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Article

Stakeholder Valuing: A Process for Identifying the Interrelationships between Firm and Stakeholder Attributes

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Abstract: As firms are creating and recreating themselves as stakeholder corporations, tensions mount between a firm's fiduciary duties to its shareholders and the broader responsibilities inherent in a stakeholder focus. Firms have employed several techniques to help resolve this tension with limited success. We suggest that the next step in reducing this tension is formally accounting for stakeholder value through changes in financial reporting. We contend that stakeholders have a financial value to the firm that can and should be accounted for through the firm's financial reporting system. We propose a three-step process we call stakeholder valuing (SV) to begin a conversation regarding how such a method can be created. SV begins with codifying the firm's identity as a stakeholder entity, moves to assessing stakeholder value that's consistent with that identity, and concludes with accounting for and reporting that value. What we are suggesting will be seen by some as a radical change in accounting practices but we believe it is necessary as we move toward a consistent, reliable, verifiable, transparent, and comparable means of accounting for the true value of a stakeholder corporation.

Keywords: stakeholder theory; identity construction; accounting for stakeholder value; shareholder/stakeholder corporation

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1. Introduction

As stakeholder theory has evolved over the last 30 years, it seems that researchers have raised as many questions as answers regarding the dimensions of the theory and how those dimensions can serve any practical purpose in the firm. This is especially true concerning the effects of a stakeholder perspective on corporate governance. Historically, the purpose of corporate governance has been to maximize profits to shareholders (shareholder perspective). Some significant dilemmas have arisen by efforts to focus on stakeholders too since many stakeholder functions appear to be a drain on the firm's assets, seemingly without any direct or even indirect benefits to the shareholders. There are two resolutions to this dilemma: accept the necessity of stakeholder endeavors and their drain on firm value, OR rethink how value is accounted for and reported to shareholders to see if in fact there is a recognizable value from these expenditures. The first solution is untenable in our view since it continues to exasperate the tension that exists between shareholder and stakeholder views of the firm. It is also our contention that formally accounting for stakeholder value is a necessary step in the evolution of the firm from purely economic to one that is driven by both economics and social responsibility (*i.e.*, corporate social responsibility (CSR)). So our goal is to create a comprehensive process that can be used by firms as they seek to identify what value is created by a stakeholder perspective and how to account for that value to shareholders and other stakeholders in general.

There is no doubt that CSR has gripped both the corporate and academic worlds. As a prelude to our discussion it's important to acknowledge the general lack of agreement when conceptualizing CSR [1]. Initial scholarship appears as early as 1931 (e.g., Berle) but has grown exponentially since 2000 [1,2]. A 2012 review of almost 700 journal articles, books, and book chapters encapsulates just how fractured the field is [3]. This is especially true at the organizational level of analysis which provokes a debate between the relative values of a shareholder corporation *versus* a stakeholder corporation [3]. Some see CSR as a nice thing to do and purely charitable in nature, while others see it as a bona fide obligation of any organization. Since these concepts vary substantially, we want to make it clear that the one were using was first advanced by Aguinis in 2011: "*context-specific organizational actions and policies* that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance" (emphasis added) [4] (p. 855). This concept raises the question: How do firms determine which actions and policies are appropriate within a given context? Our goal is to create a process that will help firms determine which actions and polices are right for them and how to then account for those actions is a way that is consistent, reliable, verifiable, and transparent.

Topics of interest vary greatly from reviews of the effects of CSR on specific disciplines such as organization theory [5–8], management information systems [9], accounting [10], and marketing [11,12] to how CSR has created value for stakeholders [13] and how to measure that value [14]. We explore this debate using identity creation theory [15,16], wherein efforts to recreate organizations as more socially aware are constitutive; the organization as socially aware is established and maintained through communication [17,18].

We begin our discussion by exploring the constitutive nature of CSR which addresses the need for *context-specific* actions and policies. To lay the foundation for an economic valuing of stakeholder endeavors, we review the shareholder/stakeholder debate and continue by proposing a three-step

Stakeholder Valuing (SV) process which codifies a firm's identity within the shareholder/stakeholder debate. We end by illustrating how financial reporting could change, using The Boeing Company as an example.

2. The Constitutive Nature of CSR

There is no doubt that adopting a CSR perspective has changed the way a firm views itself and the way that it's seen by outsiders. This reshaping of the firm's identity is an iterative process that is negotiated by the members of a firm and its stakeholders through the relationships that are built and solidified recursively [19]. Members of the firm talk about and make decisions relative to CSR activities; feedback is generated by stakeholders affected by these activities; more talk occurs; more decisions are made; more feedback is generated, *etc*. Essentially, the firm is "talked" into existence [18] as it's established, revered, vilified, sustained, destroyed, *etc*. by its own talk and the talk of others. The cycle is repeated recursively, solidifying the firm's CSR reputation and affecting its identity. The decision to change financial statements to reflect this change in identity is a significant one because the talk about CSR is now textual [19]. That is, the talk becomes more solidified through production of a document, in this case, the firm's financial statements. As long as the process used to create that document is valid, then the firm's new CSR identity gains authoritativeness, solidifying that identity even more. Thus, there is a need for a valid identity creation process that is built around the firm's financial statements.

Identity creation is a multifaceted process that is both the medium for and the product of a communication process [16]. In our case, this process is the one of remaking the balance sheet by deciding which stakeholders should be valued and how they should be valued. The act of remaking a balance sheet is an iterative process that begins with historical knowledge, moves to present context and then guides future valuing. This remaking takes place reflexively and becomes a reference point for future interactions. Firms decide what value to create based on the negotiated identity and the negotiated identity frames what value to create.

From a practical perspective, identities as a stakeholder firm vary substantially since not all stakeholders are created equal and some stakeholders are more relevant to firms that others. Relevancy changes based on a number of criteria including identity orientation (utilitarian, relational, collectivist), size (large, small), form (manufacturing, service), stage (start-up, maturity/decline, revival), and function (for profit, not-for-profit). Stakeholder characteristics are both descriptive and relational. Descriptive attributes include both macro and micro group properties, while the relational characteristics describe stakeholder salience and include stakeholder attributes of power, legitimacy, and urgency. To better understand these dimensions, we've drawn a table of firm and stakeholder variables (see Table 1).

Table 1. Stakeholder Valuing.

Firm Attributes	Stakeholder Attributes
Identity Orientation	Location
Utilitarian	Internal
Relational	External
Collectivist	Group membership

Table 1. *Cont.*

Firm Attributes	Stakeholder Attributes
Size	Primary
Large	Employees
Small	Shareholders
Form	Customers
Service	Suppliers
Manufacturing	Secondary
Life cycle	Competitors
Start-up	Community
Mature/decline	Government
Revival	Salience
Function	Power
For profit	Legitimacy
Not-for-profit	Urgency

3. The Stakeholder Valuing Process

SV, as a practical application of stakeholder theory, begins with identity construction and then moves to defining and measuring the value of individual stakeholder (groups). To begin the process of valuing its stakeholders, a firm follows Brickson's suggestion [6] and first asks: *What is our relationship with the stakeholder and what is the stakeholder's relationship with us?* As Brickson [6] suggests, the answer can fall into one of three broad categories: independent, dyadically independent, or derived from group membership. Firms that have independent relationships have individualistic orientations and, thus, place less value on stakeholders overall. Dyadically independent firms have relational orientations and, thus, place higher value on some stakeholder groups than others. Firms that derive their identities from group members have collectivist orientations and, thus, place high value on all groups. This matters when valuing stakeholders because the identities drive the firm's motivating factors.

Brickson [6] suggests that the primary motivating factor for independent firms is utilitarian: that is, the firm is most concerned about its own welfare. Independent firms have profit as their primary goal, although the reasons for the goal can vary. Dyadically independent firms are fundamentally utilitarian in nature but recognize that their success depends very heavily on relationships with a few key stakeholders, especially clients. Brickson [6] suggests that most service firms fall into this category. Because their success is so dependent on their clients, dyadically independent firms gain some of their identity from those clients. That is, a professional services firm is likely to get a reputation for serving a certain type of client; thus, its identity is shaped by those clients.

Because the identities vary, the entries on the balance sheet will vary also, sometimes substantially, from one firm to the next. Our goal is to create a process that allows for the variability in identity while instituting consistency and transparency regarding how the various stakeholders are valued by the firm and how that value is reported to shareholders and other stakeholders.

Scholars who emphasize identity creation theory [6,7,20–23] argue that firm identity and stakeholder valuing are inextricably linked. Scott and Lane [5] assert that firm identity is a social construction arising from interactions between the firm, as represented by its managers, and its various stakeholder groups. Brickson [6] agrees and builds identity creation on what she calls the "descriptive

branch" of stakeholder theory, suggesting that it is through this perspective that stakeholder theory can "help reinstate a balanced perspective of the firm" by furthering both the instrumental and normative outcomes of the distinct approaches to stakeholder theory. A principle benefit of this perspective is that it "moves us away from a discussion about whether organizations *should* engage with stakeholders to a view in which all organizations *do* actively engage with stakeholders, but in very different ways, each with potential to create distinct forms of social value" [7] (p. 866). As with individuals, a firm's identity can be broadly categorized as individualistic, relational, or collectivist. Individualistic identity orientations are typically views of independence—how the firm differs from other firms with self-interest as the key motivating factor in decision-making. Relational orientations are views of interdependence within the context of connecting with specific others; insuring their well-being is a key motivator. Collectivist orientation is a "greater good" perspective with a focus on the welfare of the group as a whole.

But these classifications are not mutually exclusive. Instead, Brickson [7] suggests that a firm's identity consists of a combination of traits from each of the three categories. What's crucial for our purposes is Brickson's assertion that firms can have different types of relationships with different stakeholders and that firm-level variables are the predictors of those relationships. Those variables include the firm's industry, the type of customer/client that the firm serves, the organization age, and organization size [7].

Who is a stakeholder? "Stakeholder" appears to be one of those terms that simultaneously needs no explanation yet needs more clarity and precision to be useful. Mainardes, Alves and Raposo [22] (p. 228) summarize the dichotomy this way: "the term 'stakeholder' has been deployed indiscriminately in the last two decades…[M]any who adopt the term neither define the concept nor provide any particularly clear understanding of what they mean as regards what a stakeholder actually is." The authors also cite five journal articles published between 2004 and 2008 that "contain a total of 66 different concepts for the term 'stakeholder'" [22] (p. 228). These authors suggest that because of the numerous definitions and use of the term "stakeholder," many scholars have adopted a very broad view with no apparent limits, such as the one suggest by Freeman, Harrison, Wicks, Parmar and deColle [23] (p. xv): "groups and individuals who have a stake in the success or failure of a business." Others argue that a definition this broad is almost meaningless [24].

Similarly, Clarkson [25] introduced the notion of "group" as part of the definition of 'stakeholder' in research, regarding corporate social responsibility and further delineated stakeholders as either primary or secondary. "Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on… A *primary stakeholder* group is one without whose continuing participation the corporation cannot survive… *Secondary stakeholder groups are defined as those who influence or affect, or are influenced by or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival.*" [25] (pp. 106–107).

The identification of primary and secondary groups is significant for our purposes because in accounting for stakeholder value, it is the transaction that's valued. As explained in the Statement of Financial Accounting Concepts No. 4 [26], "The information provided by financial reporting…largely reflects the effects of transactions and events that have already happened." That is not to say that the secondary groups have no value—they do. However, traditional accounting methods do not account for that value since they rely on valuing transactions.

Jawahar and McLaughlin [27] introduce the notion that life cycle is important in defining stakeholders. They argue that stakeholder value will change across the firm's life cycle stages because "certain stakeholders, because of their potential to satisfy critical organizational needs, will be more important than others" [27] (p. 405). Mitchell, Agle, and Wood [8] cite nine different classes of stakeholders: primary/secondary; owners/nonowners; tangible asset owners/intangible asset owners; actors/subjects; voluntary/involuntary; rights-holder/moral claimants; resource providers/dependents; risk-takers/influences; and legal principals with fiduciary rights.

> In the stakeholder literature there are a few broad definitions that attempt to specify the empirical reality that virtually anyone can affect or be affected by an organization's actions. *What is needed is a theory of stakeholder identification that can reliably separate stakeholders from nonstakeholders* (emphasis added) [8] (pp. 853–854).

But they also warn of definitions that are so narrow that it's impossible to identify all potential definitions that a manager might be faced with [8] (p. 854). Their suggestion has merit, as intuitively it's clear that not all stakeholders matter to all firms, all of the time. So in order to accurately represent the value of stakeholders from an accounting perspective, we must find a way to identity those that do matter.

4. Accounting for Stakeholder Value

Accounting for stakeholder value, we suggest, adds legitimacy to stakeholder management efforts. As part of the valuing process, the firm recursively creates its identity and makes decisions regarding which stakeholders to value. The next step in the process is to decide how to value those stakeholders. This is a complicated effort, since the formal accounting process in publicly-held firms is governed by standards established by the Financial Accounting Standards Board (FASB). These standards guide firms in preparing financial reports. These same standards guide us in valuing stakeholders. One key element of the FASB standards is its underlying assumption that ethical management practices require transparent and consistent reporting of financial data. Through transparency and consistency, stakeholders are able to reliably analyze a firm's financial transactions and to compare one firm to another, knowing that the data they are comparing are uniform in nature. In other words, they're comparing apples to apples. We propose that this same process be applied to stakeholder endeavors, many of which are non-financial transactions. The benefits are many. First, firms have a much more complete picture of the true worth of their organizations, the "value added" by non-shareholder stakeholders. Shareholders benefit for the same reason. Other stakeholders benefit by gaining "a seat at the financial table" through a consistent accounting of the roles they play in a firm's success.

Jensen [28] advances the notion of "enlightened value maximization": i.e., a change in the firm's long-term market value (a shareholder focus) is the scorecard, but a firm cannot maximize its market value if it ignores its stakeholders. Influenced by Jensen [28], Masera [29] also advances the concept of an "enlightened" approach; focusing on the banking sector, he develops "a quantitative synthesis of the enlightened stakeholder theory", one which maximizes remuneration of shareholders and satisfaction of all stakeholders. In a subsequent piece, Masera together with Mazzoni [30] further develop an "enlightened stakeholders" framework that is a function of the units of the "non-relational capital" invested and a function of the "relational capital" (financial claimants, workers, government,

regulators, *etc*.) invested [30] (p. 17). We note that the Masera and Mazzoni framework includes the variable "Nopat" (net operating profit after taxes). Such a variable is a result of the firm's accounting system. Our approach to an "enlightened stakeholder theory" is to include within the accounting system recognition of the value of stakeholders.

Accounting research has examined corporate social responsibility (CSR) disclosure and the relation between such "nonfinancial" information and analyst forecast accuracy [31]. Dhaliwal, Radhakrishnan, Tsang, and Yang [31] find that stand-alone CSR reports are associated with lower analyst forecast error. The relationship is stronger in more stakeholder-focused countries and stronger in countries with "more opaque financial disclosure, suggesting that issuance of stand-alone CSR reports plays a role complementary to financial disclosure" [31] (p. 723).

We advance the "enlightened" stakeholder approach by incorporating information that has been considered "nonfinancial" into "financial" reports. CSR information is, thus, not merely complementary; it is integrated with financial disclosure. Using "enlightened stakeholder theory", the SV process integrates "financial" and "nonfinancial" information.

5. What Can We Do? The Boeing Company

As we asserted at the beginning of the paper, advantages to SV accrue at two levels. First, researchers now have objective, verifiable data to use when trying to ascertain the link between stakeholder management and financial performance as suggested by Godfrey [32]. Second, the value of non-shareholder stakeholders will increase as firms account for them.

The first benefit is perhaps the most immediate and least controversial of the two. Accounting scholars are accustomed to using archival financial data that is complete, neutral, and free from error and exhibits comparability, verifiability, timeliness, and understandability when trying to ascertain the effects of various changes within a firm. By elevating stakeholder accounting to the same level of reporting by including it in the balance sheet, it garners the same level of relevance and faithful representation as any other accounting data.

Under what circumstances would firms be willing to adopt SV? We've avoided this issue to this point because it is our belief that, given a choice, firms would only value the positive effects that result from SV and attempt to minimize and/or ignore the negative. However, this will defeat the purpose of stakeholder valuing and could halt any progress being made in the evolution of stakeholder theory. As a normative ethical approach, SV must be complete, neutral, and free from error.

Thus, we take the position that in order to maintain any level of integrity in stakeholder valuing, all publicly-traded firms must be required to identify their stakeholders and report their value in a comparable, verifiable, timely, and understandable way. Ultimately, that's the real benefit of SV. Our approach is pragmatic. Previous attempts to measure assets such as human resources or human capital have not approached the issue from a financial accounting perspective. For example, Flamholtz [33] acknowledges that firms prepare financial statements differently for internal purposes than for external purposes. He, quite correctly, argues that human resources should be valued for internal purposes. Our argument is that human resources, as well as other stakeholders, should be valued for external purposes, so that shareholders as well as other stakeholders value stakeholders.

To illustrate SV, we look to The Boeing Company. In our opinion, based upon our examination of Boeing's financial and nonfinancial disclosures, Boeing derives its identity from its group members and place high value on all groups. Boeing issues a financial annual report as well as an environmental report and a corporate citizenship report. Specifically, we turn to the 2012 annual report and Form 10-K (annual report filed with the U.S. Securities and Exchange Commission) of The Boeing Company and to Boeing's 2012 Environment Report and Corporate Citizenship Report. Using the 2012 annual report, we account for primary stakeholders—employees and customers—as intangible assets that are capitalized at historical values and amortized over expected lives. In other words, stakeholders are reported as assets on the firm's balance sheet, and amortization of the assets is reported as an expense on the income statement. In addition, we propose an accounting for environmental performance and corporate citizenship. We provide an unadjusted and adjusted balance sheet (see Table 2). Adjusting Boeing's intangible assets in the SV way increases Boeing's assets by approximately 0.6%. The adjustment enables analysts to understand the impact of stakeholders. Such adjustments allow analysts to compare the performance of companies that have different stakeholder groups or make judgments about the value of different stakeholders.

Table 2. The Boeing Company Consolidated Statement of Financial Position December 31, 2012.

(Dollars in millions)		
Assets	**2012 as Reported**	**2012 as Adjusted**
Cash and cash equivalents	$10,341	$10,341
Short-term and other investments	3217	3217
Accounts receivable, net	5608	5608
Current portion of customer financing	364	364
Deferred income taxes	28	28
Inventories, net	37,751	37,751
Total current assets	57,309	57,309
Customer financing	4056	4056
Property, plant and equipment, net	9660	9660
Goodwill	5035	5035
Acquired intangible assets, net	3111	3111
Deferred income taxes	6753	6753
Investments	1180	1180
Internally developed customer base, net	-	523
Internally developed employee base, net	-	56
Other assets, net	1792	1792
Total assets	$88,896	$89,475
Liabilities and Equity		
Accounts payable	$ 9394	$ 9394
Accrued liabilities	12,995	12,995
Advances and billings in excess of costs	16,672	16,672
Deferred income taxes & taxes payable	4485	4681
Short-term & current portion of long-term debt	1436	1436
Total current liabilities	44,982	45,178
Accrued retiree health care	7528	7528
Accrued pension plan liability, net	19,651	19,651
Non-current income taxes payable	366	366
Other long-term liabilities	1429	1429
Long-term debt	8973	8973

Table 2. *Cont.*

(Dollars in millions)		
Assets	**2012 as Reported**	**2012 as Adjusted**
Shareholders' equity:		
Common stock	5061	5061
Additional paid-in capital	4122	4122
Treasury stock, at cost	(15,937)	(15,911) *
Retained earnings	30,037	30,394
Accumulated comprehensive loss	(17,416)	(17,416)
Total shareholders' equity	5867	6250
Noncontrolling interest	100	100
Total equity	5967	6350
Total liabilities and equity	$88,896	$89,475

Notes: * estimate; single underline denotes subtotals for category; double underline denotes totals for category.

5.1. Valuing Employees

Boeing acknowledges the value of its employees. Boeing's 2012 annual [34] (p. 2) report included the following information:

> In 2012, our global team of more than 174,000 employees made major progress in every area, and as a result, strengthened the foundation that will sustain our growth and industry leadership through our centennial in 2016 and beyond.

Specifically, Boeing employed 174,400 [34] (p. 3) employees in 2012, up from 171,700 in 2011. Under current accounting rules, Boeing expenses compensation and recruiting costs. If Boeing were to report the value of its employees on its balance sheet, how could Boeing value its employees? Boeing could capitalize compensation costs; however, compensation is related to an annual period and, we think, should properly be expensed in that period. However, recruiting costs are not related to one period. Employers monitor cost-per-hire in order to control expenses associated with work force recruitment, selection and employee retention. At a minimum, Microsoft could capitalize and amortize costs-to-hire. Costs of recruiting are significant. The *Wall Street Journal* [35] cited a report by the human-resources firm Bersin & Associates that reported that large firms (companies with more than 10,000 employees worldwide) pay a median figure of $1949 per hire. With fewer dedicated recruitment personnel, midsize companies pay a median figure of $3632, and small firms pay $3665. If a company accounts for recruiting costs as a capitalized and intangible asset (rather than an expense), a company such as Boeing adds all spending on internal recruiting staff, third-party agencies, company career websites, college recruiting, applicant software, and other recruiting-related expenses; that total is reported on the balance sheet. The life of the asset could be the average employee tenure, and the costs of recruiting would be amortized over that term. Such accounting treatment would reflect the value of the employees to the firm and allow for comparability among firms. (See analysis in Table 3.)

According to the Boeing 2012 Form 10-K [34] (p. 93), Boeing issues securities under various equity compensation plans. Shares issued are funded out of treasury shares; if treasury shares are insufficient, new shares are issued [34] (p. 93). According to FASB Statement 123 [36], compensation cost is measured at the grant date based on the value of the award and is recognized over the service

period, which is usually the vesting period. Because shares have an ascertainable market value, Statement 123 defines a *fair value based method (an exception to the historical cost method of accounting)* of accounting for all of their employee stock compensation plans. According to the Boeing 10-K [34] (p. 94), share-based plan expense is included in General and Administration expense because it is "incentive compensation issued primarily to our executives". However, Boeing also grants restricted stock units to certain employees "to encourage retention or to reward various achievement" [34] (p. 95). For example, in 2012, Boeing granted 1,369,810 restricted stock units "as part of our long-term incentive program"; these units had a grant date fair value of $75.40. Boeing granted 357,006 "other restricted units" as part of the program to encourage retention and reward achievement. Rather than expensing over the vesting period, SV accounting would capitalize the cost of equity-based compensation, adjust the balance of treasury shares, and amortize over the vesting period. Specifically, we suggest that the value of "other restricted units" be capitalized because these units are related to retention and achievement rather than compensation. Boeing's balance sheet would reflect the value of Boeing employees. (See analysis in Table 3.)

5.2. Valuing Customers

Boeing is dependent upon certain customers. Specifically, a "primary customer" is the U.S. Department of Defense [34] (p. 1). Because the Department of Defense is a primary customer, we regard the Department as an important stakeholder group, whose value is a company asset.

Boeing's 2012 annual report [34] (p. 3) included the following information:

> Research and development expenditures involve experimentation, design, development and related test activities for defense systems, new and derivative jet aircraft including both commercial and military, advanced space and other company-sponsored product development. These are expensed as incurred including amounts allocable as reimbursable overhead costs on U.S. government contracts. Our total research and development expense amounted to $3.3 billion, $3.9 billion and $4.1 billion in 2012, 2011 and 2010, respectively.
>
> Research and development costs also include bid and proposal efforts related to government products and services, as well as costs incurred in excess of amounts estimated to be recoverable under cost sharing research and development agreements. Bid and proposal costs were $326 million, $332 million and $355 million in 2012, 2011 and 2010, respectively.

To value its government customers, Boeing could capitalize and amortize government bid and proposal costs. What is the amortization period? Boeing reports the following in its 2012 annual report [34] (p. 61):

> Our finite-lived acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as follows: developed technology, from 5 to 14 years; product know-how, from 3 to 30 years; customer base, from 3 to 19 years; distribution rights, from 3 to 30 years; and other, from 5 to 32 years.

If the cost of an acquired customer base is amortized over 3 to 19 years, an internally developed customer base could be amortized over 3 to 19 years. To illustrate the potential impact of capitalization

of the customer base, we analyze the increase in assets and effect upon return on assets. If the conservative 3-year period were used to amortize government-related bid and proposal costs, Boeing's total assets on its 2012 report would increase 0.6%; however, due in part to the relatively small increase in assets, its return on assets changes 0.01%. (See analysis in Table 3.)

Table 3. The Boeing Company.

(Dollars in millions)				
	R&D Outlay	**Proportion Capitalized**	**Net Asset**	**% Increase**
2012	$326	1-0.33/2	$272	
2011	332	1-0.33/2-0.33	168	
2010	355	1-0.33/2-0.67	83	
Customer Base			$523	
	R&D Outlay	Proportion Expensed	Expense	
2012	$326	0.33/2	$54	
2011	332	0.33	110	
2010	355	0.33	117	
Amortization			$281	
	Assets	Liabilities & Equity		
Balance Sheet				
Customer base	$523			
Deferred tax		$178		
Equity		345		
Income Statement				
R&D expense		−326		
Amortization expense		281		
Tax expense		15		
Net expense adjustment		−30		
Net income adjustment		30		
Net income as reported		3900		
Net income as adjusted		3930		Up 0.7%
Assets as reported			$88,896	
Customer base			523	
Total assets as adjusted			$89,419	Up 0.6%
ROA before adjustment			4.39%	
ROA after adjustment *			4.40%	Up 0.01%

Table 3. *Cont.*

(Dollars in millions)				
	Recruit Outlay	**Proportion Capitalized**	**Net Asset**	**% Increase**
2012	$5.3	1-0.33/2	$4.4	
2011	21.8	1-0.33/2-.033	8.7	
2010	6.6	1-0.33/2-0.67	3.3	
Employee Base			$16.4	
	Recruit Outlay	Proportion Expensed	Expense	
2012	$5.25	0.33/2	$0.9	
2011	21.80	0.33	7.2	
2010	6.60	0.33	2.2	
Amortization			$10.3	
	Assets	Liabilities & Equity		
Balance Sheet				
Employee base	$16.4			
Deferred tax		$5.6		
Equity		10.8		
Income Statement				
G&A expense		−5.3		
Amortization expense		10.3		
Tax expense		−1.7		
Net expense adjustment		3.3		
Net income adjustment		−3.3		
Net income as reported		3900		
Net income as adjusted		3896.7		Down 0.08%
Assets as reported			$88,896	
Employee base			16.4	
Total assets as adjusted			$88,912.4	Up 0.02%
ROA before adjustment			4.39%	
ROA after adjustment *			4.38%	Down 0.01%

Table 3. *Cont.*

(Dollars in millions)				
	Reward Outlay	**Proportion Capitalized**	**Net Asset**	**% Increase**
2012	$27	1-0.33/2	$23	
2011	14	1-0.33/2-0.33	6	
2010	21	1-0.33/2-0.67	11	
Reward Base			$40	
	Reward Outlay	Proportion Expensed	Expense	
2012	$27	0.33/2	$4	
2011	14	0.33	5	
2010	21	0.33	7	
Amortization			$16	
	Assets	Liabilities & Equity		
Balance Sheet				
Reward base	$40			
Deferred tax		$13.6		
Equity		26.4		
Income Statement				
G&A expense		−16		
Amortization expense		16		
Tax expense		NA		
Net expense adjustment		0		
Net income adjustment		0		
Net income as reported		3900		
Net income as adjusted		3900		No change
Assets as reported			$88,896	
Reward base			40	
Total assets as adjusted			$88,936	Up 0.04%
ROA before adjustment			4.39%	
ROA after adjustment *			4.39%	No change

Table 3. *Cont.*

	Total Outlays	Proportion Capitalized	Net Asset	% Increase
2012	$358.3	1-0.33/2	$299.0	
2011	367.8	1-0.33/2-0.33	147.5	
2010	382.6	1-0.33/2-0.67	193.0	
All Stakeholders			$639.5	
	Total Outlays	Proportion Expensed	Expense	
2012	$358.3	0.33/2	$59	
2011	367.8	0.33	121	
2010	382.6	0.33	126	
Amortization			$306	
	Assets	Liabilities & Equity		
Balance Sheet				
All Stakeholders	$579			
Deferred tax		$196		
Equity		383		
Income Statement				
G&A expense		−347		
Amortization expense		306		
Tax expense		13		
Net expense adjustment		−28		
Net income adjustment		28		
Net income as reported		3900		
Net income as adjusted		3928		Up 0.7%
Assets as reported			$88,896	
All Stakeholders			579	
Total assets as adjusted			$89,475	Up 0.65%
ROA before adjustment			4.39%	
ROA after adjustment *			4.39%	No change

Notes: * Return on average assets.

5.3. Valuing the Environment

According to Boeing's 10-K, environmental remediation is accrued and expensed when it is "probable" that a liability has been incurred and the amount can be reasonable estimated [34] (p. 59). In addition, Boeing provides a non-financial "Environment Report." In that report, for example, Boeing discloses percentage reductions of energy consumption, CO_2 emissions, water intake, hazardous waste, and solid waste diverted from landfills. Boeing also discloses these reductions on a

revenue-adjusted basis. We ask ourselves how Boeing might incorporate such information in a financial report. One suggestion is to record environmental improvements as goodwill.

In order to explain how such improvements might be recorded in a financial report, we must explain the accounting for goodwill. Purchased goodwill is recorded; it is the difference between the value of a target's assets and the price paid for the assets. For example, in the purchase of a service business, such as a public accounting firm, a relatively small amount of the purchase price is allocable to tangible assets (such as desks and computers). The purchase price is largely allocable to goodwill in the form of a client base. According to current GAAP, goodwill that is internally generated (*i.e.*, the client base of firm that is not sold) is not recorded in financial reports. We propose that the goodwill generated by Boeing's environmental efforts be capitalized. Valuation is difficult. We propose that (1) Boeing assumes responsibility for a pro-forma environmental disaster; (2) Boeing estimates the number of years necessary to restore its reputation and estimates the lost income; (3) Boeing calculates the present value of the lost income. That present value is a measure of the goodwill generated by environmental improvements. The goodwill is recorded as an asset, and equity is recorded. As with purchased goodwill, the goodwill attributed to environmental improvements is not amortized, but it is tested annually for impairment.

5.4. Valuing Corporate Citizenship

According to Boeing's 2012 Corporate Citizenship Report [37] (p. 1), $179 million from The Boeing Company and its employees "went to help improve lives and communities worldwide in 2012. The funds are distributed around the world through thousands of charitable grants, donations and business sponsorships". According to current GAAP, Boeing expenses its contributions, and such contributions are tax deductible. However, certain programs are most likely excluded from such contributions. For example, Boeing's Corporate Citizenship Report describes the "Boeing Humanitarian Delivery Flight" program [37] (p. 20). Boeing delivers humanitarian supplies in the empty cargo space of new airplanes; these planes are delivered to customers. The value of such a service can be estimated, capitalized as goodwill, and recorded as equity.

6. Discussion and Conclusions

Given the irrefutable value of stakeholders to a firm, it's only logical than one of the next steps in the evolution of stakeholder theory is to develop a comprehensive valuing process that consistently provides relevant, verifiable data for external reporting purposes. The process proposed here, Stakeholder Valuing (SV) is designed to do just that. Benefits accrue to both stakeholder scholarship and to management. As suggested, the application of SV requires three steps:

(1). Negotiating identity of the firm;
(2). Creating value that's consistent with that identity;
(3). Accounting for and reporting that value.

We do not mean to suggest that giving shape to the identity of a firm is easy. It is not. It is often hotly contested, time-bound, and incomplete. Our goals with the SV process are to legitimize an identity construction that incorporates stakeholders of all kinds; give guidance as to how to

define stakeholders; and direct the valuing of those stakeholders in a standardized way. Inherent within the creation of identity is the reality that "stakeholder" can be defined directly based on context and strategy. It's clear that some stakeholders are more important than others. A broad definition of "stakeholder" is fine for exploration of stakeholder theory, but understanding and praxis demands more narrowly define concepts that can cross firm boundaries. That's another of our goals with the SV process.

Another major goal is the standardization of the valuing process so that it is consistent with well-established valuing process already in use for other types of firm assets. This consistency will lend legitimacy to the valuing process: something that's been lacking in stakeholder theory development to date. Yet this is a very controversial issue. Can a firm classify anything it wants to as a CSR endeavor and benefit from that classification? For instance, in nonfinancial reporting, Boeing [37] (p. 3) reports total expenditures of $179-million for "corporate citizenship" in 2012, including $71-million in "business-related expenses"; $42-million in contributions from employees and matching contributions from the firm; and $66-million in charitable grants. Should Boeing be able to reclassify contributions from its employees? Probably not. Should it be able to reclassify matching contributions? Yes. Ultimately, reporting standards have to be created for stakeholder expenditures just as they have been for all other items on the balance sheet.

This conversation has just begun since as we demonstrated with Boeing, some data are already published by firms and thus easy to break-out in the balance sheet. Other data may be collected but are not reported. Yet others are not yet collected. SV provides uniform capitalization methods for valuing stakeholder assets. The use of the methods is straight-forward. The challenge to the firm is in deciding which of the many measurements is most accurate. Both firm and stakeholder attributes as highlighted in Table 1 affect this decision. Accountants are paid to be skeptical and need independent means to verify value statements. Thus, if stakeholder valuing is to have any worth to the firm, it must meet the same high standards as set for all other forms of financial reporting. The conversation has just begun.

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Author Contributions

The authors are listed in alphabetical order; their contributions are equal.

Conflicts of Interest

The authors declare no conflict of interest.

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