

A new role for the firm incorporating sustainability and human dignity.

Conceptualization and measurement

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Abstract. At the macro level, different institutions (the OECD, the WEF, the UN) have developed sound methodologies to measure the economic, social and environmental impacts of economic activity. At the micro level (i.e., the firm level), it is crucial to develop a methodology to measure how firms contribute to human dignity and social welfare by generating value for stakeholders. Common accounting principles are primarily focused on determining annual profit/loss figures, contributing to shareholders' interests and paying taxes. This accounting model must be complemented with a new approach that can interact with stakeholders while informing them about the value that firms are generating. The accounting process should be able to quantify not only profits but also the impact of firms on suppliers, customers, the environment, local communities, workers' quality of life, employment and society overall. This paper's primary contribution is to present a model that has the ability to monetize all of those interactions and impacts in a manner that is comparable, auditable, understandable and possible to be used by firms of all sizes.

Keywords: Stakeholder theory, theory of the firm, human dignity, monetization, blended value, sustainable business

1. Introduction

Economics and management science have developed in parallel during their historical evolution. Economics developed first and in many cases, academics in the field of management have used the conceptual apparatus and models of the economic science to explain firms' behavior and to establish the aims, objectives and patterns of that behavior [62, 70].

When Adam Smith proposed his theory about how to enhance the wealth of nations, he did it separately from ethical considerations about human dignity. As a moralist, Smith first wrote his *Theory of moral sentiments* [83], in which he acknowledges that although a person is usually more interested in his/her own

wellbeing, he/she is not indifferent to the wellbeing of others. Nevertheless, when analyzing the aims or purposes of economic activity, he remarkably based them on individual egoism. He did not mention human dignity or the interest of other persons, only the interest of the owner of the business [84]. The monetization of that interest is the business's profit. Following that argument, the goal of economic activity at the firm level is profit maximization. In any event, Smith thought that this engine for economic activity at the firm level had positive social consequences because to earn profits, firms fulfill the needs of consumers in the best possible way. A firm's egoist behavior generates the maximum amount of social wellbeing. This idea has been successful not only in microeconomics but also in management science. Many influential scholars still defend the notion that profit maximization must be considered as the firm's objective [33, 47, 48]. If that is true, then all of a firm's stakeholders and human or physical resources could be considered a means to that end. This

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utilitarian view has been the dominant paradigm of the firm for the last 200 years [47].

However, the Great Depression (2008–2014) that still affects large portions of the developed world (especially in the European Union) has promoted debate about the role of the firm in society that had begun long before, not only in the field of economics but also in the political, social, cultural and even religious spheres [32, 55, 57, 81].

Leading academics have noted the growing loss of legitimacy that firms are suffering worldwide [6]. The origin of this discomfort could be that modern societies are witnessing an increasing gap between the objectives of the firm (profit maximization) and the objectives of society (social wellbeing, common good) [72, 80].

To address this situation, academics have begun to advance different propositions that shift the interest of the firm from mere profit maximization to attending to stakeholders' needs [31], attempting to generate value not only for shareholders but also for local communities, consumers, providers, etc. [71, 72]. Other academics, sharing a humanistic approach, have stated the importance of introducing concepts such as wellbeing, the common good and human dignity [17, 20, 61]. These concepts have already been addressed at the macroeconomic level by the UN, the World Economic Forum and the OECD [66, 89, 93].

This paper's first objective is to discuss the evolution that has occurred in both economics and management science related to the final objectives that should be achieved at the macro- and microeconomic levels (i.e., the firm level). We will consider the strong relationship between both disciplines and will introduce the concepts of human dignity and wellbeing to the discussion. We will analyze how the focus has shifted from profit maximization to human development at the macroeconomic level and from profit maximization to social wellbeing at the microeconomic level. This paper's second objective is to describe the different metrics that have been developed at the firm level to measure firms' progress in the economic, social and environmental dimensions. This paper's third objective is to present a model for measuring the firm's performance taking into account the firm's interactions with stakeholders. Following the model, it will be possible to assess the firm's performance regarding not only shareholders but also other stakeholders (such as suppliers, customers, public administrations, employees and others). The objective is to consider the entire value (blended value) generated by the firm [72]. In this way, the model will incorporate the economic, social and environmental impacts of the

firm's activities that affect stakeholders. Although the first two objectives are based on the analysis of previous research, the third constitutes this paper's major original contribution. Although at the macroeconomic level there are robust metrics and indexes to measure human development, at the microeconomic level those metrics are still in a process of development. Moreover, they measure separately each of the three major dimensions of sustainability (economic, social and environmental). In our opinion, there is a lack of a comprehensive model capable of measuring the firm's activity and that can assess in a comparable and systematic way the firm's performance not only in the economic dimension but also in the environmental and social dimensions. The model that we present can estimate in monetary terms the economic, social and environmental impact of the firm's actions on all of its stakeholders, enabling us to calculate not only the rate of profit but also the social and environmental outcomes for the other stakeholders in a comparable unit of measure. In this way, firms could be valued by markets, consumers and society for their overall contribution in terms of profits, environmental effects, social wellbeing and the common good.

The paper is divided into four sections. In the first section (introduction), the authors present the connection between economics and management science and their parallel development. The paper's main objectives are noted. In the second section, the authors discuss the evolution of economics and management science related to the final objective of economic activity at the macro- and microeconomic levels. In this evolution, concepts such as wellbeing and human dignity have begun to achieve recognition. In the third section, the authors describe the different metrics and methods that have been developed at the firm level to take into account the economic, social and environmental impacts of firms' activities. In the fourth section, a comprehensive model that measures the firm's economic, social and environmental impacts on all of its stakeholders is proposed. The paper ends with a conclusions section.

2. From profit maximization and utilitarianism to human dignity and the common good

At the macroeconomic level, Gross Domestic Product (GDP) *per capita* has been converted into the most widely accepted measure of wellbeing used by many economists, governments and multilateral organizations [91]. This measure has converted itself into the goal that all countries and governments would like

to maximize [18, 64]. Although global population has grown at an accelerated rate during the last century, GDP *per capita* has grown at an exponential rate in the same period [5]. This fact would indicate that in global terms, the market economy in its current form has been compatible with rapid economic growth. In this sense, it is possible to say that the market economy has been very efficient: it has been able to generate an exponentially growing level of production per capita for the last century [49].

However, the use of GDP per capita as an explanatory variable of economic wellbeing has been strongly opposed by some economists [28, 85]. We will underline three of the main criticisms noted by these authors. The first one reflects the situation of inequality that may be hidden by the average value of GDP per capita. This figure reflects, as an average, the fraction of the world production (measured in a given currency) that corresponds to each person, if every person in the world could access world production in an egalitarian way. However, access to wealth is not egalitarian either among or within countries. In fact, the process of economic growth has occurred at very different speeds both among and within countries, generating additional inequality gaps. This situation generates important wealth differences among countries and individuals and in many cases, those differences tend to increase. This may lead to the economic system's possible lack of long-term social sustainability [7, 67].

The second criticism draws attention to the fact that GDP per capita does not consider the environmental damage caused by economic activities. A system that causes a constant negative environmental impact is not sustainable in the long term because air and water pollution and the exhaustion of raw materials impede not only economic growth but also life development (including human life) [59, 89]. The third criticism notes the nature of the economic actions that generate a higher GDP level. Not all economic actions will benefit society in the same way but all of them can be counted in the final GDP figure. From 2014 on, even illegal actions will be counted for GDP in EU countries following a recommendation issued by the European Parliament and Eurostat [1, 26, 27]. This means that GDP does not introduce any ethical criteria to include only economic activities that are beneficial for economic actors, individuals and society as a whole.

The three aforementioned criticisms note that GDP per capita alone is neither the perfect indicator nor the only and absolute goal that should be pursued to generate a higher level of wellbeing in social terms [85].

In fact, many economists and multilateral institutions have begun to develop different indicators to complement GDP per capita in assessing citizens' wellbeing of citizens at the subnational, national and global levels. The World Economic Forum has developed a new set of indicators to measure "sustainable competitiveness", the only possible path to long-term economic development, according to the Forum [93]. The United Nations Development Program has generated the Human Development Index to measure development achieved at the national level in all countries that belong to the UN system. In addition to per capita GDP, the UNDP considers two pillars: education and health [90]. Other examples are the Better Life Index [68] and the Genuine Progress Indicators [87].

At the core of many of these efforts lies the idea that a narrow focus on GDP could be misleading from the central perspective of development: an improvement in key areas of life (education, health, income, security, freedom) for all human beings [91]. This central point is closely related to the Kantian principle that all people are of equal worth [50], a value that is enshrined in the UN Charter. In fact, health, education, income, security and freedom are aspects of the human rights included in the Universal Declaration of Human Rights [88]. Both the Charter and the Universal Declaration link those rights to the dignity of the human person. This means that instead of a blind process of GDP maximization, many economists and the primary multilateral institutions are proposing a new pattern of economic development based on bringing higher standards of human dignity to the largest possible number of human beings [77].

At the microeconomic level, profit maximization traditionally has been the major objective at the firm level. This idea is shared not only by mainstream microeconomics but also by many academics that work specifically in management studies [47]. Indeed, throughout history management theory has been heavily influenced by scientific models of economics [62]. The current definition of economics state that "economics is the science that studies human behavior as a relationship between ends and scarce means that have alternative uses" [76:16]. To identify an end to those limited resources, microeconomic theory uses a model of behavior for economic agents based on rationality. Economic rationality dictates that each economic actor (individual, firm) attempts to maximize its own profit. This profit-maximizing behavior is based on the systematization of an egoistic pattern by all economic actors. A person who does not follow this pattern will be

treated as irrational, whereas a firm that does not seek the maximum possible profit will simply be rejected from the competitive market. Therefore, the economic system becomes amoral because economic actors can only engage in one behavior: to follow the maximizing pattern. Accordingly, there are no ethical premises or moral inquires, but only one way: profit maximization [11, 29, 42]. There are strong defenders of this narrow view of the firm [33]. In this vision, there is no room for human dignity inside the firm because both persons and the firm's remaining resources will be treated as means of achieving the only "rational" objective: short-term profit maximization [4].

However, the sustainability issue that has been discussed at the macroeconomic level in the previous paragraphs has finally reached the microeconomic level. Sustainable development has begun to be treated not only at the national or international levels but also at the firm level. More consumers request that businesses provide and manufacture eco-friendly products and services. Simultaneously, a growing number of shareholders ask corporations to behave responsibly toward the environment and stakeholders while the communities in which companies operate actively work to reduce negative externalities directed at them [73]. A new vision of the firm began to develop in which short-term profit maximization was not the firm's only objective. According to this approach, the firm must account for the different stakeholders that interact with it (customers, suppliers, workers, shareholders, public administrations, local communities, and society in general), each with its own rational objectives. In this case, the firm must consider not only shareholders' objectives but also other stakeholders' objectives [38]. Other authors have noted that if firms do not consider stakeholders' objectives, then these groups will not have the desirable incentives to make commitments to firms, undermining firms' capacity to fulfill their economic potential [52]. Following this path, it is arguable that one of the firm's main tasks should be to generate value propositions that motivate and interest stakeholders [31]. In this way, profits would be the consequence of a broad vision of the company that considers the necessities and the value proposition that are attractive to stakeholders. In this case, profits are not the primary goal, they are the consequence of company behavior that first considers the interests of stakeholders (including those of shareholders) [69].

Simultaneously, this proceeding could achieve more sustainable performance for the company because the firm bases its capacity to generate value and profit on

nurturing its stakeholders. Instead of playing a zero-sum game between the firm and its stakeholders, the firm can align its stakeholders' interests to co-create more value for all. Consequently, the overall creation of value could be both higher and more sustainable [72]. Following Porter's ideas, the creation of shared value would benefit both shareholders and all other stakeholders. In fact, this collaboration between all stakeholders has been proposed by other academics [47]. In any event, the shared-value approach is still rooted in the utilitarian (and profit maximization) tradition because "it is not philanthropy but instead is self-interested behavior to create economic value by creating societal value" [72:12]. However, it is true that this shared value benefits the entire range of stakeholders and increases the well-being of a much broader swath of society. The market economy becomes more inclusive and firms can gain not only profits but also support and legitimacy from the entire social and political system [71].

As a result of this shift in economic and managerial thinking, some corporations have attempted to measure their performance not only in the field of profits but also in other areas: the environment, impact on persons related to the company and benefits to local communities [23].

Nevertheless, academics of various backgrounds have decided to move beyond the utilitarian or profit maximization idea to justify and encourage economic activity. For these scholars, the human is the key element of economic activity. Thus, human dignity (not profit maximization) should be the center of the economic system [12, 34]. Dignity has been defined as "the ability to establish a sense of self-worth and self-respect and to appreciate the respect of others" [40:3]. Following economic historians, the accordance and protection of such a concept in human societies through history has been a catalyst for both social progress (the search for democracy, human rights) and economic development (learning processes, investing, innovation) [60, 70].

Over time, different schools of thought have developed the concept of dignity. We are going to focus on two of them: the Kantian tradition and Catholic Social Thought. After explaining them, we will attempt to link their teachings to the current situation of both the firm and the economy (at the macro- and microeconomic levels). According to the Kantian tradition, persons should be treated as ends in themselves. This means that each person has an intrinsic value that cannot be exchanged, sold, or purchased by others. This intrinsic value is dignity [70]. From here, it is possible to argue that all of the priceless aspects of humanity (virtue, integrity,

freedom, knowledge, wisdom, love, trust, forgiveness or gratuity) form an aspect of human dignity [41]. Catholic Social Thought recognizes that all human beings have dignity because all resemble the image of God [22]. All persons are part of the human family with equal rights and duties under the commandment of love. Modern Catholic humanism acknowledges that this implies that all persons should have access to basic social, economic and political rights as part of their unconditional dignity. Those rights cannot be exchanged, sold or purchased by others because they are inherently linked to the human person [13, 79].

At the macroeconomic level, the principles of human dignity have been gathered and enhanced by the United Nations Organization both at the theoretical and empirical levels. The Millennium Development Goals and the entire PNUD initiative are efforts to assure that human dignity is a widespread reality. At the microeconomic level, the UN has developed the Global Compact Initiative [24]. Simultaneously, humanistic authors argue that instead of short-term maximization, firms should promote the common good [54]. In this view, profits would be a consequence of the firm's activity in accordance with promoting of the common good [15]. Conversely, economic activities that may maximize shareholder value in the short term at society's expense would make less sense and will not occur [35]. Following this humanistic line, some authors argue that human dignity should be more directly connected to management theory. In other words, instead of pursuing profit maximization as the firm's objective, management theory should focus on creating social wellbeing [70]. One problem may arise at this point. Although there is a wide range of standardized and accurate indicators to measure profits, we lack of a comparable, systematic and accurate instrument to measure social well-being creation at the firm level. In Section 4, we will present a model to cover this gap.

In all of our previous paragraphs, we have analyzed an evolution in both the macroeconomic and microeconomic fields. At the macroeconomic level, from measuring production (GDP) and considering GDP as the best possible indicator of wellbeing, economists now have developed new indicators such as the HDI (UN), the Better Life Index (OECD) and the Sustainability-Adjusted Global Competitive Index (WEF), among others. At the microeconomic level, firms have developed different metrics to measure their contribution not only to profits but also (in a general way) to the common good. In this section, we have explored the basic academic ideas that have

accompanied firms in this shift. In the following sections, we will describe the specific tools that have been applied to this process of measurement at the firm level: their origin, their evolution and the way forward.

3. Measurement and reporting models at the firm level

The reasons noted in the previous sections support the necessity to create new indexes or indicators to observe the evolution of the company to improve both societal welfare and the environmental impact. In management terms, a concept that cannot be measured can hardly be managed. In this section, we will see the worldwide evolution of efforts to measure, value and disclose the effects of businesses on society.

Until now, the manner in which firms have measured environmental and social performance has developed progressively (see Table 1). We could say that it began with quality management during the first half of the 20th century, first focused on product quality using statistical process control techniques. In Japan at the beginning of the 1950s, this model was developed, leading to the model known as Total Quality Management (TQM), in which quality management is extended from the product to business processes and the organizational structure. The objective was to promote the organization's continuous improvement. Organizations using these models wanted to offer their customers a high-quality product, to increase their satisfaction, and to consider all of the organization's employees. Following the Second World War, Japan needed to improve its industrial sector and offer better products to escape its postwar crisis. It supported the TQM model, sacrificing short-term financial performance [19].

At the beginning of the 1980s, Japanese products were surpassing North American products. That is why American companies felt the need to introduce the TQM model. A worldwide development of models then began, including the Malcolm Baldrige Criteria for Performance Excellence (USA) (1987), the Excellence Model of the European Foundation for Quality Management (EFQM) (1989), the Management Excellence Model of the National Quality Foundation of Brazil (1991), the SPRING (Singapore) (1996), etc. These models, including the Japanese model (i.e., the Japan Quality Award Council), offer a series of criteria related to the critical aspects of the company (see Fig. 1), which will help businesses develop their activity in the search for quality and excellence and thus to improve their

Table 1
Comparison of key categories of Japanese, North American and European models

JAPAN	USA	EUROPE
Leadership	Leadership	Leadership
Social responsibilities of management	Strategic planning	People
Understanding and interaction with customers and markets	Customer focus	Strategy
Strategic planning and deployment	Measurement, analysis, and knowledge management	Partnerships and resources
Individual and organizational ability to improve	Workforce focus	Processes, products and services
Value-creation process	Operations focus	People results
Information management	Results	Customer results
Activity results		Society results
		Business results

Sources: Adapted from [8, 25, 63].

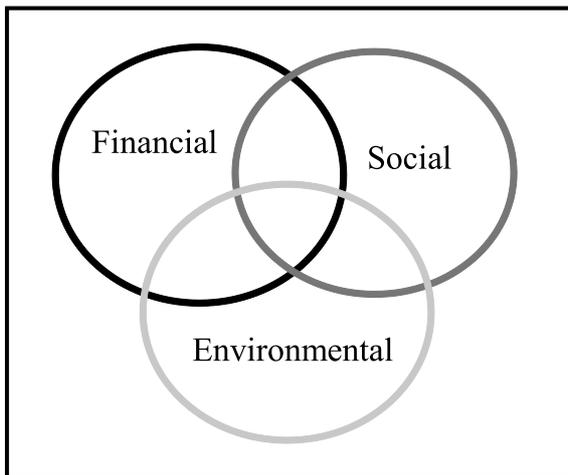


Fig. 1. Triple Bottom Line (TBL). Source: Own elaboration based on [23].

efficiency and competitive advantage over other businesses. These models represent a long-term process that attempts to satisfy not only the financial sustainability of the company but also the needs of different stakeholders, such as customers, employees, communities, etc.

It is important to note that these organizations attempt to improve their companies' competitiveness in different communities or states. The models both force companies to know themselves well and give them key points to improve and recognize the relationship between resources and results. Simultaneously, they also facilitate a circle in which organizations can share

experiences and best practices. However, reports written by companies responding to the pertinent criteria are not public: they are produced for the understanding of the organizations themselves and although they are evaluated by independent committees, they are not available to the public.

In the beginning, these models did not consider the firm's environmental impact. Pollution was a collateral effect of running a business. Nevertheless, a change in the dominant paradigm was underway. Since 1970, when the US Environmental Protection Agency was established, through the United Nations Conference on the Human Environment in Stockholm in 1972, and different actions taken by the United Nations Environmental Program during the 1970s, governments worldwide have recognized the need to consider both environmental damage and sustainable development. Until then, such concepts were developed and had to be solved at the governmental level. However, during the 1980s, the World Commission on Environment and Development (WCED), known as the Brundtland Commission, attempted to expand the responsibility for sustainable development to all sectors of society: individuals, companies, etc. Business organizations had to begin to consider their social and natural environment [96].

During the 1990s, the concept of sustainable development remained on the agenda of international organizations, for example, the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro (1992) or the Kyoto Protocol formulated based on the United Nations Framework Convention on Climate Change (1997). The sustainability

concept began to permeate organizational management. In 1994, John Elkington formulated the idea of the Triple Bottom Line (TBL). This model incorporates three performance dimensions: social, environmental and financial (see Fig. 1); or people, planet and profit (i.e., the 3Ps) [23]. It has been often used at all levels because companies, non-governmental organizations and governments have applied it when studying different projects or policies. The TBL brings together concepts of both corporate social responsibility and sustainable development. *“In the simplest terms, the TBL agenda focuses corporations not just on the economic value that they add, but also on the environmental and social value that they add—or destroy”* [39:3]. The main problem is how to value the different dimensions. Although the financial dimension is easily measured economically (in US dollars or euros, for example), social and environmental dimensions are difficult to value in monetary terms because it is problematic to value damage to animal life, ecosystem losses, etc. In the mid-2000s, a sustainable balanced scorecard was developed to facilitate the link between sustainable concepts and the worldwide spread of managerial mechanisms [51].

The TBL approach was widely extended at that time, but there was no common rule for reporting on these dimensions. To provide a homogenous and comparable report for all types of business, in 1997 the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute created a new organization, the Global Reporting Initiative (GRI), which developed a comprehensive sustainability reporting framework [36, 37]. Since 2002, GRI has collaborated with the United Nations Environment Program (UNEP). These standards have an effect on the entire company because it is necessary to involve executive management (strategic viewpoint). These standards compel the identification of firm stakeholders and an explanation of how they have been considered by the firm’s management (from a global perspective). The standards have been developed over time and fourth-generation standards are currently in force. According to this framework, organizations must provide general and specific information. General standards are divided into seven categories: strategy and analysis, organizational profile, identified material aspects and boundaries, stakeholder engagement, report profile, governance and ethics and integrity. Conversely, specific standards are directly related to the TBL approach because they force the organization to provide information about economic, environmental and social categories. Reporting these matters will also

make companies consider what they are doing and how. Reporting is not only an information-disclosing process but also an introspective process.

In 1999, the Global Compact project of the United Nations (UNGC) was proposed at the World Economic Forum and was finally founded in 2000. This project compels firms to issue an annual communication—non-standardized—about their progress in applying ten principles of the United Nations associated with human rights, labor, the environment and anti-corruption behavior. This proposal is voluntary, but it provides a reference of best practices for business organizations. It works to unify multilateral organizations’ (i.e., the UN and the OECD, see Section 2) and the corporate sector’s broader social schemes [53]. More than 10 years after its origin, this project has both supporters and detractors [92]. Its supporters rely on its capacity to encourage global discussion and consensus on CSR, human dignity and sustainability and its ability to improve relations between companies and the UN [95]. From the opposite point of view, some authors disagree with the UN program’s no control attitude because the program monitors whether businesses are providing the annual communication but does not audit the information provided. Some companies with poor CSR policies join the program and therefore receive a reputational benefit from participation in the UNGC but can omit important information that might be harmful to company image [14, 82].

Some private organizations other than GRI have promoted internationally known reporting standards, which are audited. In 1999, the organization AccountAbility published its AA1000 Framework Standards and in 2003, the first edition of the AA1000AS. The most recent edition issued in 2008. Those standards measure corporate responsibility and sustainable development accountability and reporting. They are based on three principles: inclusivity (the information provided should be interesting for the business’s stakeholders, not only for the company), materiality (the company must report relevant information) and responsiveness (the company must make decisions and actions in response to stakeholders’ issues). The standards organization must both verify that the reporting organization accomplishes the principles and help it to understand its current situation and provide it with recommendations for continuous improvement [2, 3].

With so many standards attempt to report non-financial indicators and so much interest in the quality and truthfulness of that information, it is necessary to provide some guidelines for the auditors who must

verify the data and issue assurance reports. In 2000, the International Auditing and Assurance Standard Board (IAASB), through the International Federation of Accountants (IFAC), issued an International Standard on Assurance Engagements, the ISAE 3000. These standards provide high-quality auditing and assurance standards and attempt to homogenize different countries' auditing standards for non-financial information [44].

There are organizations that issue reporting standards or criteria and there are international standards to audit and provide assurance reports. In addition, in 1999 the Dow Jones Sustainability Indices (DJSI), a benchmark tool for investors worried about sustainable companies, was launched. These were the first global sustainability benchmarks and helped investors to compare companies that not only worried about economic criteria but also implemented important environmental and social policies [21]. Since that time, other indices have been created worldwide, including the FTSE4Good in 2001.

Conversely, there are other organizations that promote firms' environmental and social sustainable behavior. For example, this is the case with the International Labor Organization (ILO), which works to promote green jobs, safety and health at work, social protection and youth employment, among other topics. The ILO issued a tripartite declaration of principles concerning multinational enterprises and social policy, the MNE declaration [45]; similar attempts have been made by the Organization for Economic Co-operation and Development (OECD), which tries "to promote policies that will improve the economic and social well-being of people around the world" [65] and even, on a more regional level, the European Union (EU), through its Green Paper on corporate social responsibility. In that paper, the EU unifies the principles of the previously mentioned organizations and characterizes corporate social responsibility as a tool to become a more competitive and knowledge-based economy [16]. In addition because the 1990s, the International Organization for Standardization (ISO) has helped organizations improve their processes. It provides guidelines to ensure quality in a company's products or processes (*ISO 9000—Quality Management*), to reduce environmental impact and improve environmental management systems (*ISO 14000—Environmental management*), to help organizations operate in a socially responsible and ethical manner (*ISO 26000—Social responsibility*) and to use energy more efficiently (*ISO 50001—Energy management*). Companies that are certified with ISOs should be more efficient and their products should be

both safer for users and better for the environment. In that way, they reduce costs and increase customer satisfaction [46].

Obviously, the models explained above include indicators of financial performance because no social or environmental concerns will be effectuated if the firm is not financially viable. Simultaneously, firms that do not consider their stakeholders' interests or the common good will ultimately underperform their competitors [38].

Wheeler and Elkington [94] predict the importance of communication and reporting in the future. Many of the necessities seen by them remain in force. They predict a need among stakeholders to obtain information more easily and more frequently and to be certain of its integrity. It is true that large organizations supply a great deal of information about social, environmental and financial activities, but most small and medium companies do not, primarily due to a lack of economic and human resources that would enable them to produce lengthy reports.

One of the primary problems of these reporting models is that they usually compartmentalize different dimensions, that is, we can find different environmental, social or financial indicators or measures, but they are not interrelated, making it complex to become aware of possible synergies [58].

One of the latest models to attempt to integrate financial and non-financial information at an international level is integrated reporting [43]. Many bodies have participated in this report: regulators, companies, standard setters, auditors, NGOs, etc. Thus, it is a consolidated model that unifies different perspectives. Its objective is to consider and report efficient and productive capital allocation, searching for financial stability and sustainability. IR is focused on long-term value creation and to achieve it, the IR differentiates among six different types of capital: financial, manufactured, intellectual, human, social and relationship, and natural. Considering all of these capitals, the organization contemplates the market failures and externalities caused by its decisions [10]. This reinforces the idea of considering different stakeholders, not only to see how they help create value for the company, but also to include "how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests" [43:5] (see Fig. 2).

According to this approach, that immoral or unethical behaviors in the short term will have negative effects for value creation in the long-term. Moreover, to correctly understand the company's future situation

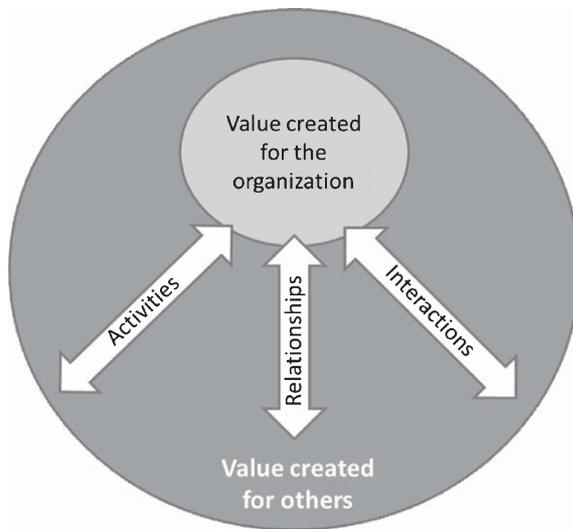


Fig. 2. Value created for the organization and for others. Sources: [43: 10].

and potential, this approach encourages reporting both positive and negative conditions, although it could be tempting to avoid reporting negative events [43].

An integrated report supplies information about every type of company resource. In addition to traditional capitals (financial and manufactured capital), an integrated report includes other intangible capitals or resources that provide a company with a competitive advantage (intellectual, human, social and relationship capitals) and adds natural capital from environmental reports. In the words of IIRC chairman Sir Michael Peat, “*integrated reporting is a vital building block to enable the world’s economy to evolve and maintain standards of living for people who already enjoy a good quality of life, and create them for the hundreds of millions who do not*” [9].

This initiative has resulted in the launch of other initiatives, for example, the Sustainability Accounting Standard Board, a non-profit organization that develops industry-specific accounting standards to study a company’s positioning according to its sustainability policies and its long-term value creation capacity, directing the supplied information specifically to investors. The standards provide metrics that complete the framework given by the Integrated Report and help complete the GRI report. They also work with the Climate Disclosure Standards Board (CDSB) to reinforce disclosure about companies’ effect on climate change [86].

4. A new model to monetize the social value

In Section 2, we analyzed the evolution of the firm’s aims, from mere profit maximization to the generation of social wellbeing. In Section 3, we presented the firm-level evolution of different metrics that attempt to enable measurement of this new approach. However, those metrics lack the necessary characteristics to make them comparable, accessible to all firms and accurate. In some cases there is no supervision of the information given (GRI and Global Compact) and almost in all cases, the metrics are too complicated to be used by small firms. Moreover, most of the metrics are unable to provide a final measure combining the three aspects of sustainability because they mix both monetary and nonmonetary indicators.

In this section, we will accomplish this paper’s third objective, namely, to present a model for measuring firm performance taking into account the firm’s interactions with stakeholders. It is important for companies to know not only the value of their economic activity to shareholders (economic value) but also the social value created for different stakeholders related to the organization. Although the methods explained in Section 3 provided both qualitative and quantitative data, they can be subjective and classify economic and social performance into two different stages because the former is valued monetarily, whereas the latter is valued with different financial or nonfinancial indicators.

The model that we will explain is based on the work of the group *ECRI—Ethics in Finance and Governance*, developed by the University of the Basque Country and Deusto Business School [74, 75, 78]. This model tries to economically value the social value generated by the organization in an objective, systematic and comparable manner. Its theoretical background is based on the stakeholder theory [30, 32], identifying and measuring the net value generated by the firm in all of its interactions with stakeholders (see Fig. 3).

The quantification of social value will be carried out in five steps, as shown in Fig. 3.

The process begins by recognizing the company’s mission, vision and values. In a first step, the key stakeholders for the organization and their distinguishable elements will be identified. Although it seems clear that some stakeholders—such as employees, public administrations and suppliers—are common to all types of organizations, others depend on the type of organization or economic sector, for example, differentiation between customer and user, public versus private customers, and other specific interest groups such as

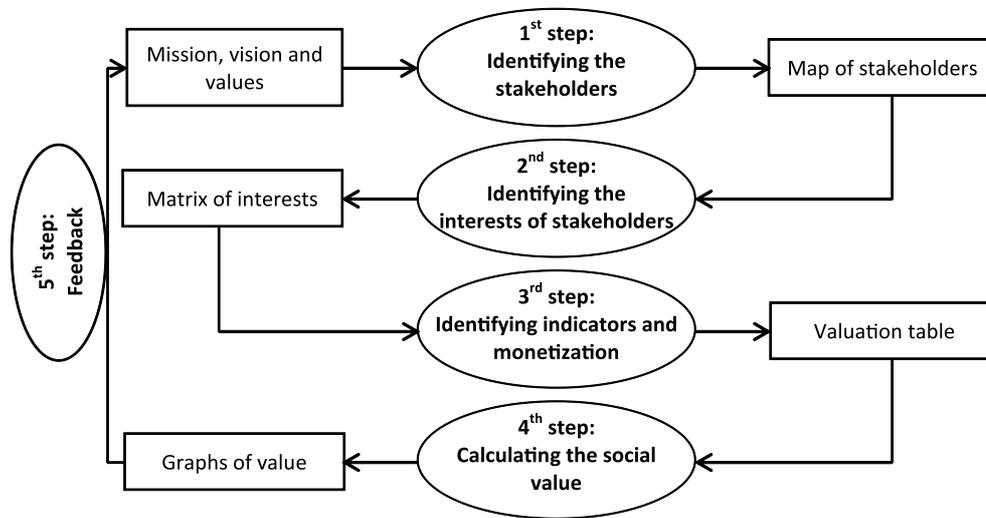


Fig. 3. Steps in the model to calculate social value. Source: Own elaboration based on [74].

families, associations, etc. Identifying all of the stakeholders that interact with a company is a very laborious process and a thorough analysis should be performed to avoid forgetting any of them. Once the map of stakeholders has been completed, the process continues, gathering information from different interest groups through personal interviews or questionnaires to representatives of each stakeholder group. The objective is to gather information about those groups' interests and how the organization answers them and therefore creates value. Usually, different stakeholders may have common interests in the firm, which will help simplify the valuation process. A good definition of the company's mission, vision and values is very important at the beginning of the procedure because it will facilitate prediction of whether the stakeholders' interests will be uniform or whether, on the contrary, they will oppose one another.

Third, the team in charge of the process will identify the indicators to quantify in monetary terms (monetization) the generation of value for stakeholders and the sources where the necessary data can be found. Using those indicators, the firm will calculate its social value, adding the value generated for shareholders to the value generated for employees, suppliers, customers, public administrations, local communities and so on. This methodology combines the stakeholder theory with a phenomenological approach to the concept of value [56], because stakeholders themselves define their interests (value dimensions). These interests are not fixed by external consultants or by the firm's

top management. The sum of the values generated to all stakeholders is the consolidated social value.

Fourth, the organization will sum up the monetization process with a document showing how the consolidated social value is distributed to stakeholders. Finally, this process will be reviewed every year to insert any new or previously unconsidered impacts/stakeholders.

This model is still in developing. Nevertheless, it has been tested at the sector level to assess the social value of the Spanish banking system [78], the social value of nonprofit organizations [74] and the social value of a welfare organization owned by the largest local council in the Basque region. We will describe shortly the case of "*Lantegi Batuak* Foundation" [74], the first entity where this framework was applied. *Lantegi Batuak* is a nonprofit organization of around 2,800 workers (most of them with intellectual disability) and an annual turnover of 60 million dollars. Its main activity is being a subcontractor in industrial activities or as a provider of services. The procedure of applying the model was done by a team of persons belonging to the research group ECRI (academics) and the CEO and senior managers of *Lantegi Batuak*. Following the process shown in fig. 3, in the first place the stakeholders map of *Lantegi Batuak* was defined by this team. In the second place, the team conducted in-depth interviews with each group of stakeholders in order to identify the variables that generated value for each of them. Some variables were shared by different stakeholders (shared value), while others were exclusive of only one group. Once this step was finished, the team

selected indicators in order to make possible the monetization of the generated value. This analysis was made for the period 2007–2011 and has been updated for the years 2012, 2013 and 2014. In 2012 the economic result of *Lantegi Batuak* was 362,311 dollars. However, this figure is not reflecting the social value generated by the Foundation. This value was calculated by the model and reached 108,398,020 dollars. This model presents a different image in comparison to the standard financial measures around the net value generated (or destroyed) by a firm. The model allows administrators to manage the social value created by the firm and, more precisely, to find an equilibrium point among stakeholders and the value generated for each of them. However, we must avoid the danger of an economy-driven reductionism of the concept of social value, because this figure is only a quantitative image of the whole value generated by the firm. In the case of *Lantegi Batuak*, for example, the figure corresponding to social value is not able to quantify the emotional value generated in the families of the intellectually disabled persons that form the workforce of the firm when they are able to find a job, integrate socially and earn their living (families are an important stakeholder, they are the owners of the Foundation).

5. Conclusions

This paper's first objective has been to discuss the evolution of the final objectives of the economic system (i.e., the macroeconomic level) and the firm (i.e., the microeconomic level).

At the macroeconomic level, economists have evolved from GDP maximization to new measures that consider not only material wealth but also aspects such as education, health, security, freedom and even subjective wellbeing. Many of those indicators are related to human rights, human dignity and social wellbeing.

At the firm level, for the last two centuries business's acknowledged objective has been short-term profit maximization. Shareholders' interest was converted to the interest of the entire company and management scholars developed theories that attempted to measure and increase results for shareholders.

However, currently there is a growing social discomfort with firms' role in society. Citizens sense a growing gap between firms' interest and social wellbeing. Leading scholars propose complementary or different objectives of the firm to preserve the firm's legitimacy in society. Some authors have proposed the creation of shared value. According to this approach, firms perform

economic activities that generate value for both the business and society. Other authors have proposed the idea that firms should consider the necessities and interests of all of their stakeholders, including employees, suppliers, customers and local communities, among others. Firms that consider stakeholders' interests are more economically, socially and environmentally sustainable and therefore show better performance at all levels. Authors who share a humanistic approach to the firm propose human dignity and social wellbeing as business's new core principles. Profits are a consequence of companies' competitive performance in the market economy, not their primary goal.

This paper's second objective has been to describe the different metrics that have been developed at the firm level to measure firms' progress in the evolution from considering only profit maximization to including stakeholders' value, shared value and finally, human dignity and social wellbeing. Traditional metrics were linked to financial performance and the calculation of profits. After the 1950s, non-financial metrics started to be developed, but primarily in the field of quality. Years later, sustainability issues (not only economic, but also social and environmental) began to be considered at the firm level following discussions at both the national and international levels (UN initiatives supported by individual countries). New financial and non-financial metrics appeared with the aim of capturing all types of firms' impacts on society. On the one hand, those metrics have made a positive contribution to the awareness of social interactions at the firm level. On the other hand, it is true that primarily large corporations have participated in the process and those metrics are not comparable and not always auditable.

To fill this gap, this paper's third objective is to make a proposition to measure the firm's consolidated social value. The model proposed in Section 4 is based on the stakeholder theory, and its basic idea is to monetize the net value generation created by the firm in each of the stakeholders that interact with it. Thus, the model sums up the value generated for shareholders, public administrations, employees, suppliers, customers, local communities and so on. The final addition is the consolidated social value generated by the firm. This can be a valid indicator of the social wellbeing created by the firm, because it is comparable, auditable, easily understandable and feasible for use by all types of firms. Firms with the goal of locating social wellbeing in the core of their strategy can use this model to quantify, assess and understand the social wellbeing that they are generating, its sources and possible paths to increase it.

Acknowledgments

We thank all those who inspired us to address this topic, particularly our colleagues in the Humanistic Management Network at Fordham University and the Tübingen University/Weltethos-Institute.

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