THE HOW AND WHY OF THE "SMOOTH OPERATORS" FOR IMPACT(-WEIGHTED) ACCOUNTING

RESEARCH PROBLEM

- All the talk about environmental, social and governance ("ESG") initiatives, and particularly about impact(-weighted) accounting, seems to be rather lopsided and without much attempt to provide a cost-benefit analysis.
- Without a solid way to show how corporate costs can be overcome by corporate as well as societal benefits, it could be hard to persuade the business community to do much beyond paying lip service.
- A bigger problem: many if not most of the costs and benefits may not be quantifiable!
- If the cost-benefit analysis cannot be done, how have the ESG proponents been pushing businesses and investors to adopt and to sink $$$ into their initiatives?

RESEARCH INTEREST

- The field of sustainable investing, which includes how to account for the impacts in financial reporting, has become an ideological hot button.
- A suggested way to account is "to measure and value companies' impacts according to 'generally accepted impact principles', and to reflect them in financial accounts that show impact-weighted profits." However, "there are several definitional and measurement issues ... [and no] solid work that links ESG disclosures and a company's future cash flows, firm value and returns."
- If so, efforts to quantitatively justify ESG investments by using impact(-weighted) accounting can be argued to be based on an empty, if not a "well-intended but misguided" promise.

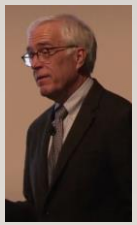
RESEARCH OBJECTIVES

- To rephrase, there is an open debate on ESG investing, with proponents pushing for urgent adoption of impact(-weighted) accounting and detractors pointing to factors that may not be knowable or quantifiable.
- Objective #1: To understand how the proponents of impact(-weighted) accounting would argue for such idea when they have no real way to determine, never mind demonstrate, the societal and corporate benefits over the corporate costs for adopting such initiative.
- Objective #2: To see why these proponents would choose particular words and phrase them in particular ways as they put forth their arguments to advance their aim.

"In a functioning democracy, it is important to have an open debate between people with very different views. This is especially true for the field of sustainable investing ..."
– Prof Robert Eccles, Saïd Business School (Oxford)

"If governments force companies to publish impact-weighted accounts starting two years from now, they will immediately start to focus on improving their impact and finding solutions to social and environmental problems."
– Sir Ronald Cohen, Chair, Impact Weighted Accounts Initiative, Harvard Business School

"… both companies and investors must recognize that there are costs to being good in many situations, and denying these costs, or arguing that the benefits always exceed the costs, is dishonest."
– Prof Brad Cornell, Anderson Graduate School of Management (UCLA)



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RELEVANT LITERATURE

- Treatises of stakeholder theory argued very generally that ESG investments would raise corporate and societal value, but with no cost-benefit analysis. Management handbooks, and academic inquiries contained little discussion as well.
- The research objectives would seem to be best met by (critical) discourse analysis, which Fairclough argued is "tied in to projects to change the world in particular directions" and Phillips *et al.* indicated can be used "to explore the relationship between discourse and social reality".
- (C)DA is found to be useful , for example, in pinpointing discourse capture and control by elite corporate actors, uncovering the rising power of multinational corporations in world governance, and explaining how firms positioned themselves within climate change debate using linguistic strategies.

INTENDED METHODOLOGY

- Ferguson *et al.* referred to J.B. Thompson's framework for the analysis of ideology as it appears in mass media forms – it may help answer how ESG proponents would strategise and frame discourses to argue for ESG investing and impact accounting.
- Price *et al.* referred to R. Wodak's framework of discursive strategies that are intended to lend strength and persuasiveness to arguments – it may help fathom why ESG proponents would use certain words and textual constructions in their arguments.
- Data analysis would consist of two phases: first, read and obtain a general sense of the contents and identify key parts of the discourse; second, perform an interpretive textual analysis based on the above two frameworks.
- Likely sources of data include academics, research institutes, management consultancies, professional associations, standard-setting bodies, ESG lobbies, etc.

POTENTIAL CONTRIBUTIONS

- To fill a knowledge gap on the power dynamics between the proponents and detractors of ESG investing, particularly on impact(-weighted) accounting
- To uncover the secrets to the "hegemony" of ESG proponents in public discourse on ESG investing

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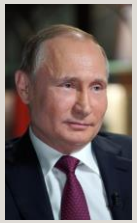
"Is impact accounting … useful in moving the debate forward? … impact accounting is problematic partly because we can never know the true social cost of a negative externality ..."
– Prof Shivaram Rajgopal, Columbia Business School

"… these problems are procedurally transcomputational, meaning no procedure exists for ascertaining the numbers needed to solve them. … A few of these numbers are unreliably guestimatable; most are fundamentally unknowable."
– Prof Randall Morck, Alberta School of Business



"We need business to understand its social responsibility, that the main task and objective for a business is not to generate extra income and to be rich … but to look and evaluate what a businessman has done for the country, for the people, on whose account he or she has become so rich."
– (attributed to) Dr Vladimir Putin, President of the Russian Federation