

Vertical Accountability: Possible Resolution towards Drawbacks in Accountability to Shareholders and Stakeholders

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Accountability is understood differently by different level of constituents. The different understanding is influenced by various perspectives of accountability theories. As a result, to whom the constituents should be accountable may be diverged. Different belief may lead the constituents to decide and act in distinctive manners. Two well established accountability theories are the shareholder theory and the stakeholder theory. Nowadays, companies understand and believe that they are only accountable either to the shareholder or stakeholder. These have influenced in terms of what the constituents say, do and report. It is clearly stated in the annual report, other form of documents, website, internal and external policies or regulations. Both theories have their own strengths and weaknesses. However, the collapses and failures of companies today are resulted from the drawbacks of these two theories. Thus, the objectives of this paper are (a) to review the excessive drawbacks of shareholder and stakeholder theories (b) to propose the vertical accountability. The contribution draws on comparative review on literature on organizational accountability, various accountability theories and ethics theory. This paper has identified many drawbacks in the existing accountability theories and if not resolved will ruin the company. Therefore, vertical accountability is proposed. This proposed accountability is to counterbalance the weaknesses of earlier concept of accountability. In addition, it will assist the companies to improve and give added values to the business operations. Consequently, the companies' operation will become more meaningful and more ethical as stipulated by today's business environment.

Field of Research: Corporate Governance and Accountability

1. Introduction

Nowadays, companies understand and believe that they are only accountable either to the shareholder or stakeholder (Collier 2008). This is due to the acceptance of two well established accountability theories which are the shareholder theory and the stakeholder theory. These theories have influenced the action and reporting of companies. It is reflected in the annual report, other form of documents, website, internal and external policies or regulations.

The content of these documents reflect to whom the company is accountable. Companies are managed using these theories; therefore, both theories have dominated the companies' actions and decision. Despite their wide use, both theories have their own flaws. These flaws have resulted in the collapses and failures of many large and medium-sized companies. Thus, the purposes of this

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paper are (a) to review the excessive drawbacks of both theories (b) to propose vertical accountability. In understanding the phenomena of accountability, various secondary sources like research articles, published and unpublished scholarly papers, books, various international and local journals and websites are reviewed. This paper has identified many weaknesses in both theories and if not resolved will obliterate the company. Therefore, extended understanding of accountability should be considered and applied. This paper proposes that company should consider accountability to God in their business activities. This proposed notion has a truth foundation to resolve the weaknesses of earlier concept of accountability. In addition, this paper will highlight the irrefutable meaning of accountability to God that has been forgotten due to eagerness of company toward materialistic-secular worldview which only seeks high financial return to the shareholder and stakeholder. Accountability to God is not to deny the right of shareholder and stakeholder but to give the right to these constituents in an ethical manner which results in long term benefits. Furthermore, highlighting the need of having vertical accountability that is to God will minimize rigid understanding of accountability. It is an alternative solution to many existing enquiries and additional contribution in business ethics research. The acceptance of this proposed vertical accountability will improve and add values to the business operations. Consequently, the companies' operation will become more meaningful and more ethical as stipulated by today's business environment.

2. Literature Review

Accountability is the state of being accountable (Chapman 2004) . It is a requirement or duty to describe or justify one's actions to whomever one is answerable (Roberts & Scapens 1985, Swift 2001, Williams 1987, Gray, Owen & Maunders 1987). In other words, accountability is an obligation of an individual, firm, or institution to account for its activities, to accept the responsibility and to disclose the results in a transparent manner. In business world, the companies are answerable either to shareholders or stakeholders whichever the businesses chose as their main constituents. These differences are due to different models of assumption in managing an organization efficiently and effectively (Goodrich & Rossiter 2009). Thus, different companies may show different accountabilities in carry out their business. The existing accountability theories such as the shareholder accountability and stakeholder accountability have influenced the companies in managing their businesses. These theories have become the most common belief adopted by the companies. The shareholder model is commonly applied in the Anglo-Saxon countries such as the US and the UK. In early years, shareholder accountability theory has influenced the companies' practices. According to Friedman's shareholder model, a company is set up mainly for profit making (Goodrich & Rossiter 2009) which is to maximize the shareholders' wealth (Kolstad 2007). Its main criteria of performance is the market value (Jeffers 2005). In other words, if company is able to have stable share value, in terms of high share price, it indicates good performance of company. These views are only shared by economist who believe corporate management should be responsible to the shareholders (Post 2003a). However, misbehavior in companies has reached to a limit that Friedman's admonition regards to making as much money as possible for the owners and companies seems to be irrelevant (Post 2003b). This model which is associated with the principal-agent theory has resulted to a situation such as self-interest (Alexander 2004) and 'revolving door' situations (RDWG 2005, James 2000). These situations are due to too much concentration of making money for the shareholders (owners).

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Focusing only on shareholders and neglecting other parties will lessen the possibility for business to have a long term survival. Shareholders do not represent the whole society of a business. In reality, company needs more than shareholders as most of the stakes in the organizations are held by the employees, customers, suppliers, financiers, government and the community (Collier 2008).

Due to the weaknesses, many researchers have attempted to find solution for better accountability which then they focus on stakeholder theory (Post 2003b, Collier 2008, Rasche & Esser 2006). The stakeholder theory was originally developed as a correction to the shareholder vision of the company. Stakeholder theory was originally defined by R. Edward Freeman as any group or individual who are affected by the achievement of organization's objectives (Kolstad 2007). This theory's concerns goes beyond shareholders interest. It is concerned with how stakeholders interest is managed by the organization in terms of broader accountabilities (Collier 2008). Stakeholder theory offers organizations a way of identifying and reconciling disparate stakeholder interest. It is recognizing organizational obligations to a wider and more ethical concerned constituencies (Collier 2008, Simmons 2004). Two widely used stakeholder theories are the strategic stakeholder and moral stakeholder (Maharaj 2008) which demonstrate ethical accountability. The weaknesses of companies are due to strong recognition of strategy stakeholder rather than moral stakeholder. Under strategy stakeholder, the companies focus on the stakeholder groups that are vital and that can give threats and opportunities (such as investors, employees and suppliers) to them. Aside from that, the companies will only concentrate on narrow and short-term financial perspective. Under moral stakeholder, the companies will concern on bigger groups that are affected by the corporation (such as the government, foreign competition, environmentalists, consumer advocates, special interest groups and media). In countries such as Japan, Germany and France, they hold concept of accountability that is to ensure the firms are operated in the interests of a wider set of stakeholders, which may include the shareholders. In business ethics, the term stakeholder is used to refer to all parties with an interest in a company -shareholders, customers, employees, the government, local authority, etc.- (Bouckaert 2010). The stakeholder emphasizes the importance of efforts and risks of various concerned parties who have contributed capital in the form of financial, human, social, or environmental. In addition, the company has a social mission that is to create lasting value for all parties involved, and for society as a whole. The stakeholder theory is easily accepted as it allows win-win situations and furthermore the interests of shareholders coincide with that of the stakeholders. However, there is potential the stakeholder theory will cause more conflict and greater moral dilemmas as the interests of shareholders and other stakeholders/society or between stakeholders also do not always coincide.

Shareholder and stakeholder theories have limited the constituent to behave in an ethical manner and therefore are unable to solve many issues arise in the company. As an alternative, researchers focus on theory of convergence to solve the problems. Convergent stakeholder theory (Jones & Wicks 1999) combines both approaches whereby managers should behave morally in a stakeholder context. Companies cannot deny the facts that all related stakeholders such as shareholders, employees, suppliers, government and others are important to the companies' achievement and survival. This theory is still not able to solve problem arising from the earlier theories. Therefore a solution should be obtained to avert companies' failures. Many literatures have discussed an alternative to the existing accountability. Various

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literatures either in support of or against shareholder and stakeholder theories (Post 2003a, Post 2003b, Jennings 1988, Mitchell, Agle & Wood 1997) and it seems the discussions and arguments are never ending. Therefore, this paper takes the position that shareholders and stakeholders are important and should not be ignored. Concern on both parties without neglecting any one of them can be practiced through strong ethical concern by company, which can be applied from virtue theory. Solomon's virtue-based theory of business ethics holds that individual business people as well as the business organization should possess certain characteristics, the virtues, to excel morally (Kaptein 2008). Believing intrinsically in religion or in other words, believing in god assists person(s) or company (ies) to possess virtues in their life or operations. Some literatures disagree with this statement as many believe in God but still do the wrong things. Persons or organizations will actually excel morally once they understand and practice God's principles and guidance. In other words, comprehending and practicing God's principles and guidance should be done simultaneously.

The idea of having corporate soul or spirituality in the workplace is a way out for improving organizational accountability. This viewpoint has been discussed since 1950 and is still getting attention until today. The press as well as in academic research and teaching (Batstone 2003, Nandram & Borden 2010, Oglesby, Leblanc & Adams 2010, Rashid & Ibrahim 2008, Krishnakumar & Neck 2002, Parboteeah, Hoegl & Cullen 2008) have shown their interests on this subject matter. In ensuring a long term survival and success of businesses, an immediate shift should be made from former understanding of accountability to new understanding of accountability. The new paradigm towards spirituality movement has taken place in company (Ashmos & Duchon 2000, Karakas 2010). In addition, the companies are confronted with obligation of showing organizational accountability based on sound ethical performance (Logsdon & Lewellyn 2000). This indicates that companies need to shift their solely accountable to shareholders and stakeholders to accountable to God. Accountable to God will entrust the companies to be responsible to all internal and external constituents in an ethical manner. A true believer towards God is to accept that he or she has a covenant with God, which requires the individual or individuals in company to discharge his or her accountability in accordance with responsibilities laid down by God (Sulaiman 2005). For some, accountable to God is impossible to practice which signify their ignorance of spirituality aspect or if they have the knowledge, a blatant disregard for spirituality aspects.

Allport (1950) viewed individual soul or spirituality based on religious motivations, intrinsic religiousness and extrinsic religiousness. According to Allport & Ross (1967), extrinsically religiousness motivated person to use his/her religion, while intrinsically motivated person lives his/her religion. Hegarty & Sims (1978) found those with intrinsic religiousness tended to have more concern for higher moral standards, discipline, and responsibility than those who were non-religious. In later discussion, McDaniel & Burnett (1990) stated person with religion will believe in God and will be committed to follow principles and belief set by God. Therefore, personal religiosity provides a basic foundation to understand the nature of one's ethical behaviour (Magill 1992) and able to influence one's attitudes and behaviour (Weaver & Agle 2002) because religion offers and expects positive internalization in one man. In other words, believing and following God's principles will lead to affirmative values, habits, attitudes and perspective. McNichols & Zimmerer (1985) concluded that strong religious beliefs were significantly associated with negative attitudes

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toward acceptability of unethical behaviours. Most religions and the consequent religious beliefs incorporate strong teachings about appropriate ethical behaviours (Weaver & Agle 2002, Tittle & Welch 1983). Strong beliefs in religion advocate foundation for a moral life (Vitell & Paolillo 2003) as it discourages unethical behaviour. Furthermore, Conroy & Emerson (2004) also argue that believers in God are less likely to act unethically because of the fear of being caught by an omniscient God and being punished. In fact, the spiritual values such as equality, honesty, compassion, avoiding harm, respect, peace, justice, forgiveness, service, duty trustworthiness, being a good citizen and thankfulness are from world's main religions such as Islam, Sikhism, Buddhism, Judaism, Christianity, Hinduism, Baha'ism, Confucianism & Jainism (Jackson 1999, Kriger & Hanson 1999). These spiritual values have become the shared values of most companies. This can be seen in the companies' annual report. The organizational accountability will be meaningful and beneficial to all stakeholders including the shareholders once there is a balance of spiritual and material values (Rice 1999, Sulaiman 2005). In other words, spiritual bliss and material happiness must be merged.

3. Methodology and Research Design

Applying normative approach in searching for evidences in literature as to support the proposition made by this paper.

4. Discussion of Findings

In putting forward the notion of vertical accountability, this paper highlights the weaknesses arising from accountability to shareholders and stakeholders. Table 1 shows the weaknesses of shareholders theory and stakeholder theory as highlighted in various literatures. The weaknesses have resulted in companies' failures which affected the monetary, social and economic situation of the companies and as well the countries. Billions of shareholder money and value of thousand of retirement savings were lost which cause unemployment. In term of economic growth, countries show shrinking of economic growth examples are Malaysia which shrank by about 3.5%, Singapore which shrank by about 12.5% and US which shrank by about 6.3% (MSWG 2009). Therefore, proposing vertical accountability can be the solution. Table 2 shows the advantages of having vertical accountability which is accountability to God.

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Table 1: Accountability to Shareholders and Stakeholder

	Accountability to shareholders	Accountability to stakeholders
Theory	Shareholders theory	Stakeholder theory
Strengths	Focus on high return	Focus on long-term survival
Weak-nesses	<ol style="list-style-type: none"> 1. Focus of short-term survival 2. Stakeholders are not taken into consideration 3. Specific skills held by high seniority employees are ignored. 4. Underestimate valuable assets of an organization 5. Does not encourage the innovation process which requires a financial commitment. 6. The owner does not have the corresponding right on productive assets. 7. Only accept good figures as good performance 8. Results to self interest, 'revolving door' situations, promote narrow professional goals; promote income or political opportunities for their parent organizations; and non-confrontational work environment 9. No ethical reasoning- profitable and legal indicate ethical decision 10. Inability to force the cessation of illegal and unethical behaviour 	<ol style="list-style-type: none"> 1. View risk solely in financial terms 2. Unable to see the non-financial terms such as pollution which can pose a great threat to the companies. 3. Broad meaning of stakeholder – still no agreement on the definition of stakeholder 4. Inability of balancing the stakeholder interests. 5. Still accept good figures for stakeholder as indicator of good performance 6. In making strategic decisions on future investments and closures, the interests of the shareholders still given priority 7. Only partly and selectively been integrated into the business mindset.
Among scholars who agree with the weaknesses of theories	James (2000), Friedberg, Schwartz & Amrani (2004), Alexander (2004), Jeffers (2005), Post (2003b)	Jeffers (2005), Maharaj (2008) Jennings (1998), Mitchell, Agle & Wood (1997)
Failure of companies	WorldCom, Anderson, Merrill Lynch, Enron, Martha Stewart, Global Crossing, Qwest Communications, Tyco International, Adelphia Communications, Computer Associates, Putnam, Boeing, Rite Aid and Xerox Malaysia-Perwaja Steel and BMF	Scandals occurred in Parmalat, Italy and Credit Lyonnais and Vivendi in France.

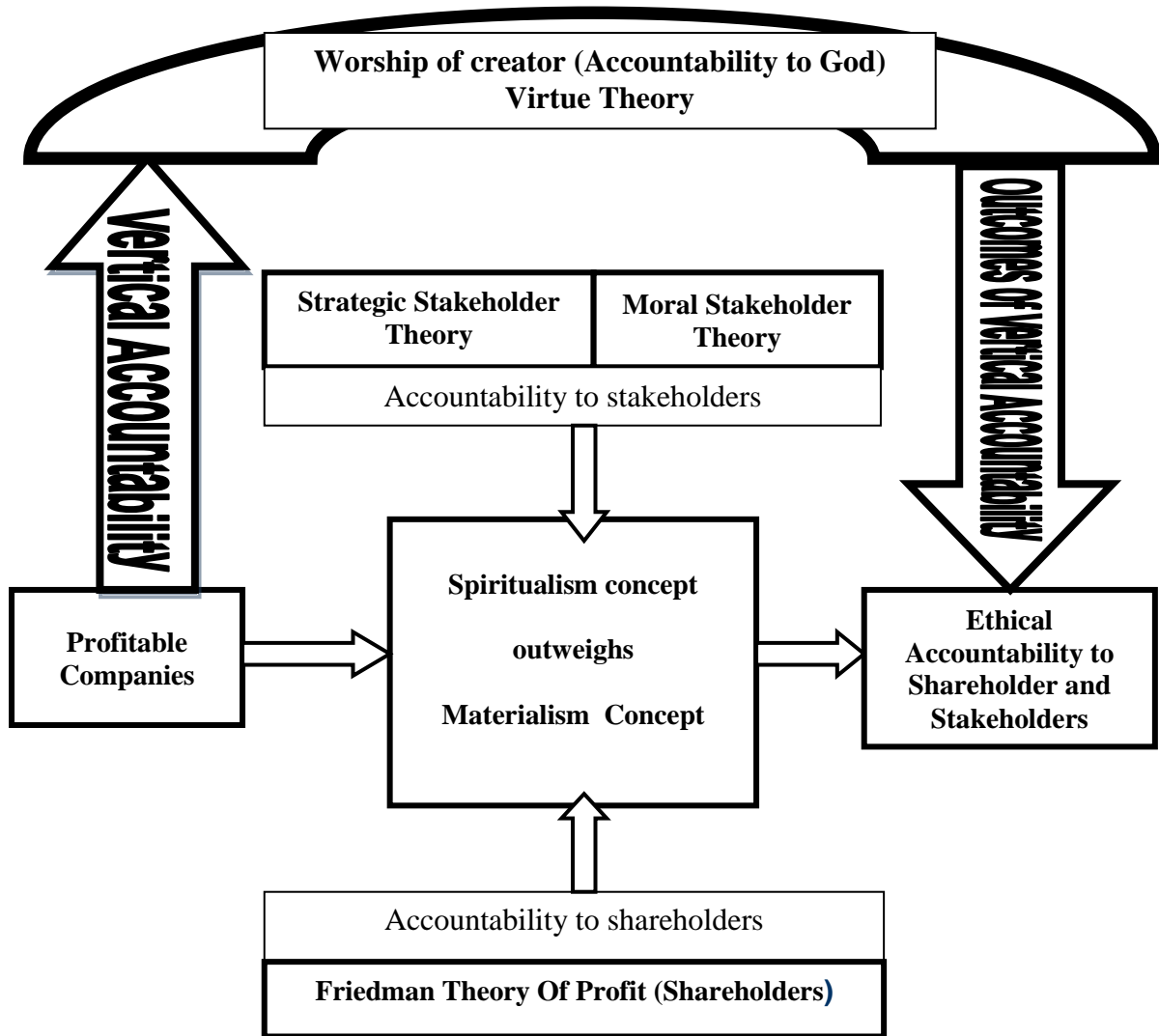
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Table 2: Proposed Vertical Accountability: Accountability to God

	Accountability to God
Theory	Virtue theory
Strengths	Significant strength : ensure long-term survival and success 1. Promote ethical accountability - improve ethical behaviour at a personal and organizational level 2. Affects employees and organizational performance by enhancing intuitive abilities and individual capacity for innovation 3. Improve personal growth, employee commitment and responsibility 4. Able to transform the company to better organizational cultures 5. Enhance ethical climate/culture at an organisational level 6. Positive impact to the management processes and leadership practices. 7. Improve the well-being of the organization and its members - able to reduce absenteeism and increased profits
Among scholars who agree with spirituality (emphasis on religion)	Neck & Milliman (1994), Kriger & Hanson (1999), McGhee & Grant (2008), Gotsis & Kortezi (2008), Boozer 1998, Lewis & Geroy 2000, McCormick 1994, Steingard 2005 cited in Gotsis & Kortezi (2008), Poole (2009).

Figure 1 shows the vertical/primary accountability (accountability to God) and horizontal/secondary accountability (accountability to others such as stakeholder includes shareholder and other constituents). The proposed vertical accountability that is accountability to the God will enhance the horizontal/secondary accountability.

Figure 1: The Proposed Vertical Accountability: Accountability to the God



5. Conclusions/Implications

This paper has identified many weaknesses in the existing concept of accountability to shareholder and stakeholder. The proposed notion of vertical accountability gives direction to solve the existing problems created by shareholder and stakeholder theories. In conclusion, resolution of today's business problems is when person(s) or organization (s) understand and accept the concept of accountability towards God. Accountability towards God will assist person (s) to tolerate with proper manner and make fair decision either to shareholders and stakeholders. Accountability to God will ensure ethical accountability of companies towards all stakeholders which will guarantee long term survival of companies. It can be realized if all organization members hold strong spiritual aspects. Accountability of an organization is not merely to shareholders or stakeholders but also to God. Accountable to God will lead to wider concern of accountability. Wider concern of accountability will lead company to be accountable and answerable not merely to shareholders or stakeholders but firstly to God, the Al Mighty, the creator and provider of the world. In addition, accountable to God means people or organization would not harm or destroy the natural resources that is provided by God. These natural resources are not owned by any entity but belong to God and should be shared by all. Therefore, in appreciating

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this view, leaders of a company should guide themselves and their employees as vicegerent of Allah in this world (Ali, Camp & Gibbs 2005).

Overall, this paper gives further insights and understanding of accountability as to improve the businesses decision and conducts. In ensuring companies accept the notion of vertical accountability, in future; more studies should be conducted on the effect of accountability to God towards monetary, social and economic aspects of companies.

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