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Who and what really counts? Stakeholder prioritization and accounting for social value

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ABSTRACT

Research in stakeholder management has theorized extensively the prioritization of stakeholders as a key dynamic of firms' value creation, but has paid less attention to the organizational practices involved in the process of deciding 'who and what really counts.' We examine changes underpinning managers' prioritization of stakeholders and focus on how managers' attention to salient stakeholders is represented and communicated in a firm's accounting and reporting system. We study the emergence and development of Social Return on Investment (SROI): an accounting methodology intended to permit managers both to incorporate stakeholders' voices and to communicate the social value created by the firm for those stakeholders. We find that the ability of SROI to account for specific stakeholders, thus categorizing them as salient for the firm, is shaped by managers' epistemic beliefs and by the organization's material conditions. Our findings contribute to stakeholder theory by showing that the prioritization of stakeholders is not solely a managerial decision, but instead is dependent on the construction of an appropriate accounting and reporting system, as shaped by managers' epistemic beliefs and by the organization's material conditions.

KEY WORDS: social accounting, social return on investment, stakeholder engagement, stakeholder prioritization, stakeholder salience, value creation

INTRODUCTION

According to stakeholder theory, a key task of managers is to manage the relations between the firm and its various stakeholders, such as customers, employees, suppliers, shareholders, government, and local communities, in ways that create value for all salient stakeholders (Crilly and Sloan, 2013; Donaldson and Preston, 1995; Freeman, 1984; Freeman et al, 2007; 2010; Jawahar and McLaughlin, 2001). In spite of the centrality of this process in stakeholder theory, relatively little attention has been given to how managers incorporate stakeholders' voices into organizational practices in order to facilitate value creation (Neville et al. 2011; Parent and Deephouse 2007). In particular, little is known about how the voices of salient stakeholders are incorporated into a firm's accounting and reporting system. This gap in the literature is critical because the goal of managing the firm to create value for salient stakeholders cannot be realized without translating those ideas into reliable, systematic, and accountable measurements (Freeman et al., 2010). Value creation for stakeholders thus requires managers to develop an accounting and reporting system to collect and communicate information about a range of stakeholder interests (Pruzan, 1998).

The literature shows, however, that the development of an accounting and reporting system that incorporates salient stakeholders requires extensive effort. Its success is dependent upon managers possessing adequate expertise and resources (Ahrens and Chapman, 2004; Henri, 2006; Mouritsen and Larsen, 2005; Wouters and Wilderom, 2008). As such, in this study we examine how managers' attention to salient stakeholders becomes represented in and communicated by a firm's accounting and reporting system. Specifically, we pose two research questions: How do managers develop an accounting and reporting system to reflect their prioritization of stakeholders? What factors influence managers' ability to construct an accounting and reporting system to incorporate the voices of salient stakeholders?

To address these research questions, we study the development of ‘Social Return on Investment’ (SROI), an accounting methodology that aims to measure and report on the value created for stakeholders by social purpose organizations. In each of the two settings we investigate – the United States and the United Kingdom – SROI was developed as an attempt to overcome existing organizational deficiencies by incorporating stakeholders’ voices into the firm’s accounting and reporting system and, crucially, by demonstrating the value created by the firm back to its stakeholders. The SROI methodology calculates a ratio of the organization’s costs relative to the monetized benefits gained by different stakeholders from the organization’s activities. Yet, we find that despite similarities in its basic calculative procedure, a comparison of the US and UK cases reveals important differences in how managers' prioritization of stakeholders was reflected in the formulation of the SROI methodology in each setting, including the range of stakeholder voices incorporated in the SROI calculation and the way those stakeholder interests were represented and valued.

To explain these differences, we develop a theoretical framework to show how the prioritization of stakeholder voices in the development of an accounting and reporting system is shaped by both the epistemic beliefs held by managers, especially their understandings of the type of knowledge that is valid or acceptable, and by the material conditions of the organization, in particular, the amount and type of resources – technical and material – at the managers’ disposal. This theoretical framework builds on and contributes to an understanding of the factors influencing managers’ ability to develop an accounting and reporting system to incorporate the voices of salient stakeholders. Our focus on the role of managers’ epistemic beliefs identifies an additional managerial characteristic affecting the priority managers give to different stakeholders

(Buysse and Verbeke, 2003; Crilly and Sloan, 2012; Mitchell et al., 1997) and our examination of an organization's material conditions expands on recent research emphasizing how differences in firms' infrastructure and capacity can shape managers' attention to stakeholders (Crilly and Sloan, 2013). The findings show that in order for managers to succeed in incorporating stakeholders' voices and improve value creation, they must develop and implement a relevant accounting and reporting system. Our study of SROI, and the theoretical framework we develop, indicates that understanding stakeholder value creation requires attention not only to how managers prioritize certain stakeholders as salient to the firm but also to the changes to accounting and reporting systems necessary for managers to incorporate stakeholders' voices into the process of stakeholder management.

The remainder of the paper is structured as follows. In the next section, we provide the theoretical framework for the study. The third section outlines our data and methods, with the fourth section presenting the findings from our empirical study of the emergence and development of SROI. In the concluding section, we discuss our findings, develop testable propositions for future research, and highlight their contribution to theory on accounting for stakeholders.

THEORETICAL FRAMEWORK: ACCOUNTING FOR SALIENT STAKEHOLDERS

A central tenet of stakeholder theory is the conceptualization of organizations as a set of relationships among groups that have a stake in the processes and activities constituting the organization (Donaldson and Preston, 1995; Freeman, 1984; Freeman et al., 2007; 2010). Stakeholders include not only shareholders but also "any group or individual who can affect or are affected by the achievement of an organization's goals" (Freeman 1984, p. 46). The task of executives is to manage and shape the relations between these groups in ways that create value for all stakeholders, and not just for shareholders. This process of value creation sees stakeholder interests as joint rather than opposed, where managers try to find solutions to issues that seek to satisfy multiple stakeholders simultaneously (Donaldson, 1999; Jawahar and McLaughlin, 2001; Laplume et al, 2008).

Limited attention, however, has been given to how managers incorporate the voices of stakeholders into organizational practices in order to ensure value creation (Neville et al. 2011; Parent and Deephouse 2007). We know little about the processes and activities that organizations and their managers can (or should) employ in order to ensure stakeholders' voices are incorporated into a firm's accounting and reporting system. This discrepancy exists even though stakeholder theorists argue persuasively that an important part of being responsive to stakeholders involves monitoring and redesigning organizational processes (Donaldson and Preston, 1995; Freeman et al., 2007; 2010). In particular, over-arching ideas about stakeholder engagement cannot be usefully adopted in managerial practice without the development of reliable, systematic ways of translating those ideas into accountable measurements (Freeman et al., 2010). The development of an accounting and reporting system to collect and communicate the social and ethical dimensions of organizational activities is a precondition for effective stakeholder engagement (Pruzan, 1998), manifest in approaches such as social auditing, social accounting, sustainability reporting, and triple bottom-line accounting (Freeman et al., 2010; Greenwood, 2007). Here, the firm's accounting and reporting system composes a central component of how managers in the organization pay attention to and communicate value to stakeholders. In particular, we explore two dimensions where accounting is directly involved in the process of stakeholder management: "listening" to stakeholders and "talking" to stakeholders.

First, an accounting and reporting system typically forms a central avenue of communication through which managers in the organization are informed about a variety of stakeholder interests and, ultimately, affects how managers form their views about what needs to be done in the organization. An accounting and reporting system has a central role in creating specific visibilities and affecting patterns of organizational and social management (Burchell et al., 1980; Chapman, Cooper and Miller, 2009), and can enable particular management ideas or approaches to be operationalized and made real by giving form and substance to the objects and activities at the heart of management (Miller and Power, 2013).

Second, an accounting and reporting system is a central means for communicating information about organizational activities 'back' to stakeholders, and as such plays a critical role in how stakeholders perceive the organization and its activities, thus increasing the potential to create value for stakeholders. For example, the production of public accounting reports is a means by which the organization can communicate to its stakeholders the results of its activities and effects on financial, social, ethical and environmental outcomes (Cooper and Owen, 2007; Freeman et al., 2010; Zadek et al., 2013). Importantly, this communication process plays a role in constructing how organizational stakeholders see and make judgments about the organization (Chapman, Cooper and Miller, 2009; Hines, 1988),

Scholarship has demonstrated, however, that an accounting and reporting system necessarily reflects managerial decisions about what aspects of the firm and which stakeholders are to be "counted" and which are not (Gray et al., 1997). For example, accounting reports focusing only on the financial activities of the organization may exclude activities that are important to stakeholders, but have little recordable financial footprint (Gray, 2002; Gray et al., 1995). As an alternative, reporting practices such as social accounting seek to expand the range of voices taken into consideration (Mook, 2013; Zadek et al., 2013). This focus of accounting research on the selective nature of stakeholder incorporation, however, does not address the fact that even where there is consensus among managers about whether and how to incorporate stakeholder voices into an accounting and reporting system, enacting this goal is frequently problematic. For example, prior attempts to expand the range of stakeholder voices in an accounting and reporting system have met with mixed success (Freeman et al. 2010; Gray et al., 1995; Mook, 2013; Pruzan, 1998) and there are cognitive limits on the ability of managers to pay attention to multiple stakeholders (Crilly and Sloan, 2013; Mitchell et al., 1997). As such, we examine the process by which managers develop an accounting and reporting system to include stakeholders' voices and we delineate the causal factors enabling and constraining managers in that effort. We highlight the importance of the content of managers' epistemic beliefs and differences in the material conditions in and around the organization in determining how the voices of some stakeholders but not others get incorporated into an accounting and reporting system and, ultimately, into firms' management of stakeholders for value creation.

Managers' Epistemic Beliefs

Stakeholder theory has emphasized the critical role of managerial characteristics for explaining managers' selection of stakeholders for firm attention, alongside the objective characteristics of stakeholders' claims, including their power, urgency and legitimacy (Buysse and Verbeke, 2003; Crilly and Sloan, 2012, 2013; Mitchell et al., 1997). Key determinants of how managers' prioritize some stakeholders over others include managers' cultural frameworks, such as their personal values (Egri and Herman, 2000), their intuition (Harvey and Schaefer, 2001; Henriques and Sadorsky, 1999), managers' perceptions of the firm's environment (Crilly and Sloan, 2012), the managers' role and location in the organization (Parent and Deephouse, 2007), and the effect of the broader organizational culture or the firm's dominant institutional logic on managers' decisions regarding stakeholders (Bundy, Shropshire, and Buchholtz, 2013; Mitchell, Agle, Chrisman, and Spence, 2011).

We augment this literature by suggesting that the inclusion of specific stakeholder voices in an organization's accounting and reporting system is shaped by the specific epistemic beliefs held by its managers. Epistemic beliefs are actors' assumptions and understandings regarding the source and nature of knowledge and can relate to views on the certainty of knowledge, how it is organized, and the extent of control an individual has over it (Schommer, 1990; Schommer-Aikins and Hutter, 2002). Epistemic beliefs have been shown to influence comprehension and educational processes (Schommer, 1990), as well as playing a role in leadership behaviors, workplace learning and moral reasoning (Bauer et al., 2004; Mintchik and Farmer, 2009; Tickle et al., 2005).

Research in accounting suggests different types and forms of information are considered more (or less) valid and appropriate according to the prevailing sets of epistemic beliefs held by managers (Arvidson et al., 2013; Medawar, 1976). Managers' epistemic beliefs may vary in terms of the necessity of the inclusion of data to legitimate or support a claim. Different individuals or groups have certain expressive styles, where, for example, so-called facts can be considered more rational and appropriate than mere intuition (Fricker, 2007). In addition, some reporting techniques reflect managers' belief that claims about organizational performance must be strongly supported by robust evidence, whereas others are more focused on developing a rich, qualitative account with attention directed towards capturing the full range of effects generated by an organization (Hall, 2014). Informed by these insights, we focus specifically on how the incorporation of stakeholder voices in an accounting and reporting system is shaped by managers' epistemic beliefs regarding the type and forms of information they consider valid and appropriate.

The Materiality of Accounting and Reporting Systems

Accounting has an inherent material dimension, as to perform accounting it is necessary to create and establish data collection systems, databases, and associated reporting processes (Balogun, Jacobs, Jarzabkowski, Mantere, and Vaara, 2014; Bechky, 2003; Boudreau and Robey, 2005). In particular, accounting research has shown that expanding the set of stakeholder voices reflected in a firm's accounting and reporting system requires the establishment of new practices to collect information not captured by bookkeeping oriented strictly at financial information (Zadek et al., 2013). Yet, the lack of existing available data and the difficulties involved in collecting new data limited the success of early social and environmental accounting reports for for-profit organizations (Arvidson and Lyon, 2014; Gray et al., 1995; Gray et al., 1997). For example, initial applications of Triple Bottom Line (TBL) reports faced significant data collection problems, and also required the development of new software tools to collect and report data (Mook, 2013).

Similarly, literature has emphasized that organizations must possess adequate material conditions for managers to develop the desired accounting and reporting system as one type of organizational change. We regard material conditions as an important part of organizational capacity, which has been defined as the "physical, organizational, and human resources that enable the company to achieve its economic, social, and environmental objectives" (Pederson, 2006, p. 155). Organizations vary in the resources and expertise they have at their disposal, which then determines their ability to implement a new policy or program (Barman and MacIndoe, 2012; Marshall and Suarez, 2013; Williams and Seaman, 2001). This suggests that the ability of managers to incorporate stakeholder voices in an accounting and reporting system can be shaped by the organization's material conditions.

In summary, we expect that as managers attempt to include the voices of salient stakeholders in their accounting and reporting system in order to improve the firm's capacity to create value, they will draw from their particular epistemic beliefs on what information is considered valid and/or credible. At the same time, as managers consider the desirable forms of information collection, aggregation and distribution, they will encounter (or realize they may need to develop) specific material arrangements, such as data systems and reporting formats, which require adequate technical expertise and financial support at the level of the firm and its members. We expect that this process will result in the selection of some salient stakeholders, but not others, for inclusion and representation in the firm's accounting and reporting system.

METHODS

We examine the case of Social Return on Investment (SROI), a social accounting tool to assess the value of social purpose organizations (including social enterprises and non-profits), which is intended for use by foundations, government agencies, and social purpose organizations, among others. Typically, SROI consists of the calculation of a ratio of the amount of resources expended by a social purpose organization as compared to a monetized estimate of the amount of value produced by the organization (Cabinet Office, 2009; REDF, 2000). The calculation of SROI seeks to identify benefits accruing to a set of stakeholders of the organization and then to assign a monetary value to them. For example, a social purpose organization providing employment for released juvenile offenders can specify the monetary value of benefits that may arise, such as reduced expenditure on the justice and prison systems, greater income tax from employment, and/or the monetary value of the beneficiaries' increased life quality. This process of assigning benefits a monetary value, often referred to as monetization, is seen as a key difference between SROI and other social accounting and reporting systems (Gibbon and Day, 2011). The benefits an organization creates for beneficiaries and other stakeholders are estimated over a specific time horizon (e.g., 5 years) and then, employing discounted cash flow techniques, are discounted back to their present value using a specified discount rate (e.g., the current government bond rate). SROI also seeks to calculate a ratio summarizing the cost efficiency of the organization in producing social benefits. Calculating the ratio involves summing the net present value of the monetized benefits created by the organization (or project) and then dividing that total by the amount of monetary resources used. For example, a SROI ratio of 3:1 indicates that for each $1 invested into the project, $3 of value is generated. In this way, SROI is intended to allow managers to incorporate stakeholders' voices into the estimation of an organization's value and to communicate the value of the organization to stakeholders.

The initial development of SROI was performed by a US charitable foundation, The Roberts Foundation (now known as REDF). REDF, formed in 1986 by venture capitalist George Roberts, sought to apply commercial business values and practices to non-profit owned social enterprises (businesses providing job training to the disadvantaged) that addressed the problem of homelessness in San Francisco (Emerson and Twersky, 1996). REDF created SROI to serve as the main accounting and reporting system by which its funded social enterprises reported to

REDF and by which REDF reported to its stakeholders about their financial and social performance. In addition, the SROI information and reports were used by the social enterprises themselves to inform their decisions and to demonstrate their value creation to their stakeholders. In the early 2000s, following extensive promotion efforts by REDF, a number of non-profit and social enterprise practitioners and consultants became aware of REDF's SROI methodology and attempted to develop it further (NEF, 2004; Scholten, Nicholls, Olsen, and Galimidi, 2006). We focus on the attempts of actors in the UK to employ SROI for social enterprises through the reconfiguration of some of its elements, particularly in regard to which stakeholders are incorporated into the methodology and the way those stakeholder interests were represented and valued. In the UK, managers in the voluntary sector faced a similar situation as their US counterparts in regard to their desire to demonstrate the value created by their organizations. However, the challenge, in this case, was not located in the context of a single foundation (as with REDF) but instead was generated from a broader array of constituencies, including public sector resource providers such as local and federal governments.

We adopt an historical approach and focus on the processes through which the SROI methodology came to be formed in the two settings of the US and the UK. As such, we shift analytical attention away from examining the application of an accounting methodology (e.g., Greenwood and Kamoche, 2012; O'Dwyer, 2005) and toward analyzing its creation. In doing so, our historical case study approach responds to calls for richer descriptions as a way to advance research in stakeholder theory, particularly in the area of firms' prioritization of stakeholders and the development of accounting methodologies to incorporate stakeholders (e.g., Freeman et al 2010; Neville et al., 2011; Parent and Deephouse, 2007). This empirical move is important because many of the issues relevant to managers' incorporation of salient stakeholders in firms' accounting and reporting systems are likely to be influenced by the shaping and configuring of the accounting methodology itself, and accounting research highlights the importance of studying the emergence of accounting and reporting systems (for example, see Burchell et al., 1985; Dugdale and Jones, 2002; Miller, 1991).

Data Collection

At the first stage of data collection, using existing historical accounts of SROI (see, for example, Emerson, Tuan, and Dutton, 1998; Emerson and Twersky, 1996; NEF, 2004; Scholten et al, 2006**)** we identified the significant historical events in the different contextual locales we examined in the US and UK (Van de Ven and Poole, 1990). At the second stage, we approached actors who were reported to have played key roles in the emergence and development of SROI. In addition to using documents to identify potential interviewees, we also employed purposive and snowball sampling (Morse, 2010) using information from interviews to identify and contact other potential informants who were reported to have played a part in the historical events (Thompson, 2000). In all, we conducted 17 interviews with actors who were involved in the emergence and development of SROI in the US and the UK. Because our interview subjects were located in the US, UK and also Continental Europe, we opted for using telephone interviews as our primary data collection method. The literature indicates that while telephone interviews do not reveal nonverbal cues and the immediate context (McCoyd and Kerson, 2006; Novick, 2008), the quality of data collected using this method is similar to face-to-face interviews (Sturges and Hanrahan, 2004; Sweet, 2002). Interviews lasted between 30 minutes and 2 hours, were digitally recorded and then transcribed in full. In the paper, we use pseudonyms throughout in order to protect the identities of our interviewees (but refer to other actors that were not interviewed by name, such as George Roberts, where done so by our interviewees). We follow a semi-structured interview protocol that asked questions about the respondent's work history, their involvement with SROI, and in particular we focused on understanding their account of how SROI developed and their involvement in its diffusion and alteration. Table 1 provides a list of interviewees, including their current job role, the type of organization in which they currently work, their prior work roles as they relate to SROI, and their location.

The documents we analyzed were obtained from two sources. The first source is publicly available documents including SROI reports, reports on pilot studies, and various SROI methodology guidance documents from the UK, Europe and the US. We gathered these documents based on a systematic web search, a search of WorldCat, and based on suggestions from our interview subjects. We also collected proprietary documents our interviewees provided to us pertaining to work they had done on SROI, such as draft versions of SROI reports and methodology documents, documents that elaborated the data collection and reporting systems they developed, as well as Excel spreadsheets used by our informants to perform SROI calculations and analysis. To complete our analysis, we drew on secondary research, which consists largely of studies of practitioners' use of SROI (e.g., Arvidson and Lyon, 2014; Mook, 2013).

<Insert Table 1 about here>

Data Analysis

Our goal was to identify the factors and processes involved in actors' development of SROI as a means to incorporate salient stakeholders' voices into organizations' stakeholder management. Drawing from our research findings showing that the later embrace of SROI in the UK drew on the methodology developed earlier by REDF in the US, we conceptualize the empirical settings of the US and the UK not as independent instances in which SROI was separately developed, but instead as part of a single historical route traveled by the accounting methodology. In following its path from the US to the UK, we identify events in the process where managers aimed to incorporate and represent salient stakeholders' views or perspectives into the accounting and reporting system. We coded the interviews and documents employing an emergent methodology with a focus on actor-presented themes in the data (Glaser and Strauss, 1967). Through the practice of constant comparison, attention was given to distinct categories such as contextual factors, organizational processes, decision-making incidents, and the strategic process of implementing organizational change.

The design of our analysis of the case of SROI was based on our awareness that the process we describe is embedded in a complex, multi-faceted historical narrative, the origins and some of the outcomes of which are likely to be outside our data-collection abilities. Hence, we tried to collect, whenever possible, several data points for each of the events we identified as potential turning points in the process to produce a more comprehensive picture of the organizational changes (Abbott, 1992; Glaser and Strauss, 1967). For example, we triangulated findings from the interviews with draft documents prepared by the same interviewees and final versions of the same documents. Furthermore, when different actors described the same events, we tried to reconcile differences in the versions (if such variation was exhibited and was significant). On several occasions, we sent the transcripts of the interviews back to interviewees and asked for more details and/or additional clarifications.

Throughout the data analysis process, we compared our emerging findings regarding the development of SROI with existing research to identify the extent of correspondence between our data and the insights from prior research and theory. In particular, we highlighted findings that did not appear to fit with existing research for further investigation. This process was iterative throughout the research and ended when we believed we had generated a plausible and consistent fit between our research question, data, and theory.

FINDINGS

Our study seeks to account for differences in managers' prioritization of stakeholders as it is reflected in an organization's accounting and reporting system. In the case of the US, the epistemic beliefs of the managers at REDF and the material conditions in which they operated led to a prioritization of funders and government agencies as salient stakeholders in SROI over other potential stakeholders, such as the beneficiaries of social enterprises. In contrast, in the UK, different epistemic beliefs and different material conditions meant SROI was changed to prioritize perceptions of value from multiple stakeholders, including government agencies, beneficiaries, staff, and community members, and thus paid attention to and communicated the value of social enterprises to a wider assortment of stakeholders.

To explain this variation, we trace two organizational processes framing managers' decisions to alter the existing accounting and reporting system in order to ensure different stakeholder prioritization (see Table 2 for an overview). First, we examine the events in which managers realized the existence of mismatches between the type and quality of information they had collected and reported on to stakeholders and the type and quality of information (and presentation format) they believed would bring about a more responsive engagement with and communication of the firm's value to stakeholders. Second, following this realization, we examine events whereby managers attempted to develop a new accounting and reporting system for collecting, aggregating, calculating and reporting the necessary information. In this process, managers' decisions about the new accounting and reporting system, in the form of SROI, were shaped by their epistemic beliefs about what counted as valid and appropriate data to be included in the accounting and reporting system and by the material conditions of their setting, including the nature of managers' technical knowledge and the firm's resources.

<Insert Table 2 about here>

The Recognized Challenge of Value Creation for Stakeholders

In the 1990s, REDF sought to extend the principles of venture capital to its philanthropic work as a charitable foundation by funding and providing technical support to social enterprises, owned and operated by local non-profits, aimed at addressing homelessness in San Francisco. These social enterprises operated businesses that compensated for the lack of "economic opportunity" available to their clients by providing job skills and income in a market setting so that clients could then find meaningful, long-term employment. Managers in REDF believed that reliance on commercial income, instead of charitable support, would help the social enterprises to be financially sustainable (Emerson and Twersky, 1996; Emerson et al., 1998).

These managers also sought to develop a new and improved way of not only evaluating the performance of its portfolio members and thus its own portfolio but also of conveying those results to its constituents. They aimed to create an accounting and reporting system to collect and communicate performance-related information to their salient stakeholders. According to staff members at REDF, the challenge of collecting and representing the actions of the organization effectively to salient stakeholders initially began with REDF’s most prominent stakeholder, George Roberts, who was the foundation’s main funder. In recalling his first meeting with George Roberts, Jared, the head of REDF at the time, recalled that his goal was to convey to Roberts the range of local non-profits that had received funding to date from REDF. Jared stated that he

> brought in one of these ‘phonebooks’, the documents that you bring to foundations. This is how you did it: you put together a write-up, you have a one-page summary [per project] and you walk through the book and you say, “this is this group, they want this amount of money, this is what they're doing and here's our recommendation.”

Up to that point, it was common for foundation staff to use a “phonebook” to capture and represent the value of non-profits to its internal and external audiences, such as its board of directors or funders. In this case, the “phonebook” provided a detailed written description of the mission and activities of REDF’s social enterprises, as a rationale for why they had been selected for receipt of funding. Jared, however, realized that while it helped Roberts to become aware of the operations of the social enterprises funded by REDF, it was difficult for him to grasp their value creation. As Jared explained,

> It dawned on me that he [Roberts] really liked what he saw, but he wasn't really clear on what he had bought, right? At that point he had paid enough attention to this very topic - how to roll this together and assess not only whether or not you're

really, at the street level, having the impact, but also, as an investor, as a philanthropic investor, you're having the impact.

In particular, representing the social benefits of the social enterprises – their ability to assist clients to find employment – was quite different from the financial representations of value to which Roberts was accustomed given his professional background as a venture capitalist. That is, the organization's existing accounting and reporting system, as embodied in the "phonebook," did not reflect the salience of Roberts as a stakeholder, particularly because it did not express the performance of social enterprises in a way familiar to him. Consequently, Jared commented that it was up to him and his staff at REDF to "put together a more comprehensive assessment of what we've been doing."

A similar challenge faced REDF with regard to other salient stakeholders, like the government. Melissa, who worked in REDF in the early 1990s, described how the social enterprises that REDF supported faced difficulties in showing their value to relevant government departments, from whom they also sought funding to support their programs. Melissa, as well as others in REDF, regarded the development of SROI as a way to "demonstrate that these (social enterprises) are worth being invested in" by government. This further highlights the necessity felt among REDF staff members to demonstrate the value creation of social enterprises to salient stakeholders.

In the UK, an assortment of managers, such as independent consultants and staff members of social enterprises, faced a similar problem. They too were working with non-profits and social enterprises advocating new ways of helping disadvantaged people through job training and market access, yet they came to realize that the existing accounting and reporting systems were ineffective in communicating the value of these efforts to salient stakeholders. For example, Joanne, a key early proponent of SROI in the UK, stated the social enterprises she was working with as a consultant were “creating value” but given the existing accounting and reporting system, “they couldn’t really explain it” to salient stakeholders, such as government departments and local councils. The importance of demonstrating the non-profits’ value was often related by our UK informants to the government agencies’ expectations that non-profits would demonstrate performance as a condition for funding (NEF, 2004). For example, Justin, another strong advocate of SROI in the UK, stated “you’ve got to prove it. You’re going to make a difference, then you’ve got to prove it.” As such, our informants at REDF and in the UK were motivated in their formulation of SROI by the same goal. Each group did not have access to reliable and systemic ways of translating its social enterprise value-creating efforts into accounting measurements that could be used to reflect the value of those enterprises and communicate it effectively to salient stakeholders.

Developing New Data Collection and Reporting Systems

Important differences, however, did exist between the managers’ epistemic beliefs in each case regarding the types of data that could best capture social enterprise value. These differences shaped their criticisms of existing methodologies to gauge the worth of social enterprises. In the REDF case, managers viewed social enterprises as financially self-sustaining vehicles providing training and skills to clients so they could obtain employment in the labor market. However, informants at REDF also repeatedly indicated that existing accounting and reporting systems had not gathered information on the performance of social enterprises or their financial sustainability. For example, Jared commented that the data collected were not “comprehensive” and did not allow him or other managers at REDF to understand whether or not the social enterprise was actually achieving what it had set out to do. Other senior employees of REDF, who had academic business degrees, identified similar problems with the data. Melissa saw the existing data as deficient because it did not allow her and others at REDF to understand “how do you actually know that you’re making a difference [for clients]?” Sara stated that “the data that was going into the accounting systems was questionable.”

Similar challenges also emerged in the UK case, but here the epistemic beliefs motivating the concerns were different. Shannon, an early proponent of SROI, reflected on how decisions in social enterprises were being made “on the basis of inadequate information” because the information available was “not really focused on the needs of people who the investments are designed to help.” Patrick, a consultant and early proponent of SROI in Europe, stated that social enterprises needed new information systems in order to “make better decisions to create more value.” Furthermore, an early pilot study of SROI in the UK by a foundation emphasized the need “to improve the way organizations work and how resources are allocated” by “tracking and measuring outcomes and impacts” (NEF, 2004, pp.1, 4). And, Chris, who was centrally involved in conducting one of the first SROI pilot projects in the UK in 2007, commented that “there was a lot of difficulty in obtaining data...we spent days trying to find bits (of data).” In the UK, motivated by the managers' backgrounds, the validity and relevance problems with the collected data revolved around representation of the needs of beneficiaries, as well as lack of infrastructure.

Managers both at REDF and in the UK viewed the existing accounting and reporting systems as insufficient insofar as they did not provide the types of information they considered necessary to determine whether value was actually being created for stakeholders. This realization of the deficiencies present in the accounting and reporting system is a significant event in the development of SROI because it set in motion a process whereby the managers changed and expanded the set of activities of the social enterprises that could be measured and reported on and developed new practices to collect the desired information. Despite this similarity, the different epistemic beliefs that managers held in each of the cases affected the shape of the accounting and reporting system that was developed. As a result, the value of social enterprises communicated to stakeholders about who and what counted differed markedly in the two settings (see Table 3 for an overview).

<Insert Table 3 about here>

Data Collection and Reporting - REDF

At REDF, the goal was to generate a data collection and reporting system to gather information on a social enterprise's financial performance as an economically self-sufficient entity and on its social performance in providing the training and skills necessary for clients to find paid employment. As Jared explained:

> Do you have a management information system in place that allows you to understand whether or not you're actually doing that [what you intend to do] ... we knew that until we answer that question and these groups [the portfolio members] had good reporting systems in place, any discussion about impact and valuation or returns was kind of stupid because it was a garbage in - garbage out kind of thing.

Given the lack of adequate systems, REDF's first goal was to develop a new system to collect financial information on a monthly basis from each social enterprise it funded. Public and proprietary documents obtained from REDF informants reveal how they started to collect new types of financial data from the social enterprises in their portfolio (Tuan, 2004; Tuan and Emerson, 1999). This financial information related to revenue, expenses, net profit, budget to actual sales and assets was to be collected and reported through a standardized format of tables and spreadsheets pertaining to each social enterprise. To do so necessitated REDF staff's analysis of the records of the social enterprises in order to identify and separate the assets of the social enterprise from the assets of the larger non-profit organization. This was necessary because prior to the development of SROI, there was no need for the social enterprises to account for their assets separately. That is, there was only one set of accounting records kept by the larger non-profit organization in regard to its financial performance, with no separate accounts or asset registers for the social enterprise's business activities only.

A further complication was that most of the data from which the relevant records were to be generated were kept in physical ledgers, with very little information held electronically. As such, it took considerable labor to put in place the basic financial recording system. This task was made possible by the extensive financial resources available to REDF through its funding from George Roberts. In fact, REDF hired a consulting firm to assist them in devising an information system for data collection and employed an intern for an entire year, during which time she visited each social enterprise and constructed a separate set of assets belonging to the organization (Tuan, 2004; Tuan and Emerson, 1999).

Along with the development of a financial accounting system, a parallel process concerned the development of a system to capture and report information regarding the characteristics of clients and the consequences for clients of participation in the social enterprises' programs. As with the financial records, there was no uniform or consistent system in place across the social enterprises funded by REDF to track this information (Emerson et al., 1998). As such, REDF had to develop a new record keeping system to collect this information, akin to a social bookkeeping system (Zadek et al., 2013). In this case, REDF managers had to make decisions about what types of social outcomes on clients would be captured and reported, which presented many challenges in how to compute the social impacts of social enterprises' activities. The shape this system would take, in terms of the type and form of data it would collect, was affected by the epistemic beliefs held by managers at REDF, specifically, their beliefs about the type of knowledge that is valid or acceptable to use in the SROI methodology being developed. As Sara stated:

> I knew how hard it was to get any kind of real data, real credible data... he [a REDF colleague] was encountering a huge difficulty, because he could get some data from some [social enterprises], and not from others [...] it's really difficult to get any consistently credible, any kind of consistent data across organizations, or even across the same organization over time.

This statement highlights what managers at REDF regarded as valid data. Specifically, they valorized comparability (across organizations) and consistency (over time) as conditions for validity. These validity criteria drove the managers at REDF to seek specific types of information, which, in turn, shaped how the SROI methodology was developed to collect and report data on social outcomes.

The influence of these epistemic beliefs was reflected in REDF's development of a comprehensive social data collection system for its social enterprises, which came to be called the "Ongoing Assessment of Social ImpactS" (or OASIS). Melissa outlined the first stage of the development of OASIS:

> She [a consultant] helped us come up with a system of, first, just tracking basic information—how many employees were hired by these various non-profit-run social enterprises, some demographics about those individuals on a quarterly basis...which was number of employees, gender, age range, maybe a little about whether they were, like, psychiatric disability or homeless...So it's things you could more easily capture from just looking at their employee hire records. It took quite some time to actually collect some of this basic information, because the infrastructure in our non-profit partners was quite limited.

Following the collection of this basic data, a second step involved the development of a system to track the effects of the social enterprise programs on various aspects of the beneficiaries' lives (Emerson, Wachowicz, and Chun, 2000). Melissa continued:

> With [the consultant] we developed a system of tracking every single employee hired into any of the enterprises in our portfolio. And we would capture the information at baseline, the day they were hired, and then track the information about them and how each of those factors changed in their lives every, six months and twelve months out, eighteen months, and then twenty-four months. It was an

> extraordinarily difficult and expensive endeavor...We asked them [the hired employees] the same series of questions across seven different outcome areas, including things like job stability—are they still in a job—income level, housing stability, their self-esteem, social support system, and their usage of various social services, like public services, such as emergency rooms, health clinics, food stamps...And there were about forty different questions that we asked them in face-to-face interviews.… And that's how we gathered all of this data.

These examples, confirmed by documentation, reveal the amount of resources involved in developing OASIS and the complexity of the infrastructure required to generate the data. To stress, meeting these challenges was possible because of the financial resources available to REDF to employ interns, hire consultants with specific expertise in developing financial and social reporting systems, and to pay employees of the social enterprises to participate in interviews. Consistent with their epistemic beliefs, this form of data collection also provided information considered by the managers at REDF to be consistent and comparable across the different social enterprises it had funded – a crucial element compliant with their perceptions of what counted as valid information. Thus, although clients in the social programs were identified as a salient stakeholder of social enterprises, the epistemic beliefs of the managers drove a process that shaped the data collection systems so that they accounted for particular aspects (e.g. usage of public services), as these were more readily measurable, comparable and verifiable, and omitted other factors, such as clients' satisfaction, which did not comply with the managers' epistemic beliefs.

Data Collection and Reporting - UK

The managers in the UK faced a similar objective of capturing data to measure the impact of social enterprises' programs. They also faced a situation where existing data collection and reporting systems did not capture this data in a way suitable for the development of SROI. However, the approach they took to overcome these deficiencies was quite different to the approaches employed by REDF, given that the managers in the UK held different epistemic beliefs about what counted as valid and relevant data. For them, validity relied on information that reflected directly the views of different stakeholders regarding the effects of the social enterprises' programs on them. This belief is highlighted in the following statement from Joanne:

> I think the idea of the different stakeholders experiences...those outcomes are driven by their experiences in the program; it's not driven by what you intend.

Valid information, thus, was perceived as that which incorporated the views of stakeholders, including beneficiaries, their families, the staff and volunteers of the social enterprise, and the local community, about the effect of the program on them, which, importantly, could be different from one stakeholder to another and from one social purpose organization to another. Similarly, a UK government guide promoting the use of SROI noted "SROI measures change in ways that are relevant to the people or organizations that experience or contribute to it" (Cabinet Office, 2009, p. 8). This is different to the view held by managers at REDF, where valid data was that which was consistent and comparable across organizations. In particular, the development of the methodology for collecting social outcome data in the UK was done so that a social enterprise's outcomes and indicators could (and should) be changed based on stakeholder experiences. This was outlined also in the following statement from a prominent UK SROI guidance document:

> You have already set out your view of the intended or unintended outcomes that you expect. Now you need to check with your stakeholders to see if this view was correct. They may describe the effects differently to you, perhaps even in surprising ways. You may find that you need to include a new stakeholder. For this reason, the outcomes description column can only be completed after talking to your stakeholders (Cabinet Office, 2009, p. 33).

This quote shows that although managers are expected to think about the outcomes or benefits of the program, the guidance indicates that the final outcomes about which the SROI method will collect data can only be completed once stakeholders have been consulted. In this way, stakeholders in the UK setting not only provided information about the level of outcomes achieved (as at REDF too), but also played a role in determining the actual outcomes to be assessed and included in the SROI methodology.

Examination of an early SROI analysis and report produced by Shannon further supports the focus in the UK on stakeholder experiences as a driver for determining indicators of value creation. The report states conducting the SROI for the social enterprise involved consultation with stakeholders and the subsequent production of a list of outcomes for each stakeholder group, such as increased earnings, personal development, and community involvement. In this way, the benefits for stakeholders were not standardized but were written down only after stakeholder consultation. This is further supported by the fact that the Excel spreadsheet Shannon used to prepare the analysis for the SROI report (which was based on the Excel spreadsheet developed and used by REDF) included information on the outcomes identified through stakeholder consultation, and did not contain any information on the standardized list of social outcomes forming part of REDF's SROI analysis, such as the use of food banks, health care, legal services and criminal convictions.

Material conditions also contributed to differences in the SROI methodology. The managers in the UK were typically working for social enterprises struggling to gain funding from relevant government departments and other foundations and funders. As such, they faced material conditions that placed severe limitations on the amount and type of resources at their disposal, and they had to develop data collection systems reflecting this constraint. This is evident in the guidance documentation asking SROI practitioners to consider "what resources, such as staff time or money, will be required" and whether indicators selected for data collection will be able to be measured "within the scope and the resources" available (Cabinet Office, 2009, pp.18, 39). The lack of economic resources available in the case of the UK is also illustrated in the following statement:

> Ideally, you should collect information directly from stakeholders. However, lack of time or resources may mean that some information has to come from existing research with your stakeholders. Where possible these existing sources should themselves be based on asking your stakeholders (Cabinet Office, 2009, p. 25).

This statement reveals that the motivation to obtain information directly from stakeholders, which had emanated from the epistemic beliefs of managers in the UK, was tempered by the resource constraints they faced, ultimately influencing the way the SROI methodology in the UK context was developed.

Representing Stakeholder Value Using Monetary Values

Once social outcome data had been collected, the next step in the SROI methodology was to convert that data into financial values. By assigning a monetary value, all outcomes could then be aggregated and used, along with level of investment and costs, to calculate the SROI ratio. As with the collection of social outcomes data, there were no existing databases or information systems available in order to do this (unlike traditional bookkeeping that records financial transactions that are already monetized). As such, the managers had to decide when and how they would assign monetary values to the social outcome data they had collected.

Monetary Values - REDF

Managers at REDF had collected a vast amount of social outcome data on clients through OASIS. However, their SROI methodology did not assign a monetary value to all of these outcomes. This resulted from managers' epistemic belief regarding the valid means of assigning monetary values, as outlined in the following statement from Sara:

> We were trying to be conservative and only using quantifiable, monetizable data, we inevitably ended up with an analysis that focused on savings to society as being the prime value [...] so if something could not be monetized and wasn't a dollar savings to society, it really didn't get counted into that number [the SROI calculation].

As such, in REDF's SROI methodology, social outcomes were assigned a monetary value by reference only to the resulting governmental cost savings. For example, if a client gained employment, the SROI calculation would include the monetary value of benefits for public sector agencies (e.g. higher income tax and lower benefit payments).

This reliance on government savings as a measure of monetary value had two effects. First, only those social outcomes that had corresponding governmental cost data available were included in the SROI calculation. For example, although OASIS collected information on changes in the "self-esteem" of clients who had gained employment, clients' self-esteem did not have monetary values readily available by reference to government savings or expenditures and therefore was not incorporated into the calculation of SROI (REDF, 2000, p. 17). In another example, the psychological impact on an individual whose family has moved from welfare to work may be significant for clients, but hard to quantify and monetize and so excluded from the calculation of SROI (REDF, 2000, p.12).

Second, all social outcomes were valued using governmental cost savings data, even if other stakeholders may have attached a different value to those outcomes. Only the measures of governmental cost savings that were viewed as "quantifiable, monetizable data" were categorized as valid according to the managers' epistemic beliefs. It appears that the material conditions possessed by REDF, in spite of their importance, played a secondary role to the epistemic beliefs of managers. REDF had the financial resources necessary to develop and generate systems to assign monetary values to a wider assortment of social outcomes, yet the epistemic beliefs of the managers led them to rely on governmental data only as their source of valid monetary values.

Monetary Values - UK

Managers in the UK, in contrast, did not limit themselves to using measures of monetary value as referenced by governmental cost savings. For example, Shannon's SROI analysis estimated the benefit to volunteers from participating in the social enterprise program in two ways – one using the market value of the labor volunteers had contributed to the project, the other relying on the cost of an equivalent training program to proxy the value of the increased skills and experience volunteers had gained. This was consistent with the use of techniques in SROI advisory documents, such as contingent valuation, that asked "people directly how they value things" (Cabinet Office, 2009, p. 47). A more recent development was the creation of "WikiVOIS," a website intended to "give a voice to people who experience outcomes not recognized in prices in existing markets" (SROI Network, 2014). Justin explained the operation of WikiVOIS as follows:

> One of the things that was funded initially by the Scottish government as part of the social return investment project is a database of outcomes, and indicators, and values...It was a more standard database...we decided we would do a relaunch of it and....make it a WikiVOIS -- a voice for values, outcomes, indicators for stakeholders -- the voice of the stakeholder, if you want. But the difference is, it's a database, which is entirely open to anybody, anywhere in the world. If you want to add your outcome, add it...If we crowd-source enough data on a database like that [WikiVOIS] with enough content, you can start to drive real-time use value.

Rather than rely on a single and consistent source of data (such as governmental savings), the

WikiVOIS offers the potential for a wide variety of perspectives and voices to be used to derive monetary values, as evident when Justin states “if you want to add your outcome, add it.”

The sourcing of monetary values using a variety of techniques meant that the methodology in the UK included a wider range of social outcomes in the calculation of SROI. For example, Shannon’s SROI included monetary values of social outcomes such as the increased earning potential of beneficiaries, increased spending in the local community, personal development of volunteers, and improved community access to communal facilities. In another illustrative example, the SROI guide produced in the UK (2009) reported a hypothetical case of a Meals on Wheels program for senior citizens. In this example, the benefits that were assigned a monetary value included not only cost savings to the local government agency and the UK National Health Service, but also estimates of the monetary value of clients’ increased access to nutrition, greater opportunities for social interaction, and fewer demands on family.

In all, a comparison of the processes used to attribute monetary values to represent social outcomes between the REDF and UK settings further illustrates the important role of managers’ epistemic beliefs and the organization’s material conditions. As a consequence, as shown in Table 3, we see important differences in terms of which social outcomes were monetized and included in the SROI calculation along three dimensions: the scope of social outcomes recognized (only those that could be measured through reference to government cost savings vs. a wide range of social outcomes such as self-esteem, social interaction, community benefits, etc), the way those social outcomes were represented (as an outcome that was part of the SROI calculation or as supplemental information), and the stakeholder perspective from which the social outcomes were valued (the government’s perspective versus the perspective of a variety of stakeholders).

DISCUSSION

In our study, we used the case of the development of SROI to examine how managers created an accounting and reporting system to reflect their prioritization of salient stakeholders. Our study shows that the development of SROI in both the US and UK settings was influenced by managers' epistemic beliefs – their cognitive understandings of the type of knowledge that is valid or acceptable to use in organizational practices – and the organization's material conditions – the amount and type of resources, technical and material, at the managers' disposal. The findings point at two important consequences. First, the process we examine influenced which stakeholder voices were included in the accounting and reporting system (e.g., only clients vs. variety of stakeholders). Second, for those stakeholders included in the accounting and reporting system, it influenced the form and type of data used to represent stakeholder voices (e.g., a set of pre-specified and standardized indicators vs. the organic development of indicators based on stakeholder input). We formalize these findings in the development of two propositions emerging from our analysis:

> Proposition 1: The prioritization of stakeholder voices in an accounting and reporting system (such as which stakeholder voices are included and the way those voices are represented and measured), is shaped by managers' epistemic beliefs (such as what counts as valid and appropriate data).

> Proposition 2: The ability of managers to develop an accounting and reporting system, consistent with their epistemic beliefs, is shaped by the organization's material conditions (such as the nature of existing data collection and reporting systems, access to financial

resources, and access to necessary labour and expertise).

Our focus on epistemic beliefs and material conditions has implications for stakeholder theory. First, by analyzing the role of managers' epistemic beliefs, we identify an additional managerial characteristic influencing the priority that managers give to different stakeholders (Buysse and Verbeke, 2003; Crilly and Sloan, 2013; Mitchell et al., 1997). By focusing on the organization's material conditions, we contribute to the body of research that emphasizes how differences in firms' infrastructure shape managers' attention to stakeholders (Crilly and Sloan, 2013). Our analysis suggests that managers' epistemic beliefs and the organization's material conditions could play an important role in shaping the development of accounting and reporting systems, as well as other organizational practices that involve the collection, reporting and communication of information about stakeholders. These practices could include information systems tracking stakeholder responses to critical issues, human resource systems collecting information on stakeholders through employees' external relationships, and marketing systems tracking attributes and features of different stakeholder groups (Freeman et al., 2010).

Second, our study makes two contributions to existing understandings of the roles accounting and reporting systems play in the process of firms' value creation. The fact that managers sought to adapt the accounting and reporting system in order to better communicate with salient stakeholders resonates with the connection that stakeholder theory identifies between the collection, measurement and communication of information about important dimensions of organizational activity and effective stakeholder engagement (Freeman et al., 2010; Pruzan, 1998). In our case, the managers in both the US and UK settings viewed their engagement with salient stakeholders as deficient because of an unsuitable accounting and reporting system, which hindered their attempts to communicate effectively. It indicates that to understand better the organizational processes through which managers in both for-profit and non-profit firms create value for stakeholders (whether that be economic, social, or environmental value, for example), we should examine how an organization engages with stakeholders through its accounting and reporting system.

Another important insight on the role of accounting and reporting systems in stakeholder theory comes from the implicit 'natural experiment' that we examine. Our findings show that even ostensibly the same accounting and reporting system (SROI) can differ with respect to which stakeholder voices it includes and how those stakeholder voices are represented and measured in the organization's accounts. This is important for stakeholder value creation because accounting and reporting systems do not merely compile neutral facts about stakeholders, but can play a role in creating specific visibilities that affect patterns of organizational and social management (Chapman, Cooper and Miller, 2009; Miller and Power, 2013). Addressing this process empirically is beyond the scope of our study, but the specific visibilities that accounting and reporting systems create can potentially influence the way that stakeholder interests are seen, thought about and acted upon by organizational members (and potentially other stakeholders), and thus has important implications for the way organizations' can engage with and create value for its stakeholders (Clarkson, 1995; Freeman, 1984; Freeman et al, 2010). In our study, managers sought to derive measures of social value in SROI in order to make these aspects of the value creation process more visible. Similar processes could be expected in for-profit firms. For example, firms could expand accounting and reporting systems to derive measures of profit that can capture and make visible more aspects of the value creation processes, whether that be through the inclusion of different types of value beyond the purely economic (such as environmental value or other ‘externalities’) and/or through developing measures of value creation that take into account the perspectives of different stakeholders.

The prioritization of stakeholders through accounting and reporting systems is also important because of the role it plays in how an organization communicates its value to stakeholders, and, subsequently, in how stakeholders perceive the worth of the organization (Chapman, Cooper and Miller, 2009; Cooper and Owen, 2007; Hines, 1988; Miller and Power, 2013). Clearly, if the organization’s accounting and reporting systems do not actually include information on how activities create (or destroy) value for particular stakeholders, it can be difficult (if not impossible) for those stakeholders to discern whether and how the organization has created value for them, and so can affect stakeholders’ ongoing support and continued engagement with the organization. In our study, particularly in the UK context, the development of SROI was premised on including information on value creation for a wide range of stakeholders, thus providing opportunities for those stakeholders to make more informed assessments about the firm’s value. This resonates with similar processes in for-profit firms, where stakeholders desire accounting and reporting systems to provide information about how firms are creating (or destroying) value for all salient stakeholders rather than the typical focus on value creation for shareholders only (Crilly and Sloan, 2013; Donaldson and Preston, 1995; Freeman, 1984; Freeman et al, 2007; 2010; Jawahar and McLaughlin, 2001).

Finally, this study offers a more specific contribution to the literature on attempts to include a wider variety of stakeholders within accounting and reporting systems (Freeman et al., 2010; Gray, 2002; Gray et al., 1999; Mook, 2013). Research has so far focused primarily on the use and application of existing accounting methods and has not investigated explicitly how managers craft new accounting and reporting systems to communicate and engage effectively with salient stakeholders. Through our focused analysis on the development of SROI, we extend this literature by examining the processes involved in constructing a social accounting and reporting system. Our empirical analysis reveals in rich detail the specific challenges and measurement issues associated with the development of accounting and reporting systems to expand the set of stakeholders. Our insights from the study of SROI in the non-profit sector also resonate with observations in the for-profit sector regarding the challenges of developing new accounting and reporting systems to account for a wider range of stakeholder interests, as seen, for example, in environmental accounting or triple bottom line reporting (e.g., Arvidson and Lyon, 2014; Gray et al., 1995; Gray et al., 1997; Mook, 2013). As such, our study, and the propositions we develop concerning the influence of epistemic beliefs and the organization's material conditions, have implications for understanding how different forms of value that firms (for-profit and non-profit) create for stakeholders can be measured, what forms of value should be included in accounts, and what the scope of different accounting metrics should be (Freeman et al., 2010).

The purpose of our study was to examine how managers develop an accounting and reporting system in order to reflect their prioritization of stakeholders. In this way, our study provides important insights into how managers can incorporate stakeholders' voices into organizational practices in order to facilitate value creation (Neville et al. 2011; Parent and Deephouse 2007). Our study also sought to understand the factors that can influence managers' ability to construct an accounting and reporting system to incorporate the voices of salient stakeholders. Using the case of the development of SROI, our study showed how the prioritization of stakeholder voices in an accounting and reporting system was influenced by managers' epistemic beliefs and the organization's material conditions. Building on our research, future scholarship could examine the validity of our propositions through analysis of the development of other accounting and reporting systems, particularly those that seek to expand the range and type of stakeholder voices that are included in the organization's accounts. Future studies could also examine how accounting and reporting systems incorporating salient stakeholders are implemented by managers and seek to identify how such systems are employed in practice and what determines variation in their mode of use. And, following the tenets of stakeholder theory, additional research might also examine more directly how the development of an accounting and reporting system that reflect managers' prioritization of stakeholders can assist them in managing the organization in ways that can create value for all salient stakeholders. With these developments, scholars can better understand the conditions and processes by which managers can successfully engage in stakeholder management and value creation.

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Table 1
Interviews

Who	**Organization**	**Location**	**Former/other roles (where relevant)**	**No. Interviews**
Chief Executive Officer	Non-profit Evaluation Consultancy	London, England		1
Senior Consultant	Non-profit Evaluation Consultancy	London, England		1
Executive Director	Social Enterprise Consultancy	Melbourne, Australia	Worked on SROI for UK Government and Scottish social enterprises	2
Senior Consultant	Social Enterprise Consultancy	Melbourne, Australia		1
Chief Executive Officer	SROI Network	Liverpool, England	Member of 2005 SROI ‘working circle’	1
Independent Consultant		Edinburgh, Scotland	Board Member - SROI Network	1
Independent Consultant		Edinburgh, Scotland	Board Member - SROI Network	1
Chief Executive Officer	Non-profit Evaluation Consultancy	San Francisco, USA	Member of 2005 SROI ‘working circle’	1
Impact Investment Advisor	Venture Philanthropic Fund	San Francisco, USA	Former REDF staff member, Member of SROI ‘working circle’	1
Independent Consultant		Amsterdam, Netherlands	Member of 2005 SROI ‘working circle’	1

Independent Consultant		Philadelphia, USA	Former REDF staff member	1
Professor of Finance	Stanford School of Business	Stanford, USA	Advisor to REDF on development of SROI	1
Senior Associate	Hedge Fund	Connecticut, USA	Former REDF staff member	1
Senior Advisor	REDF	San Francisco, USA		1
Chief Executive Officer	Social Enterprise	Winchester, USA	Former CEO of social enterprise funded by REDF	1
Portfolio Analyst	REDF	San Francisco, USA		1
				17

Table 2
Managerial context, epistemic beliefs and material conditions – REDF vs. UK

	REDF	**UK**
Managers	Managers at philanthropic organization in San Francisco Bay Area using principles of venture capital to fund social enterprises providing employment to homeless persons.	Managers in different parts of the UK working with social enterprises advocating new ways of helping disadvantaged persons.
Challenge of stakeholder management	Difficulties in communicating the value of social enterprises to stakeholders including funders and government departments. Difficulties in obtaining relevant information to analyze whether and how social enterprises were creating value for stakeholders.	
Managers' epistemic beliefs about what counts as valid and appropriate data	Data is valid when it is standardized, collected consistently over time and is comparable across organizations.	Data is valid when it reflects and directly incorporates the (potentially) different experiences of stakeholders.
Organizations' material conditions	Extensive financial resources. Hire interns and consultants with expertise in data collection and analysis. Managers also have expertise in data collection and analysis. Resources to develop new data collection systems.	Extremely limited financial resources. No interns or consultants. Managers have limited expertise in data collection and analysis. Lack of resources to develop new data collection systems.

Table 3
Stakeholder prioritization in accounting for social value – REDF vs. UK

Incorporating stakeholder voices in an accounting and reporting system	**Prioritization of stakeholders in SROI**	
	REDF	**UK**
Select stakeholders for inclusion in the accounting and reporting system	Collect information on impacts of social enterprises for clients only.	Collect information on impacts of social enterprises for a variety of stakeholders, including clients, government, volunteers, family, communities, etc.
Develop data collection and reporting system to measure impacts of social enterprises on stakeholders	Measure impact on clients using standardized set of 40 metrics to track client progress, developed by REDF, social enterprises and consultants. Impacts outside scope of standardized metrics are excluded. Clients provide information to indicate the level of impact on each metric. Data collected on the 40 metrics for all clients across all social enterprises.	Stakeholders consulted about intended and unintended impacts of social enterprises and inputs are used to develop the appropriate metrics. Clients and other stakeholders provide information to indicate the level of impact on each metric. In some cases metrics are excluded and/or stakeholders are not involved in indicating the level of impact on each metric.
Represent stakeholder impacts using monetary values	Client impacts are assigned a monetary value by reference to governmental cost savings.	Impacts for stakeholders are assigned a monetary value using a variety of proxies and methods, such as revealed preferences, a WikiVOIS, direct consultation with stakeholders, as well as governmental cost savings.

	Only client impacts that have governmental cost data available are included in the calculation of SROI. All client impacts are valued from the perspective of governmental cost savings.	The calculation of SROI includes a wide range of impacts. Impacts on stakeholders are valued from a variety of perspectives.