Jeroen Veldman* and Andreas Jansson

Planetary Boundaries and Corporate Reporting: The Role of the Conceptual Basis of the Corporation

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Abstract: There is a broad call to integrate planetary boundaries and life-cycle based reporting into accounting theory and reporting standards. Although many practitioners back this call, including insurers, shareholders with a long-term orientation, and company law specialists who suggest that the inclusion of long-term stakeholder interests is necessary to counter both corporate and systemic risks, it remains unanswered. We argue that dominant assumptions about the status and architecture of corporations in corporate governance theory stand at the centre of this unanswered call in accounting theory and practice. As the status of the public corporation is interpreted as a nexus of contracts and its architecture as a restricted dyadic relation between 'principals' and 'agents', the object and audience for corporate reports are restricted to a very specific set of actors, interests and time-horizons. We argue that this conceptual setup unduly restricts notions of accountability and is connected to a specific notion of political economy. A broadening of reporting standards needs, therefore, to be accompanied by a critical assessment of the assumed object and audience of reporting in corporate governance theory.

Keywords: financial reporting, ESG, integrated reporting, sustainability reporting, non-financial reporting, accounting theory, corporate governance, agency theory

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***Corresponding author: Jeroen Veldman,** Nyenrode Business University, Straatweg 25, Breukelen, The Netherlands, E-mail: j.veldman@nyenrode.nl
https://orcid.org/0000-0001-8615-5844
Andreas Jansson, School of Business and Economics, Linnaeus University, Växjö S-351 95, Sweden, E-mail: andreas.jansson@lnu.se

1 Introduction

As the world faces shrinking supplies of resources and severe ecological disruption (WWF, 2016) it is becoming increasingly clear that ‘business as usual’ has not produced the institutions that will constrain economic activity to planetary boundaries (Rockström et al., 2009; Sjåfjell, 2018; Steffen et al., 2015; Whiteman, Walker, & Perego, 2013). The systemic risks involved in going beyond planetary boundaries are recognized by forward-looking business leaders. Insurers have argued that the risks of climate change need to be met head on[1], while Larry Fink of the institutional investor Blackrock has argued that the long-term stability of the business framework needs to be preserved and needs to be supported by long-term investment perspectives (Sorkin, 2015). Strine (2010, 2014)), chief justice of the Delaware Supreme Court, has recently expressed discontent with the short-term horizon of most investment portfolios, and with the broader incapacity to consider long-term consequences of strategic decisions in public corporations. This growing consideration of the long-term possibilities and risks of corporate strategy by insurers, investors, boards and company lawyers is supported by a public that increasingly expects businesses to engage with the long-term effects of strategy, and notably sustainability risks (Gleeson-White, 2014; Raworth, 2017; Sjåfjell, 2018).

Apart from an attention to risks, Eccles, Ioannou, and Serafeim (2014) as well as Cheng, Lin, and Wong (2016) indicate that corporations that report about their efforts in relation to environmental, social and governance (“ESG”) issues perform better than other corporations on the stock market and enjoy lower cost of capital. Monitoring and integrating information about systemic risks, long-term corporate risks, and taking into account intangible resources and non-financial capitals in life-cycle based reporting models could possibly provide a comprehensive view on value, on the performance of the enterprise, and on corporate risks beyond the short-term. Communicating this integrated view to the corporation’s shareholders and other stakeholders helps builds legitimacy and trust and provides a basis for economic success (Mayer, 2013). A broad set of

1 See https://www.zurichna.com/en/knowledge/articles/2016/08/climate-issues-are-top-global-concerns, accessed 27-3-2017

interests, including the self-interest of corporate stakeholders, thus aligns with an approach to reporting that considers long-term value creation for all key stakeholders, including shareholders, employees, creditors, suppliers, customers, communities, civil society organisations and the environment (Biondi, 2011; Sjåfjell, 2018; Stout, 2012b; Veldman, Morrow, & Gregor, 2016).

There are frameworks available that allow such issues to be reported. The International Integrated Reporting Council ("IIRC") developed the Integrated reporting (IR) Framework based on the Six Capitals model (Gleeson-White, 2014). A further expanded reporting guideline that considers relevant data in terms of ESG impact is provided by the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, which provides detailed metrics against which to report. However, despite the many reasons to adopt a broad view on corporate reporting, the object and audience for corporate reports are circumscribed by global principles for corporate reporting, including US GAAP and IFRS, that focus narrowly on financial reporting as a mechanism to provide information to absentee investors and creditors in order to support their decisions (Bracci & Maran, 2013; Saravanamuthu, 2004). The practice of quarterly financial reports, still required in the U.S. and by some European stock exchanges, further limits the focus in terms of time-frames relevant for corporate reporting (cf. Hellman, 2005).

In this article we take a closer look at the reasons behind and consequences of this focus on absentee investors and short-term timeframes. Our basic argument is that the contemporary conceptual basis of accounting (hereafter "accounting theory") in terms of the notions of its object and audience relate directly to a narrow view of the modern corporation adopted from contemporary corporate governance theory. This view is manifest in terms of the conceptualization of its *status* (i. e. the conception of the corporation as an integrated social construct), *architecture* (i. e. salient components and the relations among these), and *purpose* (i. e. the main objective(s) to be performed and interests to be primarily satisfied). The adoption of narrow versions of these notions in accounting theory provides the background for a constrained operation of concepts like information, transparency, accountability and materiality in accounting. It is in relation to the adoption of this core set of assumptions about corporate status and architecture in corporate governance, that the notion of the object and audience of reporting becomes focused on absentee investors, that ESG information is typically considered an add-on, rather than material, to financial reports (Bracci & Maran, 2013; Saravanamuthu, 2004), and that its reporting is left to voluntary and discretionary measures, which results in a lack of comparability, lack of consistency and lack of certainty in benchmarking.

The approach we suggest here views the issue of a limited uptake of expanded reporting for the public corporation as a problem originating in corporate governance, and more specifically as an issue with regard to the object that is accounted for and the audience that is recognised as relevant in relation to this construct. To the extent that specific notions of object and audience that inform what is considered material become taken for granted and largely inert, and thereby start to act as an obstacle for change (Scott, 2013) in accounting theory, the adoption of expanded reporting frameworks will remain largely external and will have limited capacity to support a corporation's ability to create sustainable value (Sjåfjell, 2018; Villiers & Mähönen, 2015a, 2015b; Whittington, 1993). To explore this argument, we start by examining the path-dependency of corporate governance theory and its links to accounting theory (Biondi, Canziani, & Kirat, 2007; Müller, 2014; Zambon & Zan, 2000).

2 Reporting for the public corporation

The way in which corporate activity is accounted for is tremendously important for corporate managers, for investors, and other stakeholders. The dimensions that are accounted for and, therefore, observed are central for key decision makers that adjust their actions according to what is made relevant by such accounts (Saravanamuthu, 2004; Watts & Zimmerman, 1990). The policy choices made by standard setters regarding such issues are based on the conceptual foundation – explicit or implicit – of corporate reporting, providing a conceptual model of the organisation it purports to represent and a notion of the purpose and role of accounting reports in a larger system, which gives normative guidance for accounting development (e. g. Zambon, 2013; Zambon & Zan, 2000).

It has been argued that the move of reporting standards such as IFRS and US GAAP towards elements of fair value accounting was driven by a changing conceptualisation of the corporation, which also transformed the conceptual foundation of corporate reporting (Biondi, 2011; Botzem, 2014). While still contested, we argue that the last four decades have been dominated by a view of the nature of the public corporation as a nexus of contracts (NOC), and that this view has helped shape accounting theory (Biondi et al., 2007; Müller, 2014; Power, 2010). We shall here describe this model and in the next section discuss how it relates to the absence of the broader view of corporate reporting that preceded it.

Three issues underpin the provision of corporate accounting reports. First, accountants need an *object* to provide an account for. The conceptualization of the status and architecture of the public corporation, by defining its essential nature, salient components and their internal relations, determines the structure of rights and relations between internal and external constituencies, and, hence, how assets and liabilities are attributed and structured between those constituencies (Veldman & Willmott, 2017a). Second, accountants need a specific *audience* to provide an account to. As different audiences may have different frameworks for what is considered relevant information and relevant timescales, the intended audience makes a difference for the choice of the type of information that is relevant to report (Gray, Owen, & Adams, 1996) and how this is assumed to be used (Abbott & Snidal, 2000). Third, accountants need to know what to account for in relation to *broader frameworks*. For instance, different understandings of 'trusteeship' may inform different notions of 'agents' and 'principals' and of the interpretation of their relations (Millon, 2013a; Sjåfjell, 2018). With regard to all three issues, corporate governance theory has provided shifting conceptualizations over the past two centuries, and most markedly in the past four decades (Stout, 2012b; Veldman & Willmott, 2013).

With regard to the *object* for reporting, a broad view of the nature and purpose of the public corporation that was central to company law and accounting started to be displaced about four decades ago, when the advent of Principal-Agent theory (PAT) provided a redefinition of the status of the modern corporation as a nexus of contracts (NoC) (Veldman & Willmott, 2016). Related to this redefinition of the status of the public corporation, the status of the separate legal entity was marginalized to that of a negligible 'legal fiction' (Fama, 1980: Jensen & Meckling, 1976). As a result of this redefinition, the *object* that is accounted for appears in accounting theory as a portfolio of cash-flow generating assets (Power, 2010), approached as discrete items that can be measured by market-based valuation (Aglietta & Rebérioux, 2005; Biondi, 2016; Biondi et al., 2007; Davis, 2009).

With regard to the *audience*, PAT understands the role, function, and position of the corporate board as an outcome of a direct and ongoing contractual relation between shareholders and board members (cf. Fama, 1980). This setup has promoted a dyadic conception of corporate governance in which executive managers and board members, typified as 'agents', are limited[2] to making decisions that serve shareholders, being their 'principals'

2 A 'market first' conception of 'accountability' (Parkinson & Kelly, 1999: 104) means that even if directors consider they may have a 'responsibility' to stakeholders, this task is fulfilled through their 'accountability' to shareholders (Hampel, 1998: 12).

(Jensen & Meckling, 1976). At the same time, executives are incentivized by performance-related pay and share options and/or pressures from the market for managerial talent, further reinforcing their exclusive attention toward the market value of the public corporation (Fama, 1980). Both a theoretical setup and practical incentives thus orient executives and board members toward serving shareholders and, hence, the use of the modern public corporation to produce market-based value (Aglietta & Rebérioux, 2005; Blair, 1995; Bratton, 1989; Daily, Dalton, & Cannella, 2003; Daily & Johnson, 1997; Johnson & Millon, 2005; Millon, 2013a; Parkinson & Kelly, 1999). This orientation on market-based value combines with a focus on specific interests and time-frames. As Millon (2013a: 1019) argues:

> Corporate management ... confronts strong incentives to concentrate on quarterly results. This can mean a willingness to forego expenditures that reduce earnings in the short-term even though there may be potential long-term pay-offs. From the perspective of radical shareholder primacy, management would violate its duty as agent of the shareholders if it were to pursue some other objective that had the effect of reducing quarterly earnings, such as the long-run sustainability of the corporation or some kind of social responsibility agenda.

Related to these shifts in the conceptualisation of the object and audience for accounting and in the focus on specific interests and time-frames we also find shifts in the understanding of concepts like materiality, information, transparency, monitoring and regulation. With corporate governance theory conferring the exclusive capacity to monitor corporate strategy to 'principals' in a dyadic governance setup, these 'principals' and their imputed sentiments, calculations and speculations come to function as the primary recipient, definer and evaluator of the scope and quality of the information presented by corporations, thus determining whether a sufficient level of material information to achieve appropriate transparency has been presented. In this framing, making a corporation transparent acquires the meaning of sharing data that is considered especially relevant for solving the problems of these actors. As these 'principals' are conceived as ideal-typical 'shareholders', functioning exclusively as financial market actors with a distinct set of problems related to capital allocation (Cremers & Sepe, 2016; Stout, 2012b), the data that is considered relevant is typically related to the capacity to assess the value of corporate shares. This is illustrated by the movement towards using fair-value measurement in financial reporting in IFRS and US GAAP, which was legitimated by allegedly being especially relevant for capital allocation decisions (Biondi, 2011; Power, 2010).

Changing conceptualisations of the object and audience in turn inform the object for the monitoring and evaluation of corporate performance to become interpreted exclusively in terms of (short-term) market metrics (Lazonick & O'Sullivan, 2000). And as the object of reporting becomes interpreted exclusively in terms of focusing on 'governance by disclosure' and the provision of 'high information flows' (Ezzamel & Watson, 1997) toward ideal-typical market-based actors functioning as evaluators of such information flows (Biondi, 2011), the way in which such information is gathered may shift toward a reliance upon self-regulation and 'soft law' (Abbott & Snidal, 2000; FRC, 2012) such as accounting standards developed by allegedly agile private, international standard setters that can respond to the needs of these ideal-typical market actors. In sum, as notions of status, architecture and purpose in PAT are adopted into accounting theory, they affect the notion of the object and relevant audience and, by consequence the meaning of concepts like 'materiality', 'information', 'transparency', 'regulation', and 'monitoring' in accounting theory and practice (Eccles et al., 2014; Biondi; 2016; Saravanamuthu, 2004; Gray et al., 1996).

Finally, the uptake of PAT takes place in relation to the provision of a *broader framework* that explains the necessity of these shifts in the object and audience for reporting. As shown by many commentators, the notions of corporate status, architecture, and purpose provided by PAT differ markedly from a previously accepted legal conception of the modern public corporation (Lan & Heracleous, 2010; Millon, 2013a, 2013b; Robé, 2011; Segrestin & Hatchuel, 2011; Sjåfjell, 2018; Stout, 2012a; Veldman & Willmott, 2020; Weinstein, 2012). To provide a rationale for these differences, a social utility argument was presented, suggesting that the creation of market value in the interest of shareholders is the best way to maximize social utility of the public corporation (Hansmann & Kraakman, 2001). This functionalistic argument based on claims about social utility made it possible to use PAT to redefine the status, architecture and purpose of the modern corporation in broad institutions, including in accounting theory (Aglietta & Rebérioux, 2005; Biondi, 2011; Ireland, 1999, 2005).

In fine, in the last four decades corporate governance theory has seen the emergence of new assumptions with regard to status of the modern public corporation based on a social, rather than a legal, norm (Sjåfjell, 2018) brought forward by PAT. The acceptance of these assumptions in corporate governance theory and institutions worldwide[3] affected the notion of the object that is accounted for and the audience that is accounted to and transformed the

3 That is not to say that these principles have been adopted uniformly or in equal measure in all jurisdictions and in all contexts (Aguilera & Jackson, 2010; Larsson-Olaison, 2019). Rather, it is to indicate that a de facto convergence on a limited number of conceptual points of departure and their use for the building of national and transnational institutions, including accounting standards, has broad ramifications (Veldman & Willmott, 2020).

meaning and scope of concepts like ‘materiality’, ‘information’, ‘transparency’, ‘regulation’ and ‘monitoring’ in accounting theory and practice (Power, 2010; Veldman & Willmott, 2016).

3 Corporate reporting and externalities

A theory of corporate governance based on PAT does not only focus reporting on a specific object and audience, but also determines what is ‘relevant’ to report about and what constitutes ‘externalities’ (Bracci & Maran, 2013; Hines, 1988; Saravanamuthu, 2004). As PAT relates exclusively to a reduced object; to a reduced dyadic conception of core constituencies; and to a reduced objective of short-term market value increase, it effectively pushes all actors, interests and time-frames outside of a privileged dyadic relation between ideal-typical ‘agents’ and ‘principals’ to the position of ‘externalities’. Hence, the adoption of PAT a provides a framing that *structurally* omits the risks of managerial and investor activity for other constituencies and interests, including social, environmental or systemic risks that relate to the public corporation, employees and societies (Friedman, 1970; Collison et al., 2016; Sjåfjell, 2018; Veldman et al., 2016). As a consequence, what is considered the core of corporate reporting, is disclosure of specifically the *financial* position and performance, calculated in a way to support the decisions of arms-length investors, while issues such as performance in terms of environmental impact or employee well-being, is seen as potential additions, external to the core. From this perspective, we argue that the relevant point of departure to engage with reporting for a broader set of actors, interests and time-frames is to highlight the inconsistencies and limitations of a corporate governance regime based on PAT and, specifically, to show its relevance for conceptualisations of the object and audience of corporate reporting.

3.1 Object and audience

A central issue with PAT is that it ignores the conceptual consequences of the development of the Separate Legal Entity (SLE) as a fully reified legal construct. In essence, the SLE cannot be understood as a simple outcome of contract, or as a simple asset over which a particular group can legitimately claim direct ownership or control. Instead, the SLE provides the basis for a specific view of corporate architecture, in which the capacities and privileges bestowed on the corporation are directly related to a limitation of shareholder rights and claims and on the direction of the duties of the corporate board toward the entity, rather than (exclusively) to the shareholders.

As an 'entity view' directs the board's duties, including its reporting duties, toward the entity, and enables a discretionary space that allows the board to include broader interests than just those of ideal-typical shareholders in corporate decision making, the entity view allows to interpret the object and the audience of reporting differently from PAT (Biondi, 2011; Biondi et al., 2007; Eisenberg, 1969; Lan & Heracleous, 2010; Nordberg & McNulty, 2013; Segrestin & Hatchuel, 2011; Sjåfjell, 2018; Stout, 2012b; Stout et al., 2016; Veldman & Willmott, 2017b).

By contrast, a view of boards and executives as directly accountable to shareholders (see, e. g. Fama, 1980), and the prioritisation of both direct and indirect ownership and control claims over the modern corporation for shareholders, depicts the modern public corporation (and the SLE more specifically) as an economic asset that is not completely dissociated from the shareholders. In relation to an entity view, it becomes apparent that these views promoted by PAT ignore the trade-offs in relation to the capacities and protections of the corporation that shaped its legal history of ideas (Ireland, 2016). A theory of corporate governance based on PAT thereby cherry-picks among the capacities and protections provided by the modern corporation as a differential legal and social construct and directs the positive aspects of these capacities and protections toward absentee shareholders and executive managers, while directing costs and risks to all other stakeholders (Aglietta & Rebérioux, 2005; Biondi, 2011; Stout, 2012a; Weinstein, 2012)

While, certainly, an entity view has its own problems that could be discussed at length – for example how to identify and prioritise among different relevant stakeholders and time-frames – it does provide a model that offers the conceptual means to start thinking about various important issues. These include the legal foundations for corporate privileges; the role of the entity and corporate architecture; the relevance of assigning duties to the board regarding long-term sustainable value creation as well as engagement with systemic costs and risks, and the monitoring and regulation of ESG risks in relation to corporate strategy. In this sense, the entity view provides a valid point of departure, both in corporate governance and in accounting theory, to explore notions about the object and audience of the modern corporation in relation to a much wider set of actors, interests and time-frames than those relating to the hypothesised 'ideal-typical' shareholder with a myopic timeframe that is central to PAT (Levillain et al., 2018; Sjåfjell, 2018; Stout, 2012b; Veldman, 2019b).

3.2 Broader framing of PAT

An engagement with the broader framing of PAT provides clear reasons to reconsider the limited framing it presents for corporate governance theory and accounting. We showed how the intellectual basis for PAT is problematic as it displaces legal assumptions about status and architecture based on claims of increased social utility, and notably increased economic efficiency. Apart from the limited legal support for the assumptions underpinning PAT (Bratton, 1989; Ireland, 2018; Sjåfjell, 2018), it is notable that these social utility claims have largely failed to materialize in practice. Although the adoption of PAT led to very considerable increases in payouts to shareholders and managerial executives (Lazonick & O'Sullivan, 2000), this has reportedly materialized in the production of increasing corporate and systemic risks, including a marked decline in investment in R&D; a deterioration of employment conditions; a growth in social inequalities; and declining tax revenues for states (Collison et al., 2016; Davies, Haldane, Nielsen, & Pezzini, 2014; Ireland, 2005; Kay, 2015; Veldman, 2019a).

Hence, rather than increasing overall social utility, the increased payouts to absentee shareholders and executive managers were arguably made possible as an effect of a strongly diminished regard for the consequences of corporate strategy beyond the impact of the next quarter's numbers and a resultant transfer of costs and risks to other actors, harming their interests and ignoring their preferences about time-frames. Arguably, then, the framing of corporate governance provided by PAT serves the interests of short-term market-value oriented shareholders and corporate executives well, but fails to produce overall social utility, as the medium and long-term costs and risks facing corporations and societies as a consequence of the adoption of strategies that produce these outcomes are structurally relegated to the status of 'externalities' and offloaded onto all other actors, interests and time-frames (Collison et al., 2016; Davis, 2009; Deakin, 2012; Dore, 2008; Jacoby, 2008, 2011; Lazonick, 2013, 2014).

In sum, adoption of the PAT model in corporate governance provides new assumptions of corporate status and architecture that strongly affect the object and audience of corporate reporting. The theoretical framing based on PAT is problematic in terms of its consistency with the historical legal foundations of the modern corporation. And as theories of corporate governance based on PAT cherry-pick among the capacities and protections provided by the modern corporation and the conditions for the emergence of such capacities and protections (Stout, 2012b), they promote a selective and highly unequal distribution of the potential benefits of the modern corporation. Specifically, the insertion of a dyadic and contractual relation between ideal-typical conceptions of 'agents' and 'principals' establishes a core corporate governance relation between short-term market-value oriented shareholders and executive managers, and thereby relegates all interests and risks outside this exclusive dyadic relation, according those the status of 'externalities'. As this problematic model for corporate governance is built on questionable conceptual foundations and fails to provide the social utility that underpinned its initial acceptance, we argue that the dominant model for corporate governance that is based on PAT is in need of revision. Relatedly, we argue that the effects of this model on the conceptualisation of the object and audience of accounting needs to be revised in accounting theory and practice.

4 Discussion and conclusions

Although many actors in the corporate governance domain have expressed their interest in broadening reporting practices, and although broader reporting models are available, attempts to push these models into reporting practice have had debatable impact on our ability to advance reporting practices that could help keep business activities within planetary boundaries (Alliance for Corporate Transparency, 2019; Whiteman et al., 2013). To understand why this is the case, and to understand how broader reporting practices can be implemented, we have explored how the object, audience, and framing for corporate reporting is related to a debate on the status, architecture and purpose of the modern public corporation in corporate governance. At the heart of our exploration lies the notion that the interpretation of the seemingly abstract notions of object and audience have very concrete implications. Biondi (2011: 7) notes that "the quest for accounting principles is not academic. Accounting principles … ultimately affect the mode of generation of income to the business enterprise and its allocation among the different stakeholders (including shareholders) through time, space, and interaction". We add that such accounting principles also affect the allocation of costs and risks among different types of actors, interests and time-frames.

We applied this notion to corporate reporting by exploring how the adoption of PAT provides significant reformulations of the status, architecture, and purpose of the modern public corporation in corporate governance theory and how these notions become reflected and reinforced through reformulations of the object and audience for corporate reporting in accounting. In relation to this exploration, we submit that in order to expand the notion of information that is considered relevant in reporting standards, we need to start from the perspective that the most important driver of institutional change in reporting for public corporations is the conception of the status, architecture and purpose of the modern public corporation in corporate governance theory (Biondi, 2011; Blair & Stout, 1999; Parkinson, Gamble, & Kelly, 2000; Willmott & Veldman, 2016; Zambon, 2013; Zambon & Zan, 2000; Zingales, 2000; Zumbansen & Williams, 2011).

This approach allows us to engage with corporate reporting in two different ways. First, our exploration engages with accounting as an institutionalised practice. We argue that the concepts that accountants relate to are not passive reflections of reality, but are both formed by and formative of certain versions of social reality (Carruthers & Espeland, 1991; Hines, 1988; Hopwood, 1985; Miller & Napier, 1993; Page & Spira, 1999). Viewing corporate reporting as an institutionalised practice (Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980; Hopwood, 1992; Miller, 1994), we find that the adoption of specific notions about the modern public corporation in accounting theory provides legitimacy and stability to these essentially normative[4] ideas about the nature of the modern public corporation (Hines, 1988; Hopwood, 1985; Miller & Napier, 1993; Page & Spira, 1999; Tinker, 1991). Accounting's appearance of neutrality is likely to reinforce this (cf. Hines, 1988; Miller, 1994). Such normative ideas play a reinforcing role through the continued adoption of notions of status, architecture and purpose of the corporation, and, relatedly, of the relevant audience and object for reporting from PAT. Because ESG issues are outside the assumed interests of the stylized rendering of the core governance relation in PAT between ideal-type shareholders and managers, this version of accounting theory lowers the priority of these issues suggesting them to be less relevant to include in accounting reports. In this regard, the observation that the framing of the object and audience in corporate governance theory shapes central concepts in accounting theory and that the development of corporate governance theory is historically constituted, puts the onus of exploration on the role of accounting theory and theorists.

Second, and relatedly, we engage with these issues from a practical point of view. Our exploration shows that, as long as the NOC model is the de facto conceptual foundation of corporate governance, attempts to broaden corporate reporting are unlikely to succeed. At the same time, we argue that PAT

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4 We note how the stabilization of PAT conceptions serves particular interests in terms of political economy. Biondi (2011: 41) notes how the adoption of an NOC conception of the corporation in accounting theory " … adumbrates the firm as a financial trust devoted to the cash enrichment of shareholders as its beneficiaries and trustees" and thereby serves to enrich particular types of shareholders and executives, while externalizing the costs and risks of this focus.

structurally externalizes costs and risks linked to the use of a differential legal construct to both corporations and societies. Hence, although institutionalized practices with adjoining conceptual and normative foundations are inert and slow to change (Scott, 2013), we argue that both for societal and for self-interested reasons on the part of shareholders[5] and managers, an overhaul of corporate governance and accounting theory are long overdue. In this article, we have indicated how an engagement with conceptual notions of status, architecture and purpose in corporate governance and related notions about the object and audience in accounting theory and practice provides a viable starting point for the development and implementation of standards that include a broader set of indicators and includes more audiences in accounting reports. Based on our argument, such a conceptual approach to corporate governance and accounting is more likely to change corporate reporting practices than an ever so sophisticated elaboration of ESG measures within the framework of voluntary standards. Considering the corporate and societal costs and risks involved in continuing with the current framing, we find that a discussion on these issues is long overdue.

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5 Ironically, although PAT sets out to provide ‘shareholder primacy’, its limited framing of risks and returns ultimately serves large sections of the shareholder constituency badly (Davies et al., 2014; Stout, 2012b; Strine, 2010, 2014). As Sjåfjell (2018: 18) notes: “There is no form of social collapse which is likely to produce good, stable and long-term returns for investors”.

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