Haring Nikolai

Advantages and disadvantages of welfare accounting – empirical insights from implementation experiences in Austria and Germany

101 - Complexity in Business: Insights and Solutions

Abstract

This paper focuses on the viability of the Economy for the Common Good with regard to the advantages and disadvantages of welfare accounting. The balance sheet for the Common Good has been found to be practical and characterized by a high acquisition of useful information, but at a relatively high expense.

For a given company, its size, industrial sector and business model have been identified as the most influential factors on the implementation of this alternative balance sheet, even though different implementation strategies have been developed and followed up.

Although the companies in this sample have unanimously regarded a two-year-rhythm of welfare accounting, no significant reduction of the workload has been observed in repeated balancing processes. High costs have been offset by innovations, improvements and an increase in retrieved, decision-relevant information. The development of the company has been an essential benefit, which has resulted in improved communication and staff motivation. But the complexity and constant revision of the balance sheet and its user manual remain challenging.

Keywords:

balance sheet for the common good, welfare accounting, economy for the common good, sustainability, non financial-reporting, corporate governance, business ethics, performance management

Problem background:

Propelled by the current financial and economic crisis and their repercussions, a common sense has emerged, that it isn't sufficient to focus only on financial and economic figures when managing businesses, economies or societies as a whole. Current efforts to change this encompass, for example, the Better Life Index (BLI) of the OECD and the sustainability adjusted global competitiveness index of the WEF on an economy-/society-level as well as the new EU-directive on sustainability- & diversity-reporting, the G4 sustainability reporting guidelines of the GRI and welfare accounting as a core part of the so-called welfare economy on the level of individual businesses. This last point shall be the focus of this paper, with an examination of the viability of welfare accounting in the case of NPOs.

Research question:

Welfare accounting, which constitutes an important part of the welfare economy-concept, is founded on the concepts of human dignity, solidarity, ecological sustainability, social justice, democratic employee participation and transparency (plus some negative criteria), on the one hand, and involves various stakeholders, on the other --suppliers, financiers, employees, customers, competitors and the societal environment (region, current and future generations, nature)) (s. *Verein zur Förderung der Gemeinwohl-Ökonomie* (2015b)). Altogether, these elements form a matrix in which the 17 individual welfare criteria are embedded. We identified a research gap with regard to the advantages and disadvantages and with regard to the practicability of welfare accounting in organizations in Austria, Germany, Italy and Switzerland, which have currently been implemented and now apply this reporting approach (80 of them were externally audited so far, another 80 peer-audited) (s. *Verein zur Förderung der Gemeinwohl-Ökonomie* (2015a)). A main focus of this paper lies in combining theory with practice and exploring the implementation of welfare accounting, which, as it stands, is a topic which hasn't much been written about. Finally, it shall be examined to what extent the welfare accounting-approach can and should be applied to NPOs. Our research contributes to research related to business ethics, corporate governance, non financial-reporting and performance management.

Methodology:

As the welfare economy is a fairly new movement, based on Christian Felbers book "Gemeinwohl-Ökonomie" (2010, 3rd ed. 2014), not much scientific literature exists so far on this topic. The existent ones (e. g. *Wlucka* (2012); *Hensel* (2013); *Unger* (2013)) have focused on the innovative power and sustainability of organizations applying the welfare economy. Also noteworthy is a critical appraisal by the Austrian Economic Chamber (*Steigenberger* (2013)).

As we didn't find any research on welfare accounting so far, a qualitative research approach on this topic seemed justified. Based on theoretical sampling, starting with the 70 companies which had the maximum amount of three welfare seeds, we chose to interview experts (i. e. CEOs and welfare-representatives) in five rather large organizations (Bodan Großhandel für Naturkost GmbH, Raiffeisenbank Lech/Arlberg eG, satis&fy AG Deutschland, Sonnentor Kräuterhandelsgesellschaft mbH and Sparda-Bank München eG) located in Austria and Germany, as we also wanted to have a look into current best practices. A semi-structured interview guide was used to conduct these problem-centered interviews. For the ensuing analysis, the following five steps were carried out (s. *Schmidt* (2013)):

1. definition of analysis categories
2. setting up an analysis and coding scheme
3. applying the coding scheme to all interviews

4. generating of quantified material overviews
5. deepening of case interpretations

Results:

The options for applying welfare accounting are clearly given.

In the course of the study, it has become clear that most organizations which apply welfare accounting, have dealt with topics such as sustainability and employee satisfaction even long before implementing this approach. One critique could be that conventional organizations aren't represented adequately in the group of the voluntary welfare accounting implementers. Personal contacts were identified as a main trigger for implementing welfare accounting. The motives for welfare accounting differed, whereby – overall – improved communication was essential.

Welfare accounting is an effective and innovative tool for steering the organization along ecological and societal measures. Welfare accounting, used as a communication and development tool for one's enterprise, ostensibly leads to a lot of improvements and innovations, while at the same time it fosters corporate culture and bolsters the motivation of the employees. Whereas the internal perception of welfare accounting could be negative or positive, external effects seemed to fare positively. The companies of our sample, which already applied welfare accounting, were only rarely confronted with outspoken critique.

The external audit enabled feedback and the evaluation of the company's own perspectives. Furthermore, the welfare economy-movement allowed for making contacts and getting questions answered within its networks. A high degree of commitment was furthermore observable in the sample.

Taken all together, all of the companies in our sample view the welfare accounting-process positively and would recommend it to other organizations.

Yet welfare accounting requires a big effort on the part of organizations. The bar attached to this effort is kept high, as, welfare accounting regulations continue to change (since July 2013, the welfare matrix-version 4.1 has to be applied). Welfare reports are mostly generated on a biennial basis.

The use of resources varied a lot, encompassing from just a few up to all employees of the company: At companies with a low number of employees, involving all employees was more common, whereas bigger companies seemed to prefer a top-down-approach (naming specific responsible persons), with a bottom-up-approach ensuing. Employees participated mostly by working out welfare indicators in small groups – an approach not followed through by the larger organizations. The long time that welfare accounting takes to be set up, requires a high degree of consensus and a strong goal orientation of the people involved in the process. Reading other welfare reports and the exchange with other companies can help with reducing entry barriers. The benefits of the engagement in the networks of the welfare economy have however also been called into question.

The welfare indicators showed different degrees of accessibility when working on them. Generally, the indicators which seemed to be better workable, are those related to the pioneer-characteristics of the organizations. Furthermore, the business model seemed to have had a pronounced influence on the ease of coping with the single welfare indicators. Quick gains could be made by reducing the complexity of the handbook, by means of simple changes in the wording.

Due to learning effects, a reduction of the resources needed should be observed over time in the case of repeated welfare accounting. This wasn't confirmed by this study. The reasons for the need for the constant effort, could be found in changes induced by the development (and maturing) of the welfare matrix and the accompanying handbook. In addition, the employment of new staff members might be called for, along with increased employee participation in the welfare accounting process.

The complexity of the welfare economy can be reduced internally by good planning, delegation and an appropriate coordination, so that a reduction in external auditors' work may be achieved (?) in most cases. The interface, the visiting audit (s. *Verein zur Förderung der Gemeinwohl-Ökonomie* (2015c)), is shaped by the necessity to discuss controversial issues, but also by transparency and mutual learning experiences.

Furthermore, the specific implementation of welfare accounting is left largely to the companies, thereby generating many different approaches. This leads to a currently unsatisfactory intercompany and intertemporal comparability. The subjectively attributed evaluation points add to this problem; the likewise subjectively chosen dimensions, welfare criteria and maximum evaluation points undermine the relevance as well as the reliability of welfare reporting. Obstacles occur too, with regard to the voluntary character of the welfare movement and the continuous development of the welfare economy. There exist the dangers of the theoretical concept and practice moving too far apart from each other and of a high demand for explanations. Furthermore, doubts were expressed about whether the welfare economy should really be implemented as the predominant economic and societal model.

Summing up, the high effort and amount of work which has to be put into welfare accounting, has to be weighed against the learning effects and other benefits, which can be generated. No consensus exists with regard to the best implementation strategy for now. NPOs seem to be well placed to implement the welfare accounting concept, not least due to their know-how of steering organizations along multiple dimensions. Nevertheless, the resources needed could prove to be at the bottleneck.

On the 17th of September 2015, the European Economic and Social Committee (EESC) voted with 86 % for an initial policy brief recommending the welfare economy, in which the balance sheet of the common good shall serve as the main instrument (cp. European Economic and Social Committee (2015a); Verein zur Förderung der Gemeinwohl-Ökonomie (2015e)).

Open questions for further research:

The hypotheses generated in this qualitative piece of work can be followed up by quantitative studies exploring them based on a larger sample.

For instance, an investigation could stand to assess the effect of the size of the organization on the chosen implementation method as well as the ease in working out the indicators depending on the business model followed and the nature of the industry. This would be interesting, as, different organizational sizes and industries shall be taken into account during the development of the welfare matrix-version 5.0 by creating specific guidelines and handbooks (s. *Verein zur Förderung der Gemeinwohl-Ökonomie* (2015d)).

Furthermore, the quality of welfare accounting could be gauged with regard to company size, industry and the selected implementation method. Therefore an appropriate quality index would have to be developed first and foremost.

Additionally, based on multiple case studies, standardized and optimal implementation methods could be derived.

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