From Control to Values-Based Management and Accountability[1]

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ABSTRACT. In recent years a series of developments in apparently loosely coupled domains have contributed to the development of new and vital perspectives on how to manage complex social systems such as corporations. These developments include improved communications technologies, increased awareness by constituencies of their potentials for influencing corporate behaviour, increased complexity and reduced transparency in large, heterogeneous organisations, a corresponding reduction in the capacity of traditional accounting and reporting systems to reflect organisational performance, new demands from employees as to their work environments, from customers as to ecological and ethical sensitivity, from civil society and governments as to social and environmental accountability etc.

A result is a major shift in the way organisations are choosing to observe themselves and to describe, measure, evaluate and report on their performance. From a focus on efficiency and control to a values-based perspective on management, corporate identity and success. And from a focus on legal compliance and financial performance to a focus on corporate social and ethical responsibility and accountability.

The introduction provides a background for this transformation while the body of the paper motivates the on-going shift from control to values-based management. The article concludes with reflections on corporate accountability and the emerging practices of social and ethical accounting, auditing and reporting.

1. Contemporary shifts in perspectives: From control to values

Two closely related perspectives have hitherto dominated much of the teaching and practice of management: efficient performance and control.

The first of these, *efficient performance*, is a direct expression of the concept of shareholder accountability which underlies and dominates most traditional business thinking. A result is the emphasis on fiscal (rather than e.g. social, ethical or environmental) responsibility[2] and on money as the common denominator for expressing and synthesising corporate[3] activities. Another result is the development of financial accounting as the primary means of expressing corporate success and efficiency in terms of profitability, return on investment and related key-figures.

This focus on financial reporting and control permits a huge reduction in the complexity of the language and measurements required to describe corporate activities. It is far easier to make decisions and to evaluate performance when all relevant factors have (somehow) been transformed into a single unit of measure where more is better than less: money.[4] Decision making can then be reduced to calculations as to which of a set of alternative actions will lead to the most efficient and profitable utilisation of resources. Of course selecting the possible alternatives, analysing them, and choosing what to do in face of great complexity and uncertainty may be extremely demanding – but focusing on just one stakeholder (the shareholders) and one criterion for performance (profitability) leads to an enormous simplification compared to having to deal with a multiple of stakeholders each characterised by their own values with respect to their interplay with the corporation.

Closely related to the concept of efficient performance is the notion of *control*; that in order to achieve efficient performance it is necessary to build systems to control the utilisation of limited resources – including human resources.[5]

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Traditionally control has been exerted via systems of rules and regulations based upon information provided by a variety of accounting and reporting systems. The more complex the organisations and the more uncertain their environments, the greater the demands that have been placed upon developing and implementing control systems with the capacity to monitor, analyse and steer the experienced complexity.

The role of complexity

There is however increasing evidence that a continued dominance of these perspectives (efficient performance and control) in more complex business environments can be counter-productive. That reacting to higher levels of complexity and uncertainty by 1) continuing to simplify business reality by reducing it to a matter of economic performance, and 2) by establishing new rules and regulations, may lead to inefficiency and a decreased ability to describe, understand, motivate and co-ordinate.

It is unwise to attempt to plan and control what cannot be controlled without destroying vital qualities of those who are planned-for and controlled. Such as employees who seek responsibility, personal development, a sense of identity and pride and the motivation to use their creativity and multiple talents. Or customers who seek trusting relationships based on respect and quality services and products. Or faithful, dependable suppliers who seek stable, mutually advantageous relationships. Or the growing number of shareholder-organisations (pension funds, shareholder special interest groups etc.) who demand to regain their ability to exert influence on the firms they invest in and not just to passively consider their investments as money-machines. Or the corporation's local communities as well as the public at large, who directly or indirectly, perform civic action within the market of stakeholder capitalism (Kelly et al. 1997).

The more complex the business environment, the greater the number of rules and rulers that are required to determine and oversee what should be done, by whom and in which circumstances. And the more unrealistic are the evaluations of business performance when its complexity is reduced to a single-criterion description in the form of profit in a financial report.

A logical result of applying "more of the same" will be an increasingly suppressive control system that stifles individual initiative and responsibility and which is incapable of dealing successfully with the reality it is supposed to "control". And a perspective on leadership which is shortsighted, narrow and insensitive to the needs of the organisation as a whole and its major stakeholders, each with their own values and expectations. At a more pragmatic level this efficiency-and-control perspective has resulted in increased demands by employees, customers, suppliers, owners and society for an orientation towards more fundamental, shared values and holistic thinking in organisations, for respect, social responsibility and community. In other words, for a values-based perspective on leadership.

These demands are being met by an increasing number of organisations and their leaders. This is evidenced by the tendency to move from hierarchical bureaucratic structures to flatter organisational structures with greater emphasis on self-organising competencies. Additional evidence is the recent managerial emphasis on increased transparency, on a plethora of quality standards, on ethical and environmental codices and on corporate accountability with respect to constituencies over and above the shareholders.

Business and public leaders are realising that good answers to complex questions can be found by supplementing the narrow language of efficiency, control and profit with multidimensional and qualitative measures that explicitly recognise the values the organisation shares with its stakeholders.

It can of course be argued that these developments away from a traditional control perspective and towards a values-based frame of reference for management are primarily motivated by instrumental thinking. The argument is that introducing notions of values and ethics into the corporate vocabulary and evaluation processes is primarily motivated by the desire of managers to obtain more efficient performance and control in new ways which are better suited to the evolving markets. From this, more cynical, vantage point there is not really a shift in management's world views and aspirations in the direction of values-based perspectives on leadership, success and responsibility. The tools are simply being updated to provide legitimacy and a license to operate to leaders who in reality continue to promote their own personal ambitions as to wealth, prestige and power by maximising shareholder value.

It is my conclusion, based on conversations with the management of a large number of medium to large size organisations, that neither an image of cynical instrumentalism or of naive idealism provides a reasonable representation of the on-going shift from an efficiency-and-control perspective to a values-based perspective on management. This shift synthesises these apparently opposing perspectives into a richer and fuller framework for corporate self-reflection and evaluation.

2. Why values-based management?[6]

The following are a series of arguments as to why it is good business, both in the traditional economic sense as well as in an ethical sense, for business leaders to actively introduce the notion of organisational and stakeholders' values into the managerial culture – and to develop a values-based perspective on management. In concise form these arguments for a values-based perspective on management are:

A. *Traditional power is becoming powerless in democratic societies with flat organisations.*
B. *Leaders are loosing contact with reality in large, complex organisations.*
C. *The language of money is to narrow.*
D. *Stakeholders have a right to be heard – and corporations have social responsibilities.*
E. *Bright, creative, motivated, responsible and loyal employees seek meaningful work, personal development and harmony between their own and the organisation's values.*
F. *It pays off.*

A. *Power is becoming powerless*

Nostalgia is not what it used to be. Something similar can be said about managerial power. The primary symbol of corporate power has been the hierarchy which formally defines who has power over whom – who has the right and responsibility to get others to do something they otherwise would not have done. From that viewpoint it is power which distinguishes leaders from the led. Power is thus not just a capacity for bringing about action, it is also a reward for those who are interested in edging their way up the hierarchy's (and not Jacob's) ladder.

Therefore it has come as an unpleasant and frustrating surprise to many leaders that their power is becoming powerless – and that they face new and powerful demands on supplementing hierarchical power with legitimate power. That is, with power that follows not from fear and coercion but from trust and confidence founded on shared visions, values and goals.

In the modern welfare society of the West employees demand explanations. No longer do they blindly follow leaders, experts and authorities. And leaders are realising that raw power is ineffective; it suppresses creativity and initiative in organisations whose effectiveness increasingly depends upon creative and motivated employees.

Therefore many corporations are in the process of replacing traditional hierarchical organisational structures by the flat organisation where the distance between decision-makers and decision-receivers is reduced. Another reaction is the establishment of new functions and positions such as ethical officers, HRD managers and reputation managers to name just a few of the managerial posts which have been created in recent years.

Unfortunately however, experience indicates that new organisational structures, new managerial positions and appeals to community, values and ethics are often introduced as a new way to maintain classical power. This is for example the case when a code of values or an ethical codex is developed by top management (usually with the help of outside consultants). Such a code essentially tells the world how top management has defined "the values of the firm" and "our ethics". Unless the code is attuned for example with the employees who are supposed to follow it and embrace it as their own, they will consider it to be simply a new set of rules. If they have not been involved in creating and interpreting the code, its capacity for co-ordinating, motivating and advising will be severely limited.

Similar reflections are relevant for the all the firm's constituencies or stakeholders, i.e. those parties who are affected by the firm and/or affect it through their actions. They will react against one-way communication if they experience that management approaches them not as respected partners but simply as instruments for generating shareholder value.

In such cases the result can be counterproductive: less committed, reflective and creative stakeholders who react strongly if they feel their trust is misused and misplaced. Therefore there is a risk to be run when powerful leaders embrace words such as empowerment, shared values and ethics. These concepts are very special kinds of tools. While most tools can be discarded or replaced when they no longer are effective, values have a rather elevated aura about them. They commit those who use about them, they are considered to be an integral part of their user, not separate from and external to her/him.

We face a paradox: The more that a leader clings to his power, the more it slips through his fingers. But the more willing he is not to assert power and to orient himself towards shared values in his interplay with the organisation's stakeholders, the greater are his chances for maintaining power.

B. *Leaders are loosing contact with reality in large, complex organisations*

According to the arguments above, achieving managerial effectiveness is becoming less a matter of asserting formalised hierarchical power than a matter of inspiring trust, respect and motivation. This presumes a willingness, competency and capacity for communicating with and being sensitive to the needs of the employees – as well as of other stakeholders. Metaphorically speaking, the emphasis here is on organisational implosion rather than explosion, on focusing inwards rather than outwards. But this appears to be at odds with many of the tendencies characterising managerial aspirations.

The past two decades have witnessed an enormous fascination with economic growth. At the level of the firm this has been reflected in a wave of mergers, in take-overs, in terms such as "financial supermarkets" and "strategic alliances" and in the focus on "globalisation".

It appears to be a widely accepted truism that if a company does not grow, it will die. This orientation towards growth is supported by management. They seek their own form of growth: in power, prestige and wealth, which are closely correlated with corporate economic growth.[7] But employees too support corporate growth (as long as it does not mean downsizing or moving production to other countries etc.). It can lead to pride, promotion, higher wages and fringe benefits and job security.

The possibility for these kinds of benefits grow with the organisation's economic growth. It is interesting to note that growth no longer is measured in physical terms (number of employees, volume of goods produced etc.) but almost exclusively in terms of profits and share prices. This is clearly seen from developments in the U.K. and the U.S. where many firms simultaneously have experienced massive firings ("downsizing") and huge increases in stock prices and even greater increases in managerial compensation.[8]

This growth syndrome not only characterises business and business leaders. Management of public sector institutions have been equally fascinated with growth. An example is the public health sector where hospital directors and chief doctors seek economic growth and larger units. It gives prestige and political and economic elbowroom if one is able to offer complicated organ transplantations, the newest high-tech equipment and ever more specialised researchers, doctors, nurses and support staff.

Accompanying – and supporting – the orientation towards growth at the level of the firm and institution is the focus on growth at the regional and national level where economic growth dominates almost all political visions. Growth is regarded as the supreme miraculous cure for unemployment, high taxation, reduced welfare provisions and a rundown infrastructure.

A common factor characterising all these types of organisational and societal growth is an increase in the distance between those who plan and those who are planned for. Managers can no longer base their evaluations on their own personal observations, feelings and assessments. Dialogue and first hand knowledge about the consequences of one's own decisions are replaced by expert reports and key figures. While it is common, and easy, to measure and communicate about *growth* in quantitative terms such as market share, profits and stock prices, it is unusual and difficult to generate operational and widely accepted qualitative descriptions of the *development* in employee expectations, satisfaction and loyalty, of product quality, customer satisfaction, suppliers' security and of the local community's interplay with the firm.

A result is a loss of contact with those aspects of corporate reality which cannot be captured in terms of economic measures of performance. And therefore an accompanying reduction in the capacity and competency for being aware of and sensitive to the values and needs of the many constituencies affected by corporate actions and whose reactions can, in the long run, determine corporate viability and success.

C. *The language of money is to narrow*

It has been and still is the credo of liberal business economics that such competencies and capacities are not really required. Although key figures on economic performance provide information on how much a corporation "owns" and how much it earns, they provide but meagre information on many of the organisation's fundamental motives, activities and results. But from the existing economic perspective that is not necessary. A free market with free price formation removes the need for such considerations. When everything has its price in a free market there is no need for complicated and unclear evaluations. To reduce the increasing complexity which accompanies growth it is sufficient to focus blindly on efficiency and profitability.

According to this economic rationality it is not only unnecessary to introduce richer descriptive and evaluative perspectives on corporate performance, but directly societally threatening. It is only roughly 35 years ago that professor Milton Friedman, who later received the Nobel Prize in Economics proclaimed in (Friedman, 1962) that:

> . . . few trends could so thoroughly undermine the foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible.

And even today, when progressive business leaders present a more nuanced picture of corporate social responsibility there is still overwhelming evidence that Friedman's message still constitutes the core of the frame of reference they employ when they justify their decisions.

With the aid of our time's alchemists – economists – money has been transmuted from a means to *the* end. The old French adage that one must eat to live and not live to eat is, in its metaphorical translation, characteristic of corporate management's relationship to money.

Corporations must earn money to survive. But how much a company owns and how much it earns must be seen in relation to how it earns its money and what it uses its resources for – i.e. how it contributes to "the good life" for all those parties who are affected by its actions. From this perspective company goals really deal with developing, producing and supplying quality goods and services, with providing excellent working conditions for dedicated and proud employees, with contributing to the development of the local society etc. And earnings are necessary – but not sufficient – means to achieving these ends.

When the distance between decision-makers and decision-receivers increases and when the language of money is too narrow for observing, describing and evaluating corporate results, traditional economic control must be supplemented by values-based management.

D. *Stakeholders have a right to be heard – and corporations have social responsibilities*

The word "stakeholders" has appeared several times so far without any co-ordinated attempt to justify its central importance to the query as to "why values-based management?". *Values-based management is based on a stakeholder perspective on leadership, responsibility and ethics.*

Simply put, stakeholders are parties who have a stake in an organisation. They are groups which are affected by an organisation and/or affect the organisation via their own actions. For the majority of stakeholders, their relationships with organisations will be characterised by some combination of affecting and being affected. A corporation's stakeholders will typically include its management, employees, customers, suppliers, owners, competitors and the local community although many other stakeholder groups can be relevant depending on the particular context. A public hospital's stakeholders could include its patients, their families, doctors, nurses, other staff and the taxpayers/politicians.[9]

In other words a stakeholder is not a person (except in special situations – such as e.g. when a corporation is owned by a single person), but most often a group of persons. And the stakeholder "employees" continues to be a stakeholder even though employee Smith leaves to go on pension and employee Green is hired. A person can be member of many stakeholder groups, for example as employee, customer and member of the local community. A stakeholder can also be non-existent (future generations) or consist of non-persons (nature).

In the English language there is a nice play on words. One speaks of owners of shares as *shareholders* and of parties who have a legitimate interest in the firm in general as *stakeholders*. With this terminological distinction in mind it becomes easier to answer the query as to whether organisations have a social responsibility over and above Friedman's definition: ". . . to make as much money for their shareholders as possible." The answer is simply that when a party is affected by an organisation it has a right to be heard – and corporate management therefore has an obligation to listen. In other words, *stakeholders are owed some say in the direction of an enterprise by virtue of the fact of their involvement.* Their stake, in short, earns them the right to be counted in decisions that affect them directly or indirectly; see e.g. the discussion in (Pruzan and Zadek, 1997).

This is however not only a moral argument. Experience indicates that if one does not listen, then the stakeholders will have a tendency to raise their voices. And environmental organisations, consumer groups, NGO's and other activist groups play an increasing role – while the TV news' guillotine looms menacingly in the background prepared to defame (if not decapitate) corporate leaders who are insensitive to and will not give voice to those they affect. Corporate reputation is becoming a major competitive parameter as the emergence of the new managerial positions in the U.K. and U.S. of *reputation manager* and *ethics officer* demonstrates.

New examples of the power of a variety of constituencies to challenge corporate reputation and market position appear all the time. Shell's new position[10] after being extensively criticised for its planned dumping of the Brent Spar platform and their activities in Nigeria are an obvious example. Another example is the Church of England which recently revoked a long-standing decision not to invest in breweries. This was precipitated by a brewery which refused to participate in a dialogue with the Church as to the brewery's decision to increase the alcohol content of its extremely popular product "alchopops" (sodawater with alcohol which can be purchased in supermarkets). By purchasing shares in the brewery the Church gained access to voice at the annual meeting where it could publicly challenge management's decision and instigate the dialogue which was otherwise denied it. Similarly, many large corporations have pulled out of Burma or put investment plans on the shelf due to pressure from international Burma committees.

The increased awareness of and sensitivity to stakeholder values is also reflected in a growing interest in pension funds for establishing "ethical investment pools" oriented towards members with particular preferences as to which types of firms they want to invest in, and particularly, which types they do *not* want to invest in. According to an article in *The Economist* from 1994 (Ethical Investment – Morals Maketh Money, 1994) it is estimated that almost 10% of all investments in stock in the U.S.A. (corresponding to roughly $650 billion) was evaluated and purchased according to ethical criteria.[11]

Appreciation of stakeholders as a new and vital concept also spread to the political arena (Kelly et al., 1997) when Tony Blair in his successful election campaign in 1996 to become prime minister of the U.K. spoke of the "stakeholder society" and thereby put stakeholding on the political map.

Therefore, seen from both a moral and a more traditional, pragmatic perspective, stakeholddder views and interests need to be taken into account more comprehensively than ever before. Even stakeholders who are affected by, but have little direct influence on business need to be included. The dialogue between stakeholders should be open and – within certain commercial and legal imperatives – open-ended in order to actively encourage mutual understanding, agreement around key strategies and policies, and commitment to the success of the organisation. According to two managers in the international, stakeholder-oriented corporation The Body Shop (Wheeler and Sillanpää, 1997, p. 87) "Without doubt, the challenge of embracing stakeholders is a key strategic issue for twenty-first century business. The response of a company to this strategic challenge, whether implicitly or explicitly, defines the very essence of the organisation. The response of a company to its individual stakeholders reflects the way the business sees itself as an entity, how it sees itself in relation to its environment (whether competitive, political or social) and how it sees people and groups both inside and outside the formal organisational boundaries."

There are however many questions related to the notion of the stakeholder. Who decides which groups are stakeholders in a given context? Since all the members of a stakeholder group cannot directly participate in a dialogue with each other and the organisation as a whole, representatives must somehow be chosen – but how and what problems may this create? Since not all stakeholder groups may be conversant as to their interests in their interplay with the organisation, how can they nevertheless "participate" in the dialogue which – within the context of values-based management – is so important for determining shared visions and values? And how for example can voice be given to those who cannot speak up on their behalf such as future generations or nature?

Ambler and Wilson (1995) sum up the problems which arise in engaging stakeholders in corporate visioning, decision-making and actions up by posing the following question: "How do corporations recognise and acknowledge their stakeholder interests, and develop strategies for appropriate 'socially conscious' actions in the marketplace – *while* retaining a clear vision and a focused purpose?" How, in other words, can management utilise a stakeholder frame of reference to reflect upon corporate identity and responsibility whilst not distorting the picture? How can they find ways to dialogue with other stakeholders that yield meaningful information and insights and engage them in a sense of ownership of the process, while not giving up on the right to manage effectively to ensure business success, also according to traditional economic standards?

Stakeholders are here to stay, despite methodological and practical concerns and objections to their presence and presumed rights in challenging the more traditional sources of corporate power – shareholders and management. This is not just because it seems right to the corporate sector; neither is it because the state may deem it an obligatory part of a company's license to operate. *Stakeholders have become a permanent part of the corporate scene because individuals and groups are increasingly aware of how they can affect the fortunes of a company without possessing significant shareholder or managerial power.*

Problems associated with the concept "values". A stakeholder perspective is clearly central to the concept of values-based management as it is the values of the stakeholders which are in focus. But just as there are problems associated with the concept of the stakeholder, there are also problems associated with the concept of values.

In our western culture we are not used to speaking of values, particularly in the world of business. On a more individual level, many leaders feel that there is no need for introducing "values" into their working vocabulary. They argue that everyone knows deep down inside what is right and wrong, good and bad and that we don't need to explicitly introduce values as a relevant frame of reference. Others argue that values deal with strong, personal emotions – and that one can kill these strong values-based feelings by too much talk. It can also be argued that introducing values into our frames of reference can lead to conflict rather than serve as the basis for consensus formation in a pluralistic society characterised by many life-forms, each with its own strong morals.

Additional problems are encountered when attempting to explicitly introduce values as a perspective on management within an organisational context. It is becoming more common to speak of "corporate values" in connection with corporate visions, strategies and public relations. But how can one meaningfully speak about "the corporation's values" when its various constituencies have their own values and moral norms? It cannot simply be assumed that a stakeholder group's values can be identified as the sum of its members' values, or that an organisation's values can be identified as an aggregation of its stakeholders' values – or as the values of one particular group, top management, as apparently is the case in practice de facto.[12]

In other words management faces the following challenge: How can it simultaneously a) promote that sensitivity and mutual respect for the many values, which underlie and give expression to each stakeholder group's special expectations and identity and which are essential for effective communication and resonance within and between all the stakeholder groups, b) promote a shared orientation and identity within the corporation as a whole, and c) manage effectively to ensure corporate viability and economic success?

Management's responsibility. When management focuses upon an organisation as an interplay between its stakeholders, it must face up to the following four organisational-existential questions:

1. Which stakeholders are affected by our decisions?
2. What are the values that these stakeholders have in their interplay with the organisation?[13]
3. Which communication processes and forums should be created in order to develop shared perceptions and frames of reference in that interplay?
4. How can we act so as to best promote the stakeholders' values in the interplay?

This leads to a very different perspective on leadership than the decision-oriented perspective one normally meets at business schools and management meetings where (quick) decisions that can contribute to (short-term) profitability are most often in focus. *A values-based perspective on leadership places demands on reflection, dialogue, harmony between words and deeds as well as on patience and fortitude.*

Reflection as to organisational-existential questions is not necessary when there is only one overall measure of success, profits. But this perspective on success with one stakeholder (the shareholders) and one criterion (profits) ignores and suppresses a more realistic multi-stakeholder, multi-criteria perspective. It ignores many stakeholders' values, regards employees, suppliers, customers, local communities etc. simply as instruments whose only value is to promote shareholder value, and leads thus to insensitivity with respect to the values dimensions of leadership. While the narrow language of money appears to reduce complexity by expressing everything in a common denominator it also inhibits insight into decision situations characterised by many stakeholders each with their own values and criteria for what is good and what is bad.

In order to relate in a meaningful way to stakeholder values and expectations management can not base its decisions primarily on statistics, key figures and consultant reports. It must re-establish contact with a more complex reality by establishing a *dialogue-culture* where trust can be established and maintained and where the corporation can observe itself through the on-going conversations which create and re-create the organisation as an interplay between its stakeholders.

This in turn presupposes *harmony between management's words and deeds.* Values are a very different type of tool than money, computers and advertising. While most traditional tools can be considered to be instruments which are clearly distinguishable form their user (I can use a hammer to hit a nail and then discard it when I am finished with it), values commit their "user". They demand consistency. I am compelled to act in accordance with my words; if I fail to do so, I risk losing the confidence and trust which are necessary preconditions for a values-based dialogue.

But reflection, establishing a dialogue-culture and consistency as to words and deeds require *patience* and *fortitude.* A demand which appears to be in striking contrast to the way many (and in particular younger) managers tend to regard exemplary decision-making behaviour. There is an increasing focus on short term profits and on the ability to make quick decisions in turbulent surroundings – stimulated to a great extent by management compensation schemes based on bonuses and stock options as well as by shareholder demands as to increased earnings and "shareholder value". "In the eye of the storm" is perhaps a suitable metaphor for the leader who is firmly rooted in his or her values and thus able to deal with turbulence while maintaining equanimity and a long-term perspective.

Values-based management presupposes that the organisation and its stakeholders develop a shared language and tools which can help the organisation to observe itself, to measure the extent to which it contributes to its stakeholders' values, and to make choices which promote the interests of the organisation as a whole.

E. *The good employees and values-based management*

Societal observers have described the economic and structural changes which occur when developments in technology, markets and organisations lead to a movement away from the industrial society towards what is often referred to as the information society, the post-industrial society, the knowledge society etc. This movement is characterised by fundamental changes in production processes and organisational structures. In particular, knowledge generation is beginning to be regarded as being as important as the production of goods and services in a world where production is highly automated and where the direct costs of production are, relatively speaking, less important compared to the total economic activities of the firm. A result is the movement towards more decentralised organisational structures and increased autonomy for organisational sub-units and for the employees. There is broad agreement that in such an environment it is vital for the future success of the company to be able to attract and hold bright, responsible, creative, independent, motivated and faithful employees, particularly those who deal with knowledge production and management. According to Mads Øvlisen, the CEO of one of Europe's leading pharmaceutical companies, Novo Nordisk: "Rapid changes, both external to the company and within the company, characterise Novo Nordisk's environment and place new demands on our leaders throughout the company. . . . At the same time we have recognised that our real competitive advantage is located in our employees' flexibility and in their capacity to learn and develop themselves at a faster rate than our competitors" (Øvlisen, 1997).

At the same time, although at a much slower pace, corporate managers are beginning to realise that there is a need for managerial structures, processes and attitudes which reflect corporate values that the employees experience as being in harmony with their own personal values. Employees seek employment which contributes to their personal development. Employment that is meaningful and of which they can be proud. They seek not just good pay and working conditions but consistency between corporate visions, goals, realities, decisions and their own aspirations.

Some Danish experiences. An analysis performed by The Danish Association of Social Science Students (Socialundersøgelsen 1996–97, 1997) in spring 1997 provides striking evidence as to work expectations amongst young men and women. 1,800 students in the last year of their bachelors studies in such subjects as law, economics, political science, sociology and business administration were questioned about their expectations regarding their future working conditions. The analysis shows that less than one fifth of the students placed status-oriented factors such as high salary and good promotion possibilities as either the first, second or third most important criteria amongst a series of possible demands to their future employment. What the students said they want is first and foremost "interesting and meaningful tasks"; 63% chose this criteria amongst the three most important demands. An additional 41% pointed at "the social environment" as being amongst the top three criteria.

These results appear to support the view that the traditional focus on economics, rules and regulations, efficiency and control are in need of supplementary perspectives based on values-based management in the type of society we are moving towards.

Common to the different labels (information society, post-industrial society, knowledge society etc.) which are used to characterise society-in-the-making, is their assumption that there is not only a need for decisiveness as to action but also for wise decisions and the right actions. As the respondents to the above-mentioned analysis emphasise, good jobs are meaningful jobs where the employee can participate in creating meaning. These are jobs where they can see themselves develop in a cohesive, organic working reality characterised by healthy social relationships, where they can participate as co-creators of that reality and where the organisation as a whole develops itself via the values-based interplay between its stakeholders.

A values-based management creates productive organisational structures, systems of communication, and measurement- evaluation- and reward systems which can attract, hold and develop intelligent, responsible, creative, independent and loyal employees.

F. *Does it pay to employ values-based management?*

This is a question I often face when meeting with corporate leaders. Depending on one's outlook, it is an irritating question, an irrelevant question, or a highly relevant and challenging question.

It is irritating because it represents what was earlier referred to as a cynical, instrumental view. It presumes that the corporation's only real goal is to maximise its earnings and that values-based management is to be evaluated solely against the criterion of profitability. A position which is in opposition to the more idealistic concept presented that stakeholder values (including shareholder values) are valuable in their own right – and that profits are means to promoting these values.

The question can be said to be irrelevant since one can argue that ethics and economics are two different domains, each with its own language, literature, traditions and evaluation schemes. From this perspective it is not meaningful to ask if values-based management pays – just as it is without meaning to ask whether art or physics or love can pay.

Obviously a firm must, in the long run at least, be profitable. And to be able to survive in "the long run" it must be considerate of and respect the values of its stakeholders. On the other hand, it is nigh impossible to demonstrate that there is a relationship between the two perspectives; there is no simple cause-and-effect relationship between corporate profitability and employing a frame of reference for management based on human values. And as far as I know there is no convincing statistical material available which demonstrates a strong correlation between the two.[14]

On the other hand, there are sound reasons for taking the question seriously and considering it to be relevant and challenging. First of all, those managers who ask it are used to being evaluated by their boards, banks and peers according to how successful they are in earning profits. In spite of my earlier remarks on the narrow language of money and corporate fascination/obsession with economic growth, profitability clearly is one of the most important criteria used to evaluate the performance of a corporation and its management. Thus the query cannot simply be denied by referring to idealistic or theoretical explanations; if one attempted to do so, the conversation could certainly come to an abrupt end.

Secondly, it can be argued that it is *un*ethical for a firm to go bankrupt. And, in general, it is poor values-based management which results in low earnings as this will have a negative effect on most of the stakeholders including employees, shareholders, customers, suppliers, local community etc.

The two perspectives supplement each other. Stakeholder value and shareholder value therefore provide descriptive and evaluative perspectives which supplement each other within the context of western enterprise. Neither of the two dominates the other and they appear to be co-dependent. If one is willing to accept this insight then it is necessary to describe and evaluate a corporation's actions and results from a more inclusive perspective where both values-based management and traditional economic efficiency and control have vital roles to play.

In spite of the fore-mentioned dearth of statistical evidence as to a relationship between these two perspectives there are some preliminary observations which provide food for thought. In northern Europe at least, many of the most successful companies according to traditional measures of economic success are noted for their best practice within the broad areas of social responsibility, transparency and ethical behaviour. Furthermore, according to the United Kingdom Social Investment Forum, on the average those pension funds which have established special ethical or environmental portfolios earn at least as much as the pension funds which only follow the motto of earning as much money as possible to their existing and future pensioners.[15] Although the empirical evidence is limited with respect to the number of funds observed and the time periods covered, there are indications that the ethical pension funds spend more time investigating the companies they consider investing in and the resultant greater insight improves their ability to choose companies which are profitable over the long term. In addition, it is reasonable to conclude that when the public at large, regulatory bodies and activist groups are concerned with ethical and environmental questions, those companies which give priority to these criteria will, in the long run, be more profitable, ceteris paribus. This is supported by (Wheeler and Sillanpää, 1997, p. 87): ". . . all the evidence suggests that stakeholder inclusive enterprises also deliver the greatest long-term value for investors and owners."

For the economist or the hard-line business leader these tendencies and arguments are not sufficient to affect his or her faith in the bottom line as constituting necessary and sufficient information for describing an enterprise's results. From their vantage point, values and ethics are simply instruments and are not valuable in their own right. They have value only insofar as they contribute to corporate earnings and therefore it is up to management to protect the corporate image.

But there is a big difference between a public relations exercise and a serious attempt to demonstrate ethical responsibility. In order to achieve the latter, corporations must establish and commit themselves to specific standards which can extend beyond existing legal obligations and freely entered into branch codices. *It is only when stakeholder values and ethical responsibility become more than instruments and when legitimacy becomes more than compliance that we can seriously begin to speak about a new perspective on corporate social and ethical responsibility and accountability.* Fortunately, at least in a Scandinavian context, there already exists a healthy tension between an orientation towards short-term economic results and effectiveness and an orientation towards ethics and a values-based perspective.

Therefore it may be suitable to conclude these arguments with yet another postulated paradox: Those firms which focus narrowly on profit maximisation will not, in the long run, be as profitable as those enterprises which supplement their economic focus with an orientation towards values-based management.

3. Corporate accountability: Emerging practices of social and ethical accounting, auditing and reporting

If values-based management is to develop into a meaningful and operational perspective on corporate *raison d'être* and success, there is a need for a reappraisal of what we mean by "accountability". At present this notion is delineated only with respect to a corporation's legal compliance and its financial reporting to shareholders and governmental authorities – and of late to a limited degree in connection with environmental reporting. While both financial and even environmental performance are increasingly "auditable", many aspects of social impact remain uncounted, many claims regarding ethical performance remain unverified, and many aspects of a company's social and ethical performance are even unverifi*able* given their inadequate information systems.

Verifying claims as to corporate values is not simply a matter of "ethical policing". Rather, it opens up the possibility for constructive dialogue about what types of social responsibility are possible in different situations, and how they can best be achieved, evaluated and communicated. Accounting for the social and ethical dimensions of an organisation's activities is therefore a precondition for the development of socially and ethically responsible business. However, such an accounting process is not without challenges. It is one thing to count and sum up financial flows, but quite another to measure the extent to which a corporation promotes the values of its stakeholders. While a consensus on how to measure environmental impacts is slowly developing, views diverge on how to compute the ethical impacts of business activities. This lack of accepted social and ethical accounting standards may, however, now be drawing to a close. A new generation of social and ethical accounting, auditing, and reporting has emerged in the last five years, and these practices are now converging towards a common approach that could form the foundation for global standards in the future. Widespread agreement about such standards would have radical implications for corporate reporting and behaviour more generally. It would enshrine the principle that businesses are socially and ethically accountable in management and accounting practices. It would bring to the business community a new era of openness, introducing practices of transparent decision making. This would in turn reflect and reinforce the values, expectations and needs of the corporation's stakeholders and the environment within which it coexists. In particular, it would contribute to the personal and professional development of management via promoting increased harmony between personal and organisational values.

Nevertheless, ethical behaviour is not achieved purely or indeed even primarily through a sound audit trail based on recognised standards. So the conundrum is there to see. On the one hand is the need to set standards, and on the other hand is the need to secure an imaginative engagement in processes of change. This is of course not a unique challenge. The profession of judges, of doctors, and maybe at times even of financial accountants, faced equal or similar dilemmas. The best and most recent example, perhaps, is that of environmental assessors and auditors. Here was an area that until the early 1980's was primarily one of challenge and defence, the corporate body generally on the defence, with the challenges made by single-issue and community-based campaigning non-profit organisations. And yet in the space of just a few years the basis of a profession has emerged, complete with courses, accreditation procedures, standards and, increasingly, legislation.

Before concluding, it is relevant here to introduce the issue of verification. Do social and ethical accounts and reports require external verificiation, and if so, who should provide such services? As to the first query, the answer appears to depend on the context. If accounting for the social and ethical dimensions of the enterprise primarily has an "internal" orientation, then verification may not be required and may even be counter-productive. Based upon the experiences of a large number of Scandinavian (primarily Danish) private and public enterprises which have employed social and ethical accounting to contribute mainly to organisational development and management information, there appears to be little need for external verification. In such cases the reporting mainly reflects the stakeholder dialogues and the organisation's employees for example do not require an external verifier to tell them whether the company is promoting their values. And management knows that if in fact they publish reports which paint a false picture of stakeholder satisfaction, this could lead to a serious loss of trust and economic efficiency. Nevertheless, experience also indicates that there are strong reasons for involving external auditors to contribute to the on-going development of the process itself, even though it is primarily internally oriented.

On the other hand, if a major motivitation for the social and ethical accounting and reporting is to provide information for external stakeholders and to protect and enhance corporate reputation, than experience indicates that there is a need for external verification, just as is the case with financial and environmental accounting and reporting. This is not only due to the external stakeholders being farther removed from the internal organisational processes. It is also due to the greater emphasis on benchmarking and other forms of measurement and evaluation dealing with more objective matters than the primarily qualitative values reflected by the stakeholder dialogues.

The question then arises, who should provide the auditing and verfication services? Should this be the domain of the KPMGs and the Deloitte & Touches? of NGO's? of consulting firms? or of a new group of providers specialising in social and ethical accounting, auditing and reporting? Just as there are many enterprises now which appear to be "dipping their toes into the waters of social and ethical accounting, auditing and reporting" before making a decision as to whether or not to "dive in", there are many potential providers jockying for a good position should this perspective on corporate identity and performance develop into a new growth field. At the present time there is only an embryonic profession of social and ethical accounting, auditing and reporting and no internationally recognised educational and accreditation programs for providers of these services.

It is in the context of these issues and experiences that the *Institute of Social and Ethical AccountAbility*[16] has been established in London by a broad set of constituencies including representatives from the corporate world, the non-profit corporate responsibility movement, consultancies wishing to deliver services associated with social and ethical accounting, auditing, and reporting, and major European business schools. AccountAbility seeks to promote a convergence of standards that in turn can form the basis for securing a recognisable and assessable level of quality in social and ethical accounting, auditing, and reporting. In this sense, AccountAbility seeks to encourage the emergence of a professional approach within a framework of standards, training, and accreditation that will allow social and ethical accounting, auditing, and reporting to move beyond the experimental end of the corporate sector into the mainstream.

Notes

[1] This paper was originally developed for the International Symposium on Applied Ethics in Management, Management Center for Human Values, Indian Institute of Management Calcutta, February 19–21, 1998.

[2] The concept of corporate social responsibility is gradually moving from an abstract, philosophical notion to a mainstream corporate concern. Evidence of this is to be found in e.g. the "New Partnership for Social Cohesion – International Conference on the Social Commitment of Enterprises", Copenhagen, Denmark, 16–18 October, 1997 and the conference "Corporate Citizenship", Warwick Business School, Coventry, U.K., 15–16 July, 1998. See (Pruzan and Zadek, 1997) for a recent overview of this concept.

[3] We will at times use various terms such as corporation, the firm, the organisation. Although the primary focus is on private enterprise, the concepts and themes developed are also relevant to public sector enterprise, to governmental organisations, non-profits, NGO's etc.

[4] Note that the problems which arise in determining how to translate activities which are not directly expressed in monetary terms into these terms via prices are not simply problems for accountants. There may, dependent on the specific situation, exist far more fundamental problems arising from the econo-

mists' traditional assumption of "everything else being equal" which underly the establishment of prices. These problems can manifest themselves in such a manner that if decisions are made on the basis of the resulting economic calculations, the results may in fact be suboptimal – not just due to chance occurences, but to the fact that the price data employed do not accurately portray the underlying reality and the decision maker's preferences. See (Bogetoft and Pruzan, 1991, chapter 7).

[5] The term "human resources" has become quite accepted in the business jargon as demonstrated by the managerial title Human Ressource Manager, as well as by the courses in HRM offered at most schools of management. It has, however, a flavour, a connotation, which supports the notion of "control" as opposed to "values-based management" and "accountability". It seems to imply that employees are wealth producing *instruments*, comparable perhaps to machines, and not valuable in their own right as human beings with their own values and aspirations, as ends and not just means.

[6] This section is based upon my article (Pruzan, 1997). A word of warning: the arguments presented are primarily based upon observations in western enterprises and societies. My experience with eastern – primarily Indian – corporations and business schools, convinces me that it could be misleading to generalise on the arguments presented and to assert their universal relevance.

[7] In the U.S. in particular there are examples of what appear to be paranoiac fascination with management remuneration. When the CEO of Walt Disney had his contract renewed he demanded a wage package of roughly $10,000 *per hour*. One of Disney's leaders, who had been hired by the CEO and then fired after 14 months employment, received a golden handshake amounting to $93 million. And there is of course the CEO of Coca Cola whose deferred wage (due to tax reasons) was roughly $1 billion. The CEO of a company which is not nearly as large or well known, Green Tree Financial, received a bonus of $102 million in 1996.

These are not just isolated phenomena. According to a survey in *Business Week* covering 1996, average corporate earnings of corporations in Standard & Poors 500 index increased 11%, stock prices increased 23% and top management's total earnings (including stock options and other forms of compensation) increased 54% to an average of $5.8 million (over and above an increase of 30% in 1995). In comparison, worker salaries increased 3% while salaries of white collar employees increased by 3.2% in 1996. According to the "Executive PayWatch" distributed over internet (www.ctsg.com/ceopay) by the American AFL-CIO (the American Federation of Labor and the Congress on Industrial Organisation which are the major umbrella organisations for American unions) the pay disparity between CEOs and U.S. workers is increasing to alarming levels. In 1965 CEOs made 44 times the average factory worker's salary. In 1995 this increased to a factor of 212!

[8] Referring once again to the "Executive PayWatch", while hundreds of thousands of workers were laid off in 1995, the CEOs of the 20 companies with the largest announced layoffs saw their salaries and bonuses increase by 25%.

[9] See (Wheeler and Sillanpää, 1997), chapter 13, where stakeholders are categorised as follows: 1) primary social stakeholders (including shareholders and investors, employees and managers, customers, local communities and suppliers and other business partners), 2) secondary social stakeholders (governments and regulators, civic institutions, social pressure groups such as trade unions, media and academic commentators, trade bodies and competitors), 3) primary non-social stakeholders (the natural environment, future generations, nonhuman species) and 4) secondary non-social stakeholders (environmental pressure groups, animal welfare organisations).

[10] See e.g. *Royal Dutch Shell Group of Companies Statement of General Business Principles* (Shell International Limited, 1997) with its strong accent on responsibility to its many and diverse stakeholders and its underlining of the importance of non-economic considerations: "Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental considerations . . .". The author participated in a meeting with the management of Shell International in summer 1997 which had as its purpose investigating how best to design a set of environmental, social and ethical reports which will supplement or be integrated with its existing financial reports.

[11] There are however movements in the opposite direction. The large international financial institution Morgan Stanley reacted against the trend towards ethical investment funds by establishing a "Fun Fund" based on investments in tobacco, spirits and gambling! And the orientation towards greater transparency and sensitivity towards stakeholder concerns is still in its embryonic stages. An example is the refusal by huge, multinational tobacco companies to enter into dialogue regarding their responsibilities with respect to smokers and their families, passive smokers, tax

payers, hospitals etc. This is characteristic for a – fortunately – more seldom corporate managerial response that simply denies having any other responsibility than to keep within the limits of the law and to earn as much money for the shareholders (and the management) as possible.

[12] As professor at the Copenhagen Business School I have for many years heard both my students as well as many corporate managers I have co-operated with speak of "the corporation's goals", "the corporation's values" and "the corporation's ethics". It has continued to surprise me that in almost all cases the term *the corporation's* has been employed as a euphemism for the more appropriate word *management's*. Both at the theoretical and the practical level there is a lack of appreciation of the organisational-existential question as to how a collectivity such as a corporation with its many constituencies can develop the competency to have goals, values and an ethic as something other than and more than top-management's goals, values and ethics. See e.g. the discussion in (Pruzan, 1994).

[13] The notion of "interplay with the organisation" is introduced to indicate that stakeholders can have many values which are not of significance from the perspective of the organisation. For example, the stakeholder "employees" can have many concerns as to the political and economic development in the nation or region without these being directly of importance for the relationship between the "employees" and the organisation. Similarly employee X employed at corporation Y may have many personal values (for example with respect to his private life) which are of little relevance with respect to his relationship with the corporation or the stakeholder group "employees".

[14] Although it is relatively straight forward to establish measures of profitability, the question of determining measures of the extent to which a corporation promotes the values of its stakeholders is more of an open question. Certainly any attempt to determine such measures must involve qualitative and highly subjective evaluations. See (Zadek et al., 1997) for an overview of the field of social and ethical accounting, auditing and reporting as well as a series of case studies.

[15] Information on ethical investing in the U.K. is collected and diseminated by amongst others the United Kingdom Social Investment Forum, Vine Court, 112–116 Whitechappel Road, London E1 1JE, U.K. In Europe there are a number of ethical and environmental rating groups which advise investors, e.g. Ethical Investment Research and Information Service (EIRIS) in the U.K., Ökom in Germany, Eco-Rating International in Switzerland and Ethibel in Belgium. In the U.S.A. the Council on Economic Priorities and the Interfaith Center on Corporate Responsibility research and advocate the interests of investors and consumers. The available evidence on the comparative performance of funds which employ screening to invest in what they consider to be ethically and environmentally sound companies is limited in Europe. In the U.S.A. the Domini 400 Index which is based on the performance of 400 corporations which have an "ethically and socially responsible policy" has outperformed Standard & Poor's 500 index in recent years. On the other hand, recent observations from the U.S.A. tend to give the opposite picture with respect to strongly focused funds, i.e. funds whose investment policies are strongly oriented towards particular issues or causes (such as the interests of homosexuals, the percentage of minority groups or females in management, animal testing etc.) Last year only five out of 44 American funds which invested according to social and environmental criteria outperformed Standard & Poor's 500 – but many of these were small, highly focused funds.

[16] For information as to services provided and membership, contact: Secretariat, Institute of Social and Ethical AccountAbility, Vine Court, 112–116 Whitechapel Road, London E1 1JE, U.K.; email: Secretariat@AccountAbility.org.uk.

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