Accounting & Controlling. How to account for what counts

When it is true that accounting is the "language of business", then controlling may be said to be its "spell-checker", as it were. As this is a rather prosaic language, however, consisting of mainly figures, formulas and functions, accounting and controlling (in the following, I will refer to them as *"A&C"*) are usually considered a rather dry topic – and a topic which, due to its seeming closeness to mathematics and other "hard sciences", there's not much to question or discuss about.

A&C are about the business of business, reducing the complexity of the firm to what's "economic".

When it comes to business ethics, however, with *A&C*, we are actually just getting to the core of the matter – *in medias res*: In the most skeletal sense, *A&C* are about "the economy" of the economy, upfront expressions of the view that *the business of business is business*. Plainly, what this means is that *A&C* have no "material" subject, such as *HRM*, sourcing, marketing or other management fields do have one, defining what they are actually about or *good for*. *A&C's* function and subject matter *cuts across* all these fields – it's about the very "economic aspect" that these diverse areas share, as parts of a *business*.

A&C are expressions of economic rationality and rationalization, resp.

A&C's business, thus, is to reduce the complexity of a business and its environment to what's *economic*, and to make sure that it actually works as *economics* would have it. When accounting, in this ideal division of labour, is mostly concerned with the *status quo*, if not with a company's past, then controlling is concerned mainly with its future. When accounting, therefore, is mostly about *economic rationality*, then controlling is about *economic rationalization*.

A&C are supposed to secure rational management: Conventionally, this means the efficient pursuit of earnings, at all (external) costs.

Conventionally, following this perspective, *A&C* are meant to secure the *rationality of management* – its *efficient pursuit of earnings*. That's what *A&C* may be said to be *good for*. In most abstract terms, this specifies the basic, *classical* ethical concern with *A&C:* It is basically about professional norms and virtues of *A&C* practitioners in line with a profit-maximizing shareholder governance. From an alternative, "extended" ethical perspective, however, this reductionist focus on earnings (profits, returns & assets) in itself constitutes a major ethical concern with *A&C* – what's *bad about it*: the systematic *exclusion* of everything that's not relevant or conducive to this purpose. What's claimed instead is a systematic *integration* of a business's social and environmental costs and benefits into management decisions, in line with a socially embedded and responsible sort of stakeholder governance.

From an extended ethical perspective, this implies the systematic integration of social and ecological costs and benefits.

For accounting, this basically means new requirements concerning the selection and assessment of information – when non-financials are to be translated into money. For controlling, it means new challenges when it comes to the reflection of means and ends – depending on how ambitious the very concept of controlling actually is: As an "auxiliary function" to management, within a given "target system", its focus will be on the most efficient and consistent coordination of different fields of management. As a "meta function", at eye level with management, its focus will be on a reflection of management's goals, in terms of effects and legitimacy.

Seen that way, *A&C* amounts to more than a one-dimensional rationalization of management, but it is about *extending* the very concept of economic rationality itself – in an ongoing process of adaptation to the company's human and natural environments. The basic claims for clarity, sincerity and transparency, then, hold for both these "paradigms" – they rather differ in what *A&C* are supposed to be clear, sincere and transparent *about*.

The basic challenge is to extend the reach of economic rationality – a necessary, yet ambiguous aim.

So, apart from the mentioned *formal* issue whether *A&C* should be concerned merely with means or also with ends, narrow and extended ethical perspectives differ *substantially* on the question whether a business should be managed for the purpose of shareholders or (all) stakeholders. In this unit, we will examine both paradigms: the conventional narrow view that stresses the issue of "moral risk" and the general importance of trust for an efficient economy, and the ways to extend economic rationality to integrate non-monetary social and environmental values.

The Classical Position. *A&C* in the Service of Efficiency

Conventionally, and in theory, the target system of a company is concerned with monetary *gains, rates of return, and asset*s – and their continuous optimization. *A&C's* function, then, is limited to *information, coordination and the reflection* of management decisions in line with the efficient pursuit of earnings. These tasks are supposed to comply with the norms of *clarity, sincerity and transparency*. Eventually, they are to provide the basis for *decision-making, performance reviews and reports*.

Basically, *A&C* is supposed to assure the economic rationality of management.

In short, the function of *A&C,* in conventional terms, is to assure the *economic rationality* of management. The classical *ethical* challenge for *A&C* can be derived immediately from its principal purpose to reduce the complexity of a business and its environment to its mere economy – the economic aspect of all it does.

Most fundamentally, the efficient generation of earnings hinges on the *availability of good information*. The "right figures" constitute the *sine qua non* for good decisions, for planning, monitoring developments and performance over time, and eventually for determining the economic situation of a business – and the fair share for its constituents. If the numbers are wrong, vague or dubious, this may compromise the economic viability of a business. That's why this area, traditionally, has been in the focus of business ethics. And it is likely to arouse moral outrage and criminal charges, whenever figures seem wrong or forged.

Traditionally, the focus of ethical *A&C* is about dealing with the right numbers.

Most obviously, this is the case with *individual or corporate fraud* – issues that are actually grossly illegal or even criminal. Corporate financial scandals in the early 2000s, such as the symbolic cases of *Enron* (cf. the box below), *WorldCom* or *Parmalat,* not only served to illustrate the thin line between "creative accounting" and outright *white collar crime.* They actually spurred the introduction of much-needed additional regulations concerning the accuracy of financial reporting for public companies and "good corporate governance" (cf. below and the box on *Corporate Fraud – The Rise and Fall of Enron*).

Individual and corporate fraud and other white collar crime pose a major "moral risk" for good corporate governance.

Corporate Fraud – The Rise and Fall of Enron The "Enron scandal" – today an *epitome* for corporate fraud and confidence bubbles in the heyday of neoliberalism – was debunked in 2001. Until the very burst of the "Enron bubble", the Texan energy company-turned-conglomerate was not only hailed as a corporate success story: It had become the largest seller of natural gas in North America, only seven years after its foundation. It constantly over-performed on the stock market. It had been rated the most innovative large US company by *Fortune Magazine*, for six years running, up until 2000. On top of that, *Enron Corp.* had also been hailed as a best practice case for CSR. As it turned out, however, most of this success was actually fake – and the reasons for Enron's impressive rise also led to its sudden fall, and to the damage it brought to thousands of investors and the US economy.

Enron's management, over several years, had pressured the use of "accounting loopholes" and "high-risk accounting practices" to misrepresent earnings and to sugarcoat performance: by choosing the "merchant model" instead of the "agent model" for reporting its revenue, and by using "mark-to-market accounting", based on the company's derivative, then inflated market value. It had created hundreds of "special purpose entities", officially meant to "hedge" downside risks in investments, yet actually meant to hide its debt. On top of that, Enron had hired numerous accountants – preferably people who had previously worked on developing accounting rules – to find innovative, creative ways to capitalize on loopholes found in the *Generally Accepted Accounting Principles (GAAP).* As a former Enron accountant admitted: "We tried to aggressively use the literature [GAAP] to our advantage. All the rules create all the opportu nities. We got to where we did because we exploited that weakness." Management also pressured *Arthur Anderson*, the company that did most of Enron's external financial audits, to assist in the cover-up of losses and risks particularly associated with special purpose entities. Before court, *Anderson* employees were later accused of having applied "reckless standards" in its audits, lacking both diligence and competence, of having sold both audit and consulting services to Enron, without doing enough to resolve this fundamental conflict of interest, and of having destroyed tons and terabytes of incriminating material.

All *A&C* activities, thus, were tailored to overstate the corporation's earnings on the books and its future performance, and to understate its actual risks and losses. The inflation of the "Enron bubble" had its roots in an exclusive, not to say obsessive pursuit of short-term earnings, corresponding strategies, incentives (such as threats and stock options) and actions of internal and external actors that eventually spiralled out of control – to become grossly irresponsible and indeed criminal. Eventually, *Enron* management effectively misled the corporation's board of directors, hiding billions of dollars in debt from failed deals and projects – until the bubble burst, in 2001.

It all ended with the then largest bankruptcy case in American history – topped only a year later by *WorldCom's* bankruptcy – and, until today, the biggest audit failure ever. This not only effected the dissolution of *Arthur Anderson*, then one of the five world's largest audit and accounting businesses, but also the introduction of new legislation to improve accuracy of financial reporting.

Sources: Wikipedia > Enron scandal, HBS Case Collection > The Fall of Enron

Cases such as *Enron's*, even if they are actually criminal, reveal the basic problem of "anomy" involved, whenever a situation is complex, obscure, leaves room to discretion and cover-up, and when the gap between reality and expectations can no longer be bridged – other than, in these cases, by the use of "bogus accounting". More recent cases of corporations, such as *Apple Inc.,* applying similar "creative accounting" measures, in addition to bare power, to legally "avoid" (*not* illegally "evade") taxes, however, illustrate that the line between crime, legality and moral outrage is indeed quite thin.

"Cooking the books" is criminal – but the line between crime and creativity is thin.

What such critical cases may illustrate as well: The very complexity of *A&C* bears a considerable ethical problem – even if there's no immoral intentions involved. How earnings are to be calculated, how assets are to be assessed, how revenues are to be estimated – all this implies a considerable amount of discretion on the part of management and *A&C* practitioners: a freedom which has to be used responsibly.

Generally, there's an amount of discretion involved that needs to be used responsibly.

Existing legal and professional principles, norms and virtues, in that respect, are meant to provide some sort of moral guidance:

Legal and professional norms and principles provide some sort of moral guidance.

- *Grundsätze ordnungsgemäßer Buchführung (GOB),* similar to the *Generally Accepted Accounting Principles (GAAP)* in the US, consist of written and unwritten rules supposed to save creditors and owners from incorrect information and ensuing losses. These principles include imperatives of accuracy and neutrality, clarity, completeness and caution.
- Ethics standards of professional associations, such as the *International Federation of Accountants' (IFAC) Code of Ethics,* issued in 2002, specify particular professional norms and virtues to be followed by *A&C* practitioners. In an effort to further develop and consolidate professional standards, the *IFAC* recently installed a special *International Ethics Standards Board for Accountants (IESBA).*
- *Corporate Governance Codices,* issued by the *OECD* and national bodies, similar to the US *Sarbanes-Oxley Act*, specify numerous guidelines concerning shareholder rights, accurate reporting, incentives for management and potential conflicts of interest, in order to reinstate trust in the aftermath of financial scandals.

Basic virtues and codes of conduct for A&C professionals are supposed to establish trust in the profession.

Basic virtues for *A&C* professionals, including auditors, CPAs, independent tax consultants and rating agents, comprise: honesty, reliability, objectivity, fairness, professional competence, integrity and diligence. Over and above these personal characteristics, relevant codes also contain principled guidance on conflicts of interest, fees, gifts and hospitality, the marketing of services, as well as on the incompatibility of auditing and consulting services.

Generalized trust – as a form of social capital – is needed for an economy to work efficiently.

The sheer number and variety of principles, norms and virtues that these (and many other) codes specify, on top of applicable laws, mirrors the crucial importance of stable expectations, as a prerequisite to *calculations*, for the efficient working of businesses and economies. Effective norms and the generalized trust that's based on them have been described as a sort of "*social capital*": Because actors in the economic field may "count on them", effective norms and trust may substantially reduce transaction costs – or make transactions possible in the first place. Therefore, they constitute an *economic resource*. This central insight is also mirrored by the general objective of *IFAC's Code of Ethics*, which is supposed to "enhance the quality and consistency of services provided by professional accountants throughout the world and [to] improve the efficiency of global capital markets." (International Ethics Standards Board for Accountants 2013 : 1)

Even if – as we saw in the *Enron case* (cf. above) – "all the rules create all the opportunities" for those who break them: What this reveals is that there's always the need for moral behaviour, on top of legal provisions, to fill out the blanks that (for whatever reason) are actually left to the discretion of management or *A&C* professionals: subject to their *decisions*.

In the language of economics, more specifically of "agency theory" (a. k. a. "principal-agent theory"), this discretion implies the problem of "moral risk" involved in all relations between *A&C* professionals, management and owners. What it means is that, even if formal, contractual responsibilities exist in any given organization, there's still some sort of "information asymmetry" involved in these relationships: "Agents", even though responsible to their "principals", may still know more about the "inner workings" of an organization and use this information – or hide it – in order to promote their own interests. *A&C* professionals, therefore, are supposed to deliver valid and reliable information to management – not to withhold or forge it, in their own interests. Management, again, is supposed to be clearly and primarily committed to optimize earnings, which is in the interest of owners or investors. The trust that's being earned in that process, and the eventual success of the company are both supposed to secure a steady flow of capital.

There are multiple "moral risks" involved in the dealings between accountants, management and owners.

On the other hand, what normative principal-agent theory also implies is a principal – if not exclusive – responsibility of agents to their principals: even to the point where professional loyalty to one's organization, co-workers and employer may be fundamentally at odds with the public interest or general ethical principles. This is the sort of moral dilemma that usually only reveals itself when people eventually decide to "blow the whistle" and bring such an issue to the fore (cf. the box on *Whistleblowers. Heroes or Traitors?*).

Whistleblowers. Heroes or Traitors? Julian Assange, Bradley Manning and Edward Snowden, with their recent "leaking" of scandalous practices of mainly US military and secret service activities, incited discussions on public deception, privacy, corruption and war crimes – at the same time, however, their stories also incited debates on "whisteblowing": Whether what they did was heroic or actually treacherous – and possibly motivated by very mean, egoistic motives.

Even if it may seem an altogether new and rising phenomenon, with the help of instant global communications, whistleblowing has actually been around for long – and with the distance of time, today's opinion often differs from the judgment that many of these people had to face in their times. Some of these cases have indeed become historic – and sometimes even put to the screen by Hollywood, such as Daniel Ellsberg's 1971 leaking of the "Pentagon Papers" that revealed public deception on the Vietnam War; W. Mark Felt's 1972 leaking of President Nixon's involvement in what was to become the "Watergate Scandal" (filmed with Robert Redford and Dustin Hoffman); Gregory C. Minor's, Richard B. Hubbard's and Dale G. Bridenbaugh's 1976 leaking of safety problems in nuclear power plants run by *General Electric* (filmed with Jack Lemmon, Jane Fonda and Michael Douglas); Douglas D. Keeth's 1989 leaking of illegal billing practices at *United Technologies Corporation's*, even after having been offered a $1 million severance for keeping quiet; Mark Whitacre's 1992 leaking of a price-fixing cartel in which his company, *Archer Daniels Midland,* had been involved (filmed with Matt Damon); Jeffrey Wigand's 1996 leaking of *Brown & Williamson's* intentional manipulation of cigarettes to increase smokers' addiction (filmed with Russell Crowe); Sherron Watkin's and Cynthia Cooper's respective 2002 leakings of the corporate financial scandals at *Enron* and *WorldCom*, for which they were jointly named *Time's People of the Year* – with Coleen Rowley who had exposed the *FBI's* slow action prior to *9/11*; or Brad Birkenfeld's 2005 leaking of a multi-billion dollar international tax fraud scandal in which *UBS* and other major Swiss private banks were involved, and Rudolf Elmer's 2008 leaking of tax evasion schemes supported by the Swiss *Julius Bär Holding.*

In Austria, important whistleblowing cases were Herbert Amry's 1985 leaking of Austria's illegal arms trade with Iran, which led to the so-called "Noricum scandal"; Michael Ramprecht's 2010 leaking of supposed corruption in the privatization of 60.000 state-owned *BUWOG* apartments; and Gernot Schieszler's 2011 leaking of supposed share price manipulation by *Telekom Austria* management – which led to the introduction of a new leniency policy for such cases in Austrian law, and to the introduction of an internal "whistleblowing platform" at the company in 2012.

As we see, those people who persevere and who make public what their organizations aim to conceal, from the distance of time are often seen as heroes (to which Hollywood stars lend their faces) – even if, at their times, they were quite often seen as traitors.
Source: Wikipedia > List of whistleblowers

Normative principal-agent theory is the ethical backbone of shareholder governance.

We've got to know the principal-agent argument already, from the discussion of the "shareholder view of the corporation" (cf. chapter 5). Management's *efficient pursuit of earnings*, as we saw, is supposed to be ethically justified – and actually *required* – because of the owners' fundamental right to dispose freely of their private property (capital) and whatever comes of it (profits), and because of its supposed contribution to the overall efficient allocation of scarce resources. From this classical, liberal and utilitarian viewpoint, a company's social responsibility, thus, exactly converges with what economics has it to be *good for*: It is the same exclusive, one-dimensional conception of *shareholder governance* that's expressed in Milton S. Friedman's well-known *bonmot*: "The social responsibility of business is to increase its profits."

As we saw in this section, *A&C's* function and ethical challenge can be immediately derived from this paradigmatic viewpoint. Figure 1 below summarizes this classical paradigm, in the context of the shareholder model of the corporation (cf. also *chapter 5*) and confronts it with an extended, more ambitious ethical position – corresponding in many ways with the stakeholder model – which I am going to discuss next.

The shareholder paradigm can be confronted with an extended stakeholder vision of the corporation.

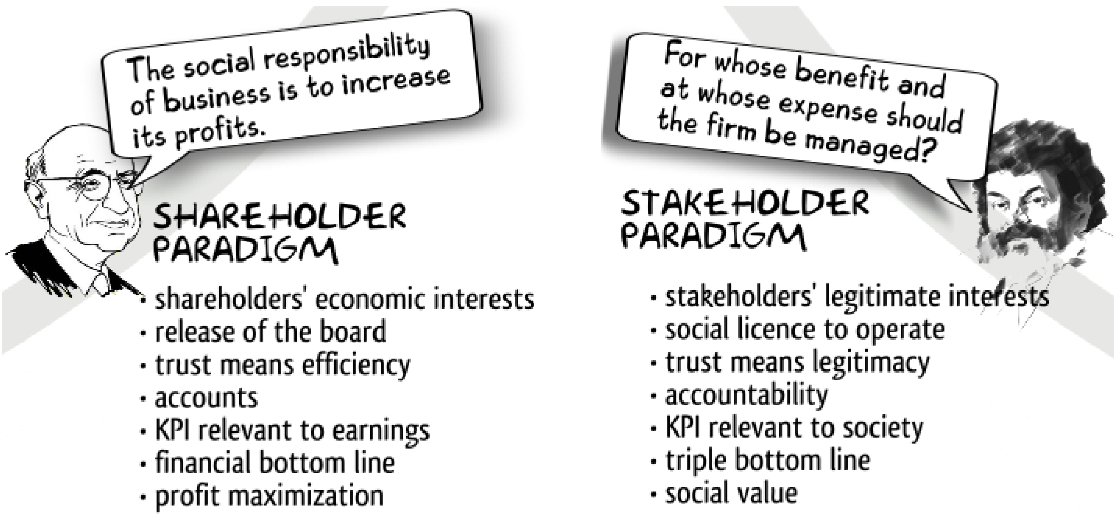

Figure 1: Paradigmatic contexts of the classical & extended ethics of A&C

The Extended Position: *A&C* in the Service of Legitimacy

The basic problem and challenge of the classical position was to highlight and enhance the "economic aspect" of a business – by way of valid and reliable information, coordination and reflection of management decisions, in order to increase earnings, ensure rational management decisions and shareholder confidence.

Focusing on the economic aspect is what *A&C* is good for – and what may be bad about it.

In a nutshell, this is what *A&C*, in conventional terms, are *good for*. From an alternative, extended position, this very exclusive, one-dimensional focus on the economy of a business, however, is seen as part of what's actually *bad about A&C*. The aim to be "economic", that is, may imply either ignorance or else the externalization of all things seemingly irrelevant or interfering with the generation of earnings – even if they are substantially affected by the company's workings. This peculiar rationality, as we saw, is ultimately justified by its ability to promote owners' monetary interests. There is no other immediate responsibility to any other interests or "values" – they don't even show up in the company's target system.

Repeatedly, the term "economic rationality" has been used in this chapter to denote some sort of axiomatic, limiting notion for what's supposed to be "economic", i. e. for defining the "economic aspect" of some object or situation. The term is not used here in its broad "substantivist" sense of "economising" on something, or "provisioning" goods and services, referring to the many ways a society meets its material needs (Polanyi 1978). What's usually referred to as economic rationality, according to a disctinction made by Karl Polanyi, is actually its narrow, "formalist" conception: *purpose-rational maximization of utility under conditions of scarcity.* Obviously, this formalist notion of what's supposed to be economic shows close affinity with a liberal and utilitarian, in short: a *capitalist conception of economy.* Therefore, it may be said to be itself the product of a specific rationalization of economics, as it took place in early modern Europe, along with the rise of capitalism (cf. the box on *Economic Rationalization, Double Bookkeeping, and Capitalism*).

Economic Rationalization, Double Bookkeeping, and Capitalism Tools and techniques, in about any realm of human practice, do not only facilitate what people do – they also allow them to do more and, eventually, to abstract and reflect upon what they do, improve and refine it, according to certain principles. That's, generally speaking, what *rationalization* of a certain realm of life is all about. In the economic realm, ever since Stone Age men began to use simple check lists and later tally sticks (cf. *Chapter 5*), mankind developed and improved its tools to literally *come to grips* with their economy. So, the invention, continuous application and diffusion of tools and techniques of (primitive) *A&C* accompanied and supported the self-reflective rationalization of the economy from a socially embedded practice to an autonomous social subsystem (cf. the box on *The Autonomous Economic System and its Obstinate Code*). Economic rationalization is a process that's still going strong – as can be seen in the very development and spread of accounting and controlling in organizations and, more fundamentally, in the constituent, lasting influence of international accounting standards on structures and policies of contemporary businesses (Chiapello 2009). Obviously, the economy – even if people hadn't yet given it a proper name – used to be an important field of human practice ever since the beginnings of civilization. Indeed, most – if not all – primitive writing systems (such as Babylonian "cuneiform", Celtic "runes" or Incan "quipus") seem to have had their origins in some method to record, represent and reflect upon economic actions, assets and transactions. They provided ever new ways to symbolize processes of production and transaction, to behold, count, calculate, convert and turn them into objects of detached, theoretical reflection – and in turn improve this very economic practice. Over the centuries – with sudden advances and setbacks – these techniques were developed and promoted in close connection to economic activities: They were increasingly “rationalized”, as it were.

Double bookkeeping, in particular, was said to have enabled and spurred the development of the peculiar economic rationality of capitalism – the so-called “capitalist spirit” (Sombart 1987; Chiapello 2009). Technically, what was new about double bookkeeping, when it was first introduced in late medieval Northern Italy, was that it contained two “books”: a chronological “journal” and the “main book” that was organized in accounts. Double bookkeeping spread quickly all over Europe, mainly due to a book written by Franciscan monk and mathematician Luca Pacioli in 1494, in which he laid down the basic principles and advantages of this new technique, which he summarized as “letting you know everything in short time, the liabilities as well as the assets, because that's everything that business is about.“ Pacioli's book, thanks to the introduction of letterpress printing a few years earlier, proved so influential that some (including Werner Sombart, in his classic account) even credited him for having invented double bookkeeping – which Pacioli didn't. Its influence on the development of *A&C* and, through continuous practice and refinement, on economic rationality, nevertheless, was substantial – in three fundamental aspects: 1) the abstraction and isolation of economic activity from other cultural realms, including its emancipation from religious norms, which is also implied in Pacioli's quote given above; 2) the strict division of household and business, which is an important prerequisite for the accumulation of capital as an end in itself; and 3) the orientation of the economy to linear development and growth.

Economic rationality under capitalism implies the efficient pursuit of earnings.

Thus, we might say that what's usually referred to as economic rationality is actually its peculiar, *capitalist* form – tailored around notions of scarcity, market exchange, utility and rational choice. Ideally, then, this capitalist notion of economic rationality may be pinned down to two typical characteristics: *the pursuit of earnings, and means-end rationality*:

- *pursuit of earnings [GOAL]* Contrary to a broader, substantivist view of the economy, focusing on the satisfaction of material needs, formal economic rationality in capitalism is directed at monetary output: It is about *accumulation of capital*, as an end in itself, whereas the satisfaction of needs – or any other material value – eventually is only a side effect of promoting this primary goal.
- *means-end rationality [MEANS]* Within that monetary target system, formal economic rationality is about the optimal, *efficient allocation of (valued) resources*, i. e. the maximization of output or the minimization of input, in terms of money: It's about maximizing profits and cutting costs.

This peculiar economic rationality did not fall from the sky – it corresponds with an economic sphere that's fairly disembedded from society.

The capitalist conception of economic rationality, as mentioned before, is not a “cultural universal” – even if that's what formalist theoreticians claimed it to be (with the exception of the focus on monetary output). Rather, it's the result of a long material and intellectual history, in the course of which the economy may be said to have “come to itself”, as reflected in the emergence and development of economics, its proper “reflective science”. According to sociological systems theory, the economy constitutes an autonomous subsystem of society: It operates according to its own, obstinate binary code (“payment/non-payment”) and is actually unable to handle any other, non-monetary information – otherwise, it would just be a different thing, but not “the economy” (cf. the box on *The Autonomous Economic System and its Obstinate Code*).

The Autonomous Economic System and its Obstinate Code According to sociological systems theory, modern society is characterized by an increasing functional differentiation of specialized "subsystems" that operate – in a most theoretically abstract sense – according to distinctive "binary codes" (Luhmann 2002). In the case of the economic subsystem of society, this binary code consists of the dualism "payment/non-payment", which again reduces the formalist or capitalist notion of economic rationality to its most abstract rationale (Luhmann 1988). A binary code, therefore, does not only define a social subsystem. It also denotes what kind of information a social subsystem is able to *process* in the first place. So, the economic subsystem, in this view, can only handle information in monetary terms – to everything else, it is indifferent or ignorant. Decisions based on other codes – such as the political dualism "power/not power", the scientific dualism "true/false", or the moral dualism "good/bad" – can never be economic decisions in this strict sense. That's why, in the view of Niklas Luhmann, an important figure in the development of sociological systems theory, "business ethics" is actually an impossible thing – at least as long as moral values cannot be translated into monetary terms (Luhmann 1993).

Contemporary sociology, notably Nico Stehr's conception of a "moralization of markets" (Stehr 2007, cf. chapter 4), depart from this "functional fundamentalist" position – which actually reminds of Milton Friedman's neoliberal position (Friedman 1970, cf. chapter 5) – to acknowledge the actual "interpenetration" of different subsystems of society: This means that "foreign" values and principles tend to be introduced from outside into another subsystem, where they are then being assimilated according to its own binary code. Examples of this include the efforts to integrate moral values into economic decision-making (cf. the following).

In more down-to-earth language, what this means is just that: *All that cannot be expressed in monetary terms cannot be the subject of an economic decision.* From an extended, ethical perspective, therefore, the ethical problem of this view consists in the systematic "masking" or "blinding out" of everything that seems to be irrelevant or in the way of earning money – or which cannot be captured, measured and evaluated in any adequate – or economical – way (such as risks, long-term or external effects).

In most radical terms: If something has no price, it doesn't have value in a capitalist economy.

This, then, is the starting point for a more ambitious, integrated way to think about *A&C* in ethical terms: Economic rationality (the capitalist way) tends to *exclude* all "extraneous" interests and values (be they moral, political or aesthetic), because it basically just cannot *handle* or – more profoundly – *understand* them in its peculiar language. Eventually, they remain "invisible" and do not show up in a company's accounts – neither as assets (such as "intangible resources") nor as costs (such as negative external effects).

The problem with this self-contained view is that it cannot handle extraneous values without converting them into commodities ...

Usually, when there's talk about social or environmental "resources", "capital", "costs" &c., these are strictly speaking just *metaphors* – as long as they haven't been transformed into monetary values ("*monetarized*") and/or into commodities ("*commodified*"). Only then may they become the subject of a true economic decision.

The basic ethical problem with stressing the "economic aspect" of a business, then, is that it may be perfectly economically rational, e. g.:

... and that it is perfectly rational to appropriate or exploit such values, or to externalize costs.

- to employ people only as means to reach one's private goals,
- to exploit natural resources in non-sustainable ways,
- to appropriate public goods for private gain and
- to externalize costs to the community.

The basic challenge for *A&C* is to make non-financials visible and measurable.

From an extended ethical perspective, the corresponding practical claim is twofold: to render supposedly irrelevant or impeding factors *visible* throughout the process of value creation, and to render them *processable* as information for management, by measuring and eventually translating them into the language of economics. Accordingly, two different classes of data have to be distinguished in that respect: non-financials and financials.

Good information on social and ecological non-financials helps to make good *moral* decisions.

"Material flows", emissions or data on job satisfaction may – in their very "raw" non-financial form – contribute to a more complete and balanced picture of a business, or they may even provide the basis for strictly "moral" decisions: If management, in the context of a multi-dimensional target system (i. e. not only focussed on maximum earnings), commits itself to the reduction of *GHG* emissions, e. g., then the collection of relevant data, planning, monitoring and communications of such non-financials may become a central task for *A&C* in that business – even if it doesn't pay, or if that isn't known for sure.

To become a "business case", such values must be expressed in money terms: *financials*.

For this information to be integrated into economic decisions in the strict sense, non-financials, first, have to be assessed and "valued", in terms of money: They have to be *monetarized,* and eventually also *commodified.* It may turn out for a company, then, to be indeed *economically rational* – a "business case" – to save on natural resources or to improve the working conditions of employees (cf. c*hapter 6*). There are already many examples for practical implementations of such an extended vision of *A&C*, such as

There are different practical approaches to make *A&C* more inclusive in social and environmental terms.

- *environmental and social full cost accounting, budgeting and investment appraisal*: These fields are about determining the "true" or "full costs" of making business – not only as a prerequisite to internalize costs, but also to render visible hitherto hidden assets or cost-saving potential, in line with social and environmental targets, and to integrate this information in budgeting and the planning of investments.
- *environmental and social controlling:* These fields are about making sure that management receives the necessary information, that different management fields are working in a consistent, coordinated way, and that, therefore, the "rationality of management" is assured in line with the company's (extended) target system. This includes the collection, processing and preparation of data, the assessment of "key performance indicators" as a basis for planning and monitoring, and reflection of management decisions in the context of a company's targets and principles.
- *environmental, social or sustainability reporting:* These fields are about preparing and issuing information on social and environmental performance of a business to management, stakeholders and the general public, alongside a conventional financial report (cf. c*hapter 8*).

"Only what gets measured gets managed." This also holds for social and environmental *A&C*.

The general function of *A&C* in these fields and processes follows from the same rationale usually brought up for its more conventional tasks: *Only what gets measured gets managed*. Or, more specifically and drastically, as HRH The Prince of Wales had it, at the 2010 *World Congress of Accountants* in Malaysia: "The grim reality is that our planet has reached a point of crisis, with the time for us to act rapidly running out. ... If we are to tackle these problems it is vital that we have better information ... about the sustainability of the organizations we work for, invest in and depend on, and about the products and services we buy and use." (Gould 2011) In this context of crisis and ensuing efforts to integrate social and ecological aspects into management decisions, what's needed, thus, is *information* – whether in raw or monetary form – that may support management to pursue their visions and policies.

When it comes to social information, including figures and qualitative measures as well as indicators or indices, there are a couple of issues that may be interesting to know (*cf. chapter 6*), such as:

Social figures may show that it's worth valuing one's employees.

- health and safety related issues, such as kind and number of work-related diseases, accidents &c.
- fluctuation or employee turnover rates
- quality of workplace measures, in connection with productivity
- employee's job satisfaction
- the "moral climate" of an organization

When is comes to environmental figures (*cf. chapter 8*), conventional key performance indicators cover the following :

Environmental figures may show that it's worth valuing natural resources.

- *resource use*, including absolute and relative scarcity, regenerativity and external effects
- *emissions* (solid, liquid, gaseous), including connected dangers and safety issues
- *strain on natural environments* along the "value chain" and "product life cycle", including production, use, packaging, transport and disposal
- *expenditures* on environmental issues

Environmental figures have already become an integral part of management decisions in many cases: First of all, because companies are required by law to collect and document some of these data, but also because environmental indicators are (relatively) easy to measure and evaluate, and because saving on natural resources quite often does converge with the economic imperative to save money, in terms of "eco-efficiency". Social figures, on the other hand, because they are harder to measure and value, usually do not serve as a basis for decision-making or strategy, but rather for purposes of documentation and reporting on CSR and sustainability issues (*cf. chapters 6 & 8*).

There are a series of legal provisions that already provide for an extended form of reporting, including social and environmental costs and benefits.

Actually, a series of legal provisions and guidelines do already stipulate – or at least advise – an extended form of reporting for public companies, iff it is deemed relevant to their economic situation and future performance. These include the *EU's* 2003 directive on the *Modernisation and updating of accounting rules (2003/51/EC)*, the corresponding Austrian *Rechnungslegungsänderungsgesetz (ReLÄG 2004)* and a complementary guideline for implementation (2008), or the *IFAC's Guidance on Environmental Management Accounting* (2005) and its more recently updated *Sustainability Framework* (2011).

Apart from such provisions and guidelines that specify minimum requirements, on a voluntary or "comply or explain" basis, normative expectations on the part of a company's stakeholders (including business partners) and the general public may actually prove more effective in promoting the integration of social and environmental costs and benefits in management decisions, performance measures and external reporting (beyond compliance). Optimists may interpret such efforts in terms of a "re-embedding" of the economy into the moral fabric – or even the "moral economy" – of society. Pessimists may interpret it rather in terms of superficial "signalling" and hypocritical management fads. The acid test for success or failure of such policies, eventually, will be whether they are only selective and piecemeal, or else embedded in a consistent management system and a committed corporate culture.

The extension of *A&C* to include social and environmental figures is an ambiguous issue.

That's why environmental and social *A&C*, *per se*, do not warrant good, responsible management decisions. Just on the contrary, they may even serve to identify hidden costs, intangible assets and drivers to exploit them in more efficient ways. The systematic, conscious integration of formerly "extraneous" values into economic rationality, that is, bears the constant danger of "economization": to reduce these values to their mere economic aspect and, in effect, treat them only as means to corporate ends (cf. the box on *The Trojan Horse of Economization*).

The most fundamental danger is that the extension of economic rationality may "drive out" morals.

The Trojan Horse of Economization The systematic integration of formerly "extraneous" values into economic rationality may discover points of convergence, synergies and "win-wins" between economy, nature and society that hitherto hadn't been acknowledged. That's usually referred to as the "business case" of CSR or sustainability – a new paradigm that certainly has its merits, if it focuses attention on necessary measures and frameworks to *establish* such a convergence, and doesn't leave it to the miraculous workings of the market. At the same time, the business case paradigm further increases the reach of economic rationality into realms it hitherto hadn't reached.

When moral values, the natural environment and human beings are "reframed" and redefined in terms of economic resources, capital, costs, assets and drivers, this doesn't only serve as a proxy for the expansion of economic language. It may eventually deprive the objects it so defines of their very individual quality and dignity. Economic rationality is fundamentally *indifferent* to any individual value, such as the beauty of a tree, the virtues of an individual or the ideal value of a materially worthless thing – that's nothing it is able to grasp and process, as long as it can't be given a price and made into a commodity.

Indeed, that's the basic idea behind new schemes to sustainably manage the natural "commons", such as emissions trading based on the principle of "*cap and trade".* Apart from weak design and implementation, critics attacked this scheme for subtly devaluing nature by "valuing" it in economic terms, turning it into a commodity and eventually exploiting it, as such, for profits (Sandel 2012). The promise to use natural resources more efficiently, that is, doesn't actually mean a more economic and sustainable use of these resources *as such*, but only *as commodities*. As long as price doesn't cover hidden costs for planet and people, however, rising welfare and growth are still going to be *bought* with resource exploitation and social injustice – and efficiency will mean no more than the optimal usage of invested capital.

In simple words, critique of economization boils down to how *Austropop* singer Wolfgang Ambros – interpreting lyrics by Hans Günter Hausner – expressed his wish to "stay a human being": *"Net ålles, wås an Wert håt, muaß a an Preis håb'n." [Not everything we value needs to have a price.]*

In order to evade the imminent danger of "economization" and "driving out" morals, what's needed is a credible commitment to social and environmental goals on the part of top-level management, and its consistent and consequent implementation into the cultural and structural reality of a company: starting with an appropriate public vision or mission statement, binding codes of conduct and principles of leadership that can be derived thereof, concrete goals and measures, and – last but not least – key performance indicators and other information that would need to be operationalised, collected, processed and prepared by an extended version of *A&C* as it was sketched in the previous pages.

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