012).

Agency theory also supports an emphasis on reporting for suppliers of financial capital, and specifically shareholders. Consistent with some early thinking by Berle (1931) that powers granted to a corporation's managers should be exercised only for the benefit of the shareholders, Jensen and Meckling (1976) described corporate shareholders as principals and top managers as agents with an obligation to seek their financial interests through all legal means. Any time a manager seeks another objective an agency cost exists. Agency theory has become mainstream in the management literature (see Heath, 2009; Lan and Heracleaous, 2010). This theory underlies much of the accounting literature as well. For example, the two widely accepted reasons for external financial reporting relate to shareholder risk assessment; they are to allow 'capital providers (shareholders and creditors) to evaluate the return potential of investment opportunities' and 'to monitor the use of their capital once committed' (Beyer et al., 2010, p. 296).

Although shareholder-primacy advocates use of the doctrine of implied contracts to defend their position, this principle applies as well to other stakeholders (Boatright, 2002; MacLeod and Malcomson, 1989; Rousseau, 1995). As Hill and Jones (1992, p. 134) argue, 'Whatever the magnitude of their stake, each stakeholder is a part of the nexus of implicit and explicit contracts that constitutes the firm'. Based on this perspective, Zingales (2000, p. 1634)[1] argued: 'Once we recognize the existence of implicit contracts, then there are other residual claimants besides equity holders who may need to be protected (the famous stakeholders, often mentioned in the public policy debate). It then becomes unclear whether control should reside in the hands of shareholders, because the pursuit of shareholders' value maximization may lead to inefficient actions, such as the breach of valuable implicit contracts...'.

In an interesting twist on this theme, Shleifer and Summers (1988) argue that breaches of implicit and explicit contracts may provide a source of value to the shareholders of acquiring firms, particularly during hostile takeovers. The acquiring firm frequently makes decisions regarding pensions, employee retention, and long standing arrangements with suppliers and customers that are inconsistent with the understandings forged previously between these stakeholders and the managers of the acquired firm. Cost savings can result, which are beneficial to acquiring firm shareholders. This argument is an unambiguous admission of the implicit contracts corporations have to their stakeholders (see also Asher et al., 2005).

It is worth noting that the agent/principal relationship found in agency theory relies also on an assumption that shareholders are the owners of the firm. However, if a shareholder were really an owner, then he/she would have power to make decisions for the firm and to lay claim to its assets (i.e., walk in and remove furniture or products). The reality is that shareholders own shares of stock in a corporation, and the corporation is a separate legal entity, just like a person (Stout, 2012). Directors and managers make decisions on how the profits, if there are any, will be distributed. Some firms pay dividends to shareholders and others reinvest all surpluses in new technologies and equipment, while other firms may provide a bonus to employees. In this sense, all of the resource-providing stakeholders in a firm experience residual risk, and they all receive a share of any surplus profits only at the discretion of managers, who are overseen by directors.

As Marens and Wicks (1999) observe, some also claim a legal precedent to the concept of shareholder primacy (see also Stout, 2002). That is, they claim the law obligates directors to maximize shareholder wealth. Reporters and academicians, among others, commonly make this assertion (Adams and Whelan, 2009; Stout, 2012). The editor of *Business Ethics* even went so far as to argue that directors who do not work to maximize shareholder returns can be sued (Kelly, 2001). Nevertheless, the idea that the law requires directors and executives to maximize shareholder wealth is simply untrue (Marens and Wicks, 1999). Stout (2012) explains that this false notion is, in part, a result of misinterpretation of a judicial opinion by the Michigan Supreme Court in 1919 that really had little to do with the purpose of public corporations as they are now constituted. In fact, the most widely cited statement from that case in support of shareholder primacy was part of the 'dicta', a tangential observation that has not been validated by Delaware's courts, where many corporations are formed. In fact, the Delaware Supreme Court issued a 1985 opinion that directors can consider other stakeholder interests (customers, employees, the community, and creditors) when considering the merits of a business transaction (Stout, 2012). The courts allow directors substantial leeway in considering what is in the best interests of the firm through what is called 'the business judgment rule' (Orts, 1992).

Another irony associated with the shareholder primacy perspective is that attempts alone to maximize shareholder returns may be unlikely to do so (Freeman et al., 2010). Even the shareholder advocate Michael Jensen (2001, p. 298) admits this when he says very clearly, 'A firm cannot maximize value if it ignores the interest of its stakeholders'. In another article, Jensen (2002, p. 245) also suggests, 'We can learn from the stakeholder theorists how to lead managers and participants in an organization to think more generally and creatively about how the organization's policies treat all important constituencies of the firm. This includes not just financial markets, but employees, customers, suppliers, the community in which the organization exists, and so on'.

At a practical level, the shareholder primacy perspective has been associated with negative outcomes for firms, their stakeholders and society. For instance, Cloninger (1995, p. 50) observed that, 'In the presence of asymmetric information, the avid pursuit of share price maximization may lead managers to violate certain stakeholder interests and employ business practices that are unethical, immoral, or illegal'. Evidence of shareholder primacy in business organizations, and ensuing problems, is also found anecdotally. In an extreme case, several decades ago managers at Manville (then Johns-Manville) received information that asbestos inhalation was associated with lung disease. Manville suppressed the information and continued with production. They even concealed chest X-rays from their employees. In the aftermath of this scandal, a Manville lawyer was quoted as saying that in the interest of making a profit the company would let employees work until they dropped dead (Gellerman, 1986). More recently, the BP oil spill in the Gulf of Mexico was traced back to several decisions made by BP employees and contractors to ignore safety procedures in an effort to cut costs (National Commission, 2011). If we believe that if values such as those found among graduating business students actually translate into concrete behaviours, then it is also logical to expect that on a smaller scale, and thus in less detectable situations, decisions of this nature are presumably made on a regular basis.

The arguments contained in this section lead us to a discussion of stakeholder theory as a more defensible perspective on the question of to whom the corporation is responsible and to whom it should be reporting.

RESPONSIBILITY TO STAKEHOLDERS

In a broad sense, stakeholders are groups and individuals that have an interest in the activities and outcomes of a firm and upon whom the firm depends in order to achieve its own objectives (Freeman, 1984; Freeman et al., 2007). For reporting purposes, we are most interested in those stakeholders *that are affected by firm actions*. It is these stakeholders that provide the resources either explicitly (e.g., shareholders and employees), or implicitly (e.g., communities, that allow the firm to exist and create value). Stakeholder theory makes a firm responsible to multiple stakeholders based on both normative and instrumental grounds (Donaldson and Preston, 1995; Jones, 1995). In other words, a firm should look after the interests of its stakeholders because it is the right thing to do *and* because it is the means through which the firm can create more value.

This latter notion that a stakeholder-based management approach creates more value has received empirical support from studies that demonstrate higher performance for these types of firms (Berman et al., 1999; Choi and Wang, 2009; Freeman et al., 2010; Hillman and Keim, 2001; Orlitzky et al., 2003; Preston and Sapienza, 1990; Sisodia et al., 2007; Waddock and Graves, 1997). Much of the empirical accounting research in this area has focused on how corporate responsibility reporting benefits shareholders through more informative disclosures, lower cost of capital and higher quality earnings (Dhaliwal et al., 2012; Kim et al., 2012). The notion is also supported in practice, with over one third of the G250 companies reporting improved financial performance as a result of their corporate responsibility programmes (KPMG, 2013). Nonetheless, it is not our purpose in this paper to advocate for broader stakeholder reporting on instrumental grounds. Instead, we return to the normative foundation upon which shareholder primacy is based, and discover that it fits nicely with a broader stakeholder perspective.

We mentioned in the introduction that the stakeholders to whom we believe the public accounting profession should be responsible are those that provide important resources to the firm's value creating processes, which include investors of financial capital, employees, suppliers, customers and communities. The ideas of residual claims and implied contracts found in the shareholder primacy literature can be extended to include this broader group of stakeholders (Marens and Wicks, 1999; Stout, 2012; Zingales, 2000). For example, employees bear residual risk in the sense that their fortunes are intertwined with the fortunes of the company, and many employees have made specific investments in an organization that have no market value outside of that organization (Blair, 1995). Also, if the company is making a solid profit, then their own salaries, benefits and working conditions are expected to improve. This is an implicit contract, and if a firm is prospering and not sharing its spoils through better treatment of employees, however defined, there are likely to be ramifications in terms of employee behaviour (Bosse et al., 2009; Donaldson and Dunfee, 2000; Phillips and Johnson-Cramer, 2006; Simon, 1966). The firm similarly establishes implicit contracts with all of the stakeholders that are part of the core production function of the firm.

Adding to the concepts of residual claims and implied contracts is the *principle of fairness* (Phillips, 1997, 2003), which suggests that stakeholders should be given merit based on the extent of their contributions of resources to the firm. Similarly, Clarkson (1994) suggests that stakeholders should be identified as such only if they bear some form of risk from a firm's activities, most often because they have contributed something of value. These are the stakeholders to whom the firm might be expected to provide information that will allow them to protect their investments through making better risk assessments. Our emphasis, then, puts highest priority on stakeholders that bear the highest risks through their investments in the firm, consistent with the residual claims, implied contracts, and fairness arguments. *Our normative argument, from an external reporting perspective, is that non-financial stakeholder groups that contribute significant resources to the corporation are as worthy of receiving reliable information (on a regular basis) that will help them to mitigate their risks (residual and otherwise) as are those stakeholder groups that supply financial capital to the firm.*

Current 'Stakeholder' Reporting

As Freeman (1984) stated and reaffirmed in Freeman, et al. (2010), stakeholder theory is not about social responsibility. It is about creating value through efficient and effective management in an increasingly complex and turbulent business world (Freeman et al., 2007). By extension, creating value is at variance with creating negative externalities. Thus, a firm that is spewing large amounts of dangerous waste into its surrounding communities is creating less value with regard to those communities. Similarly, a firm that is producing dangerous products (to save money) is likely to be found out eventually and the flow of resources from customers (sales) would be expected to decline. This logic applies to all stakeholder groups that provide resources to the firm. Stakeholder theory suggests that eventually value-lessening behaviour causes problems as stakeholders cease to provide resources necessary to create value (Harrison and Wicks, 2013). So although stakeholder theory is not corporate social responsibility theory, we believe that when viewed in light of their potential for adding value to the firm, the two concepts are sufficiently congruous to arrive at similar conclusions, at least with regard to stakeholder reporting. That is, a 'stakeholder oriented' or a 'socially responsible' firm has a responsibility to provide accurate reporting to a broader group of stakeholders than just financial investors, because these additional stakeholders also bear residual risk associated with value creation.

Stakeholder theory has primarily been used in the accounting literature within sustainability reporting research as a theoretical framework to identify those stakeholders who are engaged with a corporation (Boesso and Kumar, 2007; Gray et al., 1995; Prado-Lorenzo et al., 2009; van der Laan Smith et al., 2005). However, within this literature, the theory has been criticized for not addressing how an organization *should* monitor and respond to the needs of stakeholders (Gray et al., 1997). From a stakeholder perspective, current financial reporting is important because financial figures are relevant to all of the stakeholders that provide resources to the firm and consequently bear residual risk; but as we have argued, current reporting is insufficient (Harrison and Wicks, 2013). We therefore turn to a discussion of the needed improvements in sustainability reporting that can more effectively address the needs of all bearers of residual risk.

Additional Possibilities for Sustainability Reporting

Sustainability reporting is currently increasing in popularity, and the majority of the largest global corporations engage in such reporting (Kolk, 2003, 2010; KPMG, 2013). The sustainability premise is that firms should engage in business in such a manner that they do not deplete the resources necessary to engage in their business in the future (Perego and Kolk, 2012). For example, Royal Dutch Shell publishes an annual sustainability report that covers topics such as sustainability principles, safety, environmental impact, and how sustainable development is integrated into the company's business strategies (Royal Dutch Shell, 2012). Other firms create reports that deal specifically with outcomes important to particular stakeholders. But there are difficulties.

Research indicates that much of the information currently reported through sustainability reports is 'not material, not assured, not measured, not aggregate information, not comparable with other organisations and, presenting a favorable view rather than a realistic view of the organisation's performance' (Hubbard, 2009, p. 15). Also, corporate sustainability statements may lack credibility due to the possibility of ulterior purpose, thereby being dismissed: as part of a broad public relations effort (Freeman and Auster, 2011; Liedtka, 2008) or as a response to public pressure (Patten, 1995). Furthermore, studies on the content of sustainability reports observe significant cross-national differences in the level and quality of corporate social disclosure (Gamble et al., 1996; Meek et al., 1995; van der Laan Smith et al., 2005; Williams and Pei, 1999; Zarzeski, 1996). Each of these difficulties limits the effectiveness of accounting and reporting for the benefit of all residual-risk-bearing stakeholders.

Like external financial reports, independent audits of sustainability reports provide credibility to the reporting process and improve firm value through enhanced corporate reputation (Simnett et al., 2009). However, in a study of organizational accountability for sustainability in G250 firms over a ten-year period, Perego and Kolk (2012) found great variability in the adoption of assurance practices. Also, while we stated in the introduction that almost 60 percent of the G250 companies have their sustainability information assured, less than 40 per cent of the largest 100 companies across 41 countries do so (KPMG, 2013). Within the USA the number of companies electing to have their sustainability reports assured is even lower, with only 16 per cent of US companies issuing assured sustainability reports in 2013 (Environmental Leader, 2014). Also, the majority of sustainability audits both within the USA and globally still only provide limited levels of assurance (Perego and Kolk, 2012).

One of the primary concerns that auditors have with the assurance process for sustainability reports is that, unlike external financial reporting, there are no sustainability criteria or standards that have been generally accepted by a regulatory authority (Ballou et al., 2006; Perego and Kolk, 2012; Simnett et al., 2009). The lack of accepted metrics makes it difficult to obtain the assurance necessary to develop an opinion on the quality of the entire report. This typically results in sustainability reports that are audited only on very specific measures, providing limited usefulness to stakeholders (Peters and Romi, 2015). Again, these arguments support the argument that the public accounting profession should take more responsibility to ensure more consistent reporting for nonfinancial stakeholders. Using the previous sections as a foundation, we will now examine the present and future of accounting for stakeholders using explanations offered by institutional theory.

THE INSTITUTIONALIZATION OF ACCOUNTING FOR STAKEHOLDERS

Institutional theory is helpful in explaining the current situation with regard to both public financial and stakeholder accounting, and in predicting what will happen to these two institutions in the future. DiMaggio and Powell (1983, p. 148) argue that organizations tend to become homogenous within particular areas 'that, in the aggregate, constitute a recognized area of institutional life'. Institutions are reflected by norms, rules, policies, structures and behaviours of members of organizational fields, such as professions. We will consider public financial and stakeholder reporting institutions separately because of the recent steps the public accounting profession has taken to limit its responsibility for broader stakeholder reporting; although we acknowledge that many accounting firms participate in both institutional fields. In fact, as we will argue an eventual convergence of the two institutions either voluntarily or through coercion appears to be likely.

Building on the concept of isomorphism, a constraining process that causes one unit in an institutional field to become increasingly more like other units in that field, DiMaggio and Powell (1983) suggest three mechanisms of institutional isomorphic change: coercive, mimetic, and normative isomorphism. Coercive isomorphism results from informal and formal pressures exerted by organizations on other organizations that depend on them, and from cultural expectations within society (1983, p. 150). Mimetic isomorphic processes involve imitation of one organization by other organizations as a response to uncertainty (when organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty); basically, modeling themselves on other organizations within an institutional field rather than trying new things themselves (1983, p. 151). Normative pressures that lead to isomorphic organizational change are suggested to come from widely held norms of conduct that stem from professionalization – the collective struggle of members of an occupation to define the conditions and methods of their work: expectations regarding how firms and individuals within a particular profession will behave (1983, p. 152). Clearly, institutional theory would argue that norms and normative pressures will have a strong influence on behaviour in the accounting institution.

Analysis of Present Institutions

To understand better how isomorphic mechanisms influence the institution of public financial accounting, we will examine relationships among some of its key stakeholders relative to the three types of isomorphic pressure previously outlined. The FASB holds a central position in the institution of public financial accounting in the USA because it negotiates, records and promulgates the policies, practices and rules followed by the public accounting profession. Consequently, the FASB has normative power with regard to the American Institute of Certified Public Accountants (AICPA) and with regard to accountants in general. However, there is also much evidence of coercive political pressure on the FASB, including direct lobbying and indirect lobbying to influence the FASB through the SEC and through political representatives (i.e., Koh 2011; Königsberger 2010; Zeff 2005a,b).

Public accountants and public accounting firms, whose interests are represented by the AICPA, also have coercive power because they are a major lobbying group and they are also the primary 'customer' of the FASB. Of course, the SEC has coercive power over the FASB because they have charged the FASB to establish financial accounting and reporting standards in the public's best interests (which, we note, also reinforces society as a stakeholder). The investment community and the legal community are also key coercive stakeholders, which often work together to exert informal and formal pressure on the FASB as an organization that depends on them. We suggest that other standard-setting organizations such as the IASB and GRI are stakeholders primarily through normative and mimetic forces. Corporations, as customers of the public accounting profession, are also stakeholders within the institutional field of public accounting, and in this role have in the past exerted both coercive and normative isomorphic pressures on the FASB. There are other stakeholders, of course, but these appear to be most influential in terms of isomorphic pressure.

By definition, as members of an institutional field, the interests of these stakeholders are interconnected, and societal influences are represented through the actions of special interest groups, the legal community, corporate leaders, politicians, the media, and other forms of pressure (i.e., Campbell, 2007). There is substantial evidence that society would prefer broader stakeholder reporting, as reflected by demand for such information from groups such as Ceres, representing over 100 major institutional investors, who recently released a proposal recommending integrating disclosures on environmental and social issues into stock exchange listing rules (Ceres, 2014). Also, the growing number of organizations working to provide this sort of information include Bloomberg, that added environmental, social and governance data to its terminals in 2009 (Bloomberg, 2014). Since the SEC holds coercive power over the FASB, with responsibility for the public interest, and societal expectations are also coercive in nature (DiMaggio and Powell, 1983), the FASB would be expected to move in the direction of providing what society wants. Such is not the case, at least at present. What might explain this contradiction?

Of the stakeholders mentioned, we have argued that the SEC has the greatest coercive power over the FASB. However, we have also argued that the AICPA and the legal community also have tremendous influence, as was manifest, for example, in the takedown of Arthur Andersen after the Enron scandal. In fact, we believe the Enron/Arthur Andersen incident gave the legal community more salience to and coercive influence over the public accounting profession than it had previously because of its display of power (see Mitchell et al., 1997 for clarification of the salience construct). This logic suggests that the public accounting profession as normed by the FASB (and thus the AICPA) may have become more risk averse, thus less willing to take on broader responsibilities for new areas of accounting such as sustainability accounting specifically and accounting for stakeholders more generally, especially since the contents of these accounts are likely to be more difficult to measure. In addition, widely accepted financial theory favouring shareholder dominance, whether appropriate or not to the needs of society at large, provides legitimacy to the current tighter focus of the financial accounting institution on reporting only for the benefit of investors and creditors. We note that this shareholder-dominance view is also likely to be manifest in the response of managers of the publically-reporting corporations the accounting profession serves; and thus many such managers would also be expected to resist new reporting requirements because of their expense.

In the past, the societal stakeholder has become more salient due to urgency resulting from some crisis or other, such as the creation of Sarbanes-Oxley in the aftermath of the financial crisis. However, it is difficult to imagine what sort of crisis it might take for the AICPA and FASB to give enough salience to society and other corporate stakeholders as unrecognized holders of residual risk to cause them to embrace the creation of new standards for stakeholder reporting. We suggest that the international movement towards broader reporting might be better described as a groundswell than as the kind of crisis that might reshape current institutional pressures to enable stakeholder accounting standards to become institutionalized. However, there is another institutionally based force that may still accomplish such a change in direction, which we now suggest.

Analysis of a Possible Future Institution

As we suggested previously, another reporting institution is rapidly emerging, which we suggest should be made more theoretically explicit, and which we call the institution of accounting for stakeholders. For several reasons the institution of accounting for stakeholders that we conceptualize is more responsive to current societal forces.

Lawrence et al. (2001), who theorize concerning the temporal dynamics of institutionalization, have described several stages that an institution passes through before it becomes stabilized: innovation, diffusion, and legitimation (2001, p. 626). We argue that the institution of accounting for stakeholders has moved beyond the innovation stage, in which a few organizations established early standards for stakeholder reporting, and is now in the diffusion stage, as exemplified by broader application and acceptance of stakeholder reporting (sustainability reporting being the exemplar used to introduce our paper). We suggest that the diffusion stage has been accelerated by public outcry and pressure by special interest groups and the media, as well as by investors who would like to receive this information (e.g., socially conscious investors, managers of social investment funds). We further suggest that the institution of accounting for stakeholders is gradually moving towards the legitimation stage, in which stakeholder reporting will have achieved full acceptance. Lawrence et al. (2001, pp. 632, 634) further argue that the pace and stability of institutionalization are affected by a variety of mechanisms that include: both episodic (force or influence) and systemic (domination or discipline). The above analysis that we have reported herein suggests that both influence (normative and coercive pressures within the USA) and discipline (mimetic international pressures) are likely to combine to result in a medium pace/high stability institution in the future of accounting for stakeholders. We have reason to expect this to be within the realm of possibility.

At the firm level, some argue that social and environmental accounting has already become a legitimate institution (Contrafatto, in press), and corporations may feel compelled to disclose stakeholder information because of its legitimizing effect (Deegan, 2002). Also, the steady diffusion of the institution of stakeholder reporting, as reflected by the myriad organizations involved in sustainability reporting (our example), and the increase in voluntary disclosures by corporations, can be thought of as somewhat of a threat to the current public accounting institution and as influence toward the stakeholder accounting institution. Even the existence of this Special Issue in a highly prominent management journal suggests that legitimation is underway. The idea that the stakeholder accounting institution might be considered a feasible threat to the public financial accounting institution can be explained from two perspectives: normative and coercive socio-political pressures; and mimetic and normative pressures.

Normative and coercive socio-political pressures. First, it is possible that the social and political forces that are shaping accounting for stakeholders might also ‘catch up’ with the institution of financial accounting. Research indicates that stakeholders can influence the way firms measure performance (Rodrigue et al., 2013), and even the establishment of reporting standards such as the development of ISO 26000 (Balzarova and Castka, 2012). Will the public accounting profession be able to hold to its position that its salient stakeholders for reporting purposes are primarily the investors and creditors, or will it be forced to reverse its position again due to normative and coercive isomorphism manifest through social, political and stakeholder forces that demand reporting to the broader set of residual-risk stakeholders? As stakeholder accounting continues its path toward full legitimacy through social acceptance and desirability, the SEC itself might eventually respond to social pressures and coerce the FASB and thus the public accounting profession to conform.

As an illustration of this sort of coercion, for purposes of at least arguing practicality, the FASB itself was established in 1973 as a result of public and US Government concerns over the independence of the previous standard setting body, which was a part of the AICPA. Later in the 1970s, as a result of public pressure arising from the Penn Central Company bankruptcy, the US Senate's Metcalf committee expressed concern over the independence of accountants and the quality of audits. This resulted in the AICPA establishing a self-regulatory group, the Public Oversight Board, to conduct peer reviews of audits. However, the public outcry in the aftermath of the Enron and Worldcom bankruptcies led to the Sarbanes-Oxley Act of 2002, which pulled the review of audits from the AICPA and established the Public Company Accounting Oversight Board (PCAOB). In testimony before the Senate Banking Committee, Charles Bowsher, then chairman of the Public Oversight Board, stated that the self-regulatory programme had failed primarily as a result of the resistance of the AICPA to reform (Bowsher, 2002). Therefore we observe that if the public accounting profession does not respond to societal pressures on its own, the pressures extant in the institutional field of public accounting may lead to the opening of new hearings by the US. Government.

Mimetic and normative pressures. Second, if the public accounting profession waits, other organizations involved in the institution of accounting for stakeholders will have time to establish strongly institutionalized, more uniform standards for stakeholder reporting through mimetic processes and normative pressures. If the US Government, for example, due to societal and political pressures as just noted, should eventually compel the FASB (through the SEC) to adopt a broader perspective on reporting, the FASB would feel pressure to accept the stakeholder reporting institutions that have already been established. This would severely erode their leadership position in the setting of standards and their ability to create a set of institutions that are most appealing to accounting professionals in the US. In this regard, Campbell (2007) suggests that regulations and enforcement capacities are more effective if developed voluntarily through negotiation and consensus rather than by government mandate.

Eventually, we predict that isomorphic influences will cause the institution of public financial accounting and the institution of accounting for stakeholders to converge. Support for this theoretical assertion is found in the fact, mentioned previously, that many public accounting firms are already involved in accounting for stakeholders. For example, each of the Big 4 accounting firms have separate, defined service groups providing client support for sustainability and climate change initiatives and reporting. Also, at some point threat of government intervention is likely to motivate their convergence (Campbell, 2007). Basically, at least according to the predictions of the institutional theory we have applied to accounting for stakeholders, the FASB and AICPA can now decide whether they want to be leaders or followers during the convergence process.

Practical Considerations

Our analysis based on institutional theory suggests that if the public accounting profession does not take action to broaden its reporting requirements to serve more stakeholders, isomorphic forces may compel them to do so, and they could also lose their preeminent leadership position in the reporting profession as a result. However, there are also some practical reasons that the FASB is the best-suited organization to take on the challenge of moving the institution of public accounting from a primarily reactive one to one of proactivity. For example, efficiency would seem to be a major consideration, since both public accountants and members of the stakeholder-based reporting institution are obtaining information from many of the same organizations. Would it not be more efficient, from a societal perspective, for the same institution to run both processes? Also, the FASB would enjoy a legitimacy advantage compared to other standard setting agencies.

Another practical consideration is to consider who else might take on the initiative to standardize reporting for a broad group of residual-risk stakeholders. The three most reasonable candidates would seem to be the US Government, the IASB, and the GRI. With regard to the US Government, the SEC has the authority to require expanded disclosure of a company's practices with regard to environmental and social issues (Williams, 1999). However, the reality is that political gridlock among government leaders often makes such a bold move unlikely within a short-term time horizon. Looking at the second candidate, the IASB does not yet have enforcement power; and their standards are not permitted to be used by US based companies for securities listings in the US. Finally, at this point in time at least, the GRI cannot require uniform standards, nor does it have enforcement authority.

We therefore argue that now is an appropriate time to expand the purpose of external reporting because there is so much momentum behind voluntary reporting (Kolk and Perego, 2010; Perego and Kolk, 2012) and, as a result of so many scandals, layoffs, bankruptcies, broken promises, environmental concerns, and corruption, society as a whole is demanding better and broader reporting. Governments and stock exchanges have begun requiring reporting on sustainability issues (KPMG, 2013) and support for environmental and social shareholder resolutions reached over 21 per cent for the first time in 2013 (Institutional Shareholder Services, 2014). The public accounting profession is in the unique position of having the experience and clout to pull together and standardize measurement and communication standards and processes that are currently widely distributed in a large number of third-party organizations, and to do so in a way that makes sense for corporations and their stakeholders.

Nonetheless, while the timing may be right from a societal perspective, we acknowledge that such a move will not be without controversy, and may actually take some time to accomplish. Consider the case of the costs of disposing of a physical asset at the end of its useful life, such as a nuclear power plant. Prior to 2002, there were a variety of ways of accounting for these costs, referred to as asset retirement obligations, ranging from no recognition to treatment as a depreciation expense. In 2001, the FASB issued a standard requiring consistent measurement, recognition and disclosure of these estimated, future costs even in cases where there may be no explicit contract obligating the firm to incur disposal costs. While controversial at the time, this standard is now accepted practice. We believe that beginning now to develop the procedures and practices for effective accounting for residual-risk stakeholders, if implemented, will also generate controversy in the short term (cf. Agle et al., 2008), but that they are both sorely needed and inevitable.

AN EXPANDED PURPOSE FOR PUBLIC ACCOUNTING

Based on the logic and arguments found in previous sections of this paper, we propose an expansion of the traditional role of external financial reporting to include measurement and communication of information that is relevant to stakeholders that provide important resources to the firm, with the purpose of allowing them to make better judgments with regard to the residual risks they face through engagement with a corporation. This information might be provided with currently required financial reports or in separate reports, much like the sustainability reports currently produced by many corporations. The difference, of course, is that these new reports would be based on uniform reporting standards and would be audited. We suggest such development to be practical and consistent with past practice.

Over time, accounting disclosures have developed to meet the information needs of financial statement users. Since capital providers have been defined as the primary users of financial statements, much of the disclosure literature has focused on the information asymmetry between investors and managers (Healy and Palepu, 2001). Applying the existing financial disclosure research and models to a broader set of financial statement users provides a framework for understanding the information needs of these users (See Beyer et al., 2010; Healy and Palepu, 2001). For example, Dye's (1998, 2001, p. 218) disclosure model predicts 'as the probability that investors are sophisticated increases, a seller's propensity for making disclosures also increases'. Dye's example of this prediction is the disclosure of environmental liabilities that were not disclosed when investors were not aware of the issue. As the 'climate' changed and investors became more interested firms had a higher propensity to disclose this information. Disclosure of environmental liabilities is now a part of GAAP, as would have been predicted by institutional theory. The growth and level of sustainability reporting indicates that stakeholders are interested in this information and, as Dye's model predicts, companies are providing it. However, they are not yet doing so in a reliable and comparable form.

We argue that corporations should have an independent auditor provide assurance that they are adhering to standards for stakeholder-based reporting, providing an additional layer of credibility to the reporting process. Audited reports may not be, nor do they claim to be, free from errors; however, they provide a level of credibility that is absent from non-audited information (Neu et al., 1998). The additional assurance provided to financial statement users is the primary reason given for the SEC's requirement that publically listed companies provide audited financial statements (www.SEC.gov). This logic can be extended to broader stakeholder-based reporting.

The FASB has already defined the characteristics of information that allow it to be useful, identifying relevance and faithful representation as 'fundamental qualitative characteristics' (FASB 2010, Concepts Statement No. 8). Information is relevant if it makes a difference in a decision; that is, it must have predictive or feedback value. Information provides a faithful representation if it measures what it purports to measure. Within this information framework the FASB establishes the accounting standards required to be used by all US entities (see Hail et al., 2010) for a discussion of the role of accounting standards). Fortunately, the public accounting profession has experience reporting on issues that are not purely financial. For example, the notes associated with external financial reports must include a discussion of risk factors (FASB 2014, Accounting Standards Codification 275), pending lawsuits (FASB 2014, ASC 450), large contracts (FASB 2014, ASC 280), dependence on large customers (FASB 2014, ASC 280), disclosures related to climate change (SEC 2010, Release No. 33-9106), and so forth.

There is also a deep and broad body of accounting literature examining the properties of the external reporting environment (Beyer et al., 2010; Healy and Palepu, 2001). Building on this knowledge provides a basis from which to develop stakeholder reporting practices. Although length constraints prevent us from full elaboration in this regard, we would like to at least provide a few examples of the kinds of measures stakeholders might find useful (see Table I). Our examples focus on evaluation of the risks of engaging with an organization, although stakeholders might also use such information to help determine the value they might expect to receive. We recognize also that a static system, universally applied, would be problematic. We suggest that flexibility in what is reported across various industries will be necessary. Also, reporting practices will need to be examined regularly and revised based on current conditions, learning processes, and evolving stakeholder information needs.

The second column of Table I contains examples of the types of risk factors various stakeholders face when they consider engaging or continuing to engage with a firm. For example, an employee who is considering working for a company faces risk of termination (or voluntary turnover), discrimination, and poor or dangerous working conditions, among other things. In the job interview, the company may say that they have excellent and safe working conditions and that people seldom leave the firm, while these statements may not be entirely accurate. If a firm has to report on things like turnover by level and injury rates or sick days by type of work, then prospective employees can better assess their risks.

Similarly, customers and potential customers are influenced by public advertising and direct communications from the firm. However, if firms are required to report on things like return rates then they will be able to make a better assessment of the risks associated with buying a product from a particular company. Examples like these are available for all of the stakeholders that contribute important resources to the firm. Notice in the third column of Table I that there are easily available measures and that shareholders have much more information available to them (by financial reporting mandate) to

Table I. Examples of stakeholder risk factors, easily obtained measures and Global Reporting Initiative™

Stakeholder	*Risk factor*	*Measures based on data already collected internally by many organizations*	*Global Reporting Initiative™ Examples of G4-sustainability reporting guidelines*
Employees or potential employees	-Termination -Discrimination -Poor working conditions -Dangerous working conditions	-Annual turnover by level (hourly, salaried, management) and type (voluntary, non-voluntary) -Workforce characteristics in terms of race, sex, national origin, age, by level -Workplace policies and methods of enforcement -Injury rates and average sick days by type of work (manual labour, administrative) -Employee legal suits pending and settled[a]	**G4-LA6** **TYPE OF INJURY AND RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS, AND ABSENTEEISM, AND TOTAL NUMBER OF WORK-RELATED FATALITIES, BY REGION AND BY GENDER** a. Report types of injury, injury rate (IR), occupational diseases rate (ODR), lost day rate (LDR), absentee rate (AR) and work-related fatalities, for the total workforce (that is, total employees plus supervised workers), by: Region Gender b. Report types of injury, injury rate (IR), occupational diseases rate (ODR), lost day rate (LDR), absentee rate (AR) and work-related fatalities for independent contractors working on-site to whom the organization is liable for the general safety of the working environment, by: Region Gender c. Report the system of rules applied in recording and reporting accident statistics.
Customers or potential customers	-Poor product quality -Injury	-Quality policies/procedures and implementation processes -Return rates -Customer legal suits pending and settled[a] -Customer satisfaction	**G4-PR5** **RESULTS OF SURVEYS MEASURING CUSTOMER SATISFACTION** a. Report the results or key conclusions of customer satisfaction surveys (based on statistically relevant sample sizes) conducted in the reporting period relating to information about: The organization as a whole A major product or service category Significant locations of operation

Table I. *Continued*

Stakeholder	*Risk factor*	*Measures based on data already collected internally by many organizations*	*Global Reporting Initiative™ Examples of G4-sustainability reporting guidelines*
Shareholders or potential shareholders	-Agency problems -Inaccurate financial reports/theft -Business risks -Systematic risk	-Board independence[a] -Ownership holdings by top managers and directors[a] -Top manager compensation and policies[a] -Shareholder proposals[a] -Compliance with standard financial reporting procedures[a] -Disclosure of major business risks[a] -Beta[a] -Percentage of new R&D projects	**G4-38** a. Report the composition of the highest governance body and its committees by: Executive or non-executive Independence Tenure on the governance body Number of each individual's other significant positions and commitments, and the nature of the commitments Gender Membership of under-represented social groups Competences relating to economic, environmental and social impacts Stakeholder representation
Communities	-Water usage -Pollution -Business disruptions/loss of jobs -Negative impact from growth	-Measures of water usage -Measures of carbon and non-carbon emissions and waste -Disclosure of percent of workforce overseas and fair warning (2 years) of plans to outsource to other geographic locations -Policies regarding actions to mitigate negative externalities (beyond pollution) and implementation of policies	**G4-EN8** **TOTAL WATER WITHDRAWAL BY SOURCE** a. Report the total volume of water withdrawn from the following sources: Surface water, including water from wetlands, rivers, lakes, and oceans Ground water Rainwater collected directly and stored by the organization Waste water from another organization Municipal water supplies or other water utilities b. Report standards, methodologies, and assumptions used.

Table I. *Continued*

Stakeholder	*Risk factor*	*Measures based on data already collected internally by many organizations*	*Global Reporting Initiative™* *Examples of G4-sustainability reporting guidelines*
Suppliers	-Late payments -Opportunism -Contractual discrimination	-Average payment time[a] for suppliers as well as longest payment time during a period -Supplier legal suits pending and settled -Characteristics of the top managers of contracting organizations in terms of race, sex, national origin, age	**G4-EC9** **PROPORTION OF SPENDING ON LOCAL SUPPLIERS AT SIGNIFICANT LOCATIONS OF OPERATION** a. Report the percentage of the procurement budget used for significant locations of operation spent on suppliers local to that operation (such as percentage of products and services purchased locally). b. Report the organization's geographical definition of 'local'. c. Report the definition used for 'significant locations of operation'.

Notes: Voluntary standards related to stakeholder groups.
[a] Already consistently reported in some form. The reporting format and measurement processes would become standardized for this information, thus making it easier for the relevant stakeholder to find.

make good assessments of investment risks, as indicated by an asterisk next to these items.

We recommend that that the public accounting profession, represented by the AICPA, work closely with the FASB and organizations such as the GRI, the Fair Labor Association, United Nations Conference on Trade and Development (UNCTD), and the Social Accountability Network to develop standards for reporting that are fair and reasonable. These and other organizations have developed voluntary standards and procedures that provide a background for understanding the type of information that is being compiled and reported. In particular, the GRI guidelines have become the predominant global standard for this sort of reporting (KPMG, 2013). The far right column of Table I presents examples of the GRI standards related to a variety of stakeholders. The GRI standards are not a solution to the problem, but the beginning of a learning process through which the AICPA and FASB can learn about and develop appropriate reporting standards for information relevant to a broader group of stakeholders.

DISCUSSION AND CONCLUSION

In sum, we argue in this paper that the public accounting profession should reconsider its position with regard to stakeholder reporting. We argue that the timing is right for the changes we have proposed herein because of all the voluntary reporting initiatives that have sprung up and because the public in general has lost much of its confidence in corporations in spite of current financial reporting requirements, both of which are indications of a worldwide interest in holding large businesses more accountable and accountable to a broader group of stakeholders than just financial investors. We have made a normative argument for this expansion of responsibility on the basis of two principles that are foundational to current arguments supporting shareholder dominance: implied contracts and residual risk. Based on the principle of fairness, we have also identified the most worthy stakeholders for reporting purposes as those that contribute significant resources to the value-creating processes of the firm thereby assuming residual risk. In addition, an analysis based on institutional theory suggests that broader reporting is inevitable, and that the public accounting profession should assume an increased leadership role in its institutionalization. Finally, we have used efficiency arguments to suggest that public accounting is in the logical position to lead this effort.

We openly acknowledge that an alternative perspective exists. For example, Benston (1982) wrote a compelling article outlining some of the reasons the public accounting profession should not be involved in the reporting of anything other than the results of defined market transactions (for a critique of his arguments see Schreuder and Ramanathan, 1984). He defends his position by arguing that managers have very little discretion to make decisions that are not in the best interests of shareholders due to markets for goods and services, finance and corporate control, management services, and current monitoring systems. Furthermore, he suggests that managers will treat customers, employees, and other stakeholders well because it is good business, and therefore beneficial to shareholders. Consequently, the logical conclusion is that broader stakeholder reporting is unnecessary to insure appropriate behaviour of managers, and therefore a waste of resources. What we find most interesting (but not surprising) in this argument is its dependence on shareholder welfare, which is mentioned repeatedly in defense of Benston's arguments. We note, however, that if the shareholder dominance position is removed from his arguments they lose much of their logical appeal.

Benston (1982) also argues, and legitimately so in our view, that stakeholder-based phenomena are hard (or perhaps impossible) to measure (cf, Agle et al. 2008). We do not deny these difficulties, but rather believe it is because of the problems inherent in the measuring and reporting of non-financial costs that accountants should be involved, given their expertise in the compilation, development and reporting of financial information. Benston (1982, p. 102) concedes that the skills of accountants would be useful for this sort of reporting. The SEC in its 1980 report to Congress on the public accounting profession stated 'it seems clear that auditors in the future will be required to become associated more and more with disclosures which are based on greater subjectivity and imprecise determination' (SEC, 1980, p. 72). As the SEC predicted, accountants are no longer limited to the reporting of past, unambiguously verifiable transactions. Fair market valuation of investment securities and discontinued operations as well as determination of postretirement benefit costs are just three of the many inherently ambiguous measurements that accountants are routinely required to evaluate. Further, non-financial costs that were once considered too difficult to measure such as carbon emissions are now routinely reported to regulatory entities.

Another potential argument against reporting based upon accounting for residual-risk stakeholders is the expense. However, some research suggests that organizations that are voluntarily engaging in these efforts are not suffering financially. For example, with regard to implementing the ISO 9000 standards, several researchers have found that certified organizations have higher performance (Chow-Chua et al., 2003; Corbett et al., 2005; Heras et al., 2002; Naveh and Marcus, 2007; Rajan and Tamimi, 2003) and voluntary sustainability reporting has been linked to lower cost of capital and higher quality earnings (Dhaliwal et al., 2012; Kim et al., 2012). We concede that some of these findings may be due, in part, to reverse causality – better performing companies seek certification and report on it – but we do not believe this argument is sufficient justification not to require a higher level of disclosure.

Although we have focused in this paper on reporting for residual-risk stakeholders, we recognize that investors may also find stakeholder accounting useful. Firms that are, for example, doing undesirable things to their employees, are producing shoddy products, are heavily polluting the environment, or are not treating their suppliers fairly are just as much at risk of reduced performance or even failure as firms with other types of risk (i.e., Graves and Waddock, 1994). Of course, employees will use this information when they are determining whether they want to join an organization or remain with it, suppliers will use it when they are assessing whether they want to supply the organization, and communities will use it when they are determining whether a company should be allowed to expand (e.g., permits) and in determining appropriate regulations. But the point is that there is some potential synergy in this sort of reporting because investors can also make use of it.

The expanded reporting suggested in this paper will also help level the playing field by inducing firms to be more authentic; that is, exhibit more consistency between stated values and actual behaviour (Cording et al., 2014; Freeman and Auster, 2011; Liedtka, 2008). Because their reports will be audited by a third party, firms will no longer enjoy the luxury of making as many unfounded statements about their behaviours with regard to issues that are vital to stakeholders.

From an academic perspective, these recommendations could result in exciting new research. Currently researchers have to rely on limited data such as the KLD database and a few other sources. Standardized stakeholder-based reporting across corporations would allow a higher level of measurement precision as well as the potential to investigate more issues of concern to both stakeholders and the broader society. It will also provide more opportunities for understanding stakeholder information needs and the processes through which those needs evolve. For example, researchers will be able to more accurately assess the cost/benefit tradeoffs associated with a wider range of corporate behaviours. Best practices for stakeholder treatment will be easier to determine (Freeman et al., 2010). Basically, better data for research can help advance the knowledge base for both business practitioners and policy makers.

Through a critique of the existing theory underlying shareholder primacy, and a reapplication of some of this same theory to a broader group of stakeholders, this paper has laid a normative foundation for a new theoretical and practical perspective on the responsibility of the public accounting profession. Also, our analysis based on institutional theory suggests that the accounting profession will eventually be compelled to make these changes even if they are resisted at present. We have therefore recommended that the accounting profession should build upon existing voluntary reporting initiatives, and we have provided examples to illustrate the types of stakeholder-based measures that might be considered. We therefore consider the emergence of stakeholder accounting –as an institution – to be well underway; and we encourage each of its stakeholders to use their influence toward the development of the more-effective and more-representative discipline that we believe to be possible.

NOTE

[1] Former President of the American Finance Association.

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