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Social Value, as a foreword

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Social value is a topical issue and the leitmotiv of this first issue in the new phase of the *Bulletin of Economic Studies (BEE)*. It is no coincidence that social value, in its various meanings, has come to occupy a central place in economic thinking. For some years, a financial perspective focused on profits or cash flow seemed to be the dominant model for businesses; however little by little, in the first decade of this century, and more rapidly since the 2008-10 crisis, the social perspective has returned to take centre stage. Based on the *triple bottom line*, namely, corporate social responsibility, rebranded as business social responsibility here; sustainability, or, more currently, ESG (Environmental, Social and Governance) criteria, the focus of reflection has shifted to the value that the economy in general and businesses in particular generate for citizens. So much so that we seem to be in a new reality in which the common good replaces private interest, as if the latter had previously been the fundamental element of corporate legitimacy.

Nothing could be further from the truth. For as long as economics has been a science, the collective interest has been the key element in economic thinking; in other words, emphasis has been on the generation of value for society as a whole. Needless to say, what economists have not been able to agree on is what public good means and how to fulfil it. The very different directions followed by the main classic theory authors, including Thomas Mathus (Malthusianism), Karl Marx (Marxism), John Stuart Mill (utilitarianism), and Adam Smith are proof of this. It was

Adam Smith who laid the foundation that has underpinned the economic model to the present day, namely, that private interests in a free-market context are aligned with collective interests. Something similar to the current 'doing well by doing good' which leads to a convergence between economic utility and ethics and means that moral aspects in business decision-making may be dispensed with.

Later, the neoclassical synthesis, with its well-known law of supply and demand, managed to systematise and even mathematise the relationship between private interests and the common good, which was embodied in Pareto-optimality. Based on these contributions and the general theory of equilibrium that underlies them, social optimality (synonymous with value for society) is achieved by seeking to maximise private profit in a free market environment, in other words, through perfect competition. From this perspective, dominant in economic theory from the late 19th century to the present day, the generation of social value (common good) is reduced to the pursuit of profit maximisation. This was soon found not to be working well and was blamed on well-known market failures. Whenever there was no alignment between private interests and the common good, it was due to the intervention of some market failure that distorted competitiveness; in order to overcome such failures, competition authorities were created around the world.

In this context, no explicit reference to social value is needed, as financial economics and accounting (through profit) is a good indicator of the value a company brings to society. Logically, social interest lies in trying to maximise these benefits; and in recent decades, indicators directly related to them, such as EBITDA, have come to replace added value, which only remains important in the calculation of the GDP and VAT, but has practically disappeared from the field of financial analysis.

The system seemed to work in the last decades of the twentieth century and the beginning of the twenty-first century, until it collapsed There was already clear evidence that the model was not working, in that it meant that extraordinary profits were impossible, except on rare occasions. In Greenspan's words, there was irrational exuberance, a phrase which Nobel laureate Shiller would popularise as the title of his book. Thus, the 2008-10 crisis clearly showed that the pursuit of profit maximisation, consistent with the prioritisation of individual interests, does not seem to necessarily coincide with the common good.

Over the last decade, there has been a clear deterioration in both the environmental and social environment, which is directly caused by firms' interest in optimising their profits. The consequence is that the correlation between corporate profit and social good is no longer credible. The *Edelman Trust Barometer* reports have shown this year after year. Perhaps in the minds of the public, and even of many professionals, this is not related to a failure of the economic model but rather to more circumstantial elements such as tax havens, low wages, competition from low-cost countries, globalisation, extreme competitiveness.... The truth is that the accumulated failures, depth, and persistence of the model suggest that we cannot only look at corporate profits to understand the value that companies contribute to citizens; we need to have a direct understanding of how social value is generated and of its relationship with sustainability, both environmental and in terms of social cohesion.

In this context, *stakeholder theory*, which was coined in 1984 by Edward Freeman, a philosopher from Virginia, began to have a presence in business discourse, and since the crisis it has been gaining momentum. Large companies that avoid considering a balanced satisfaction of the interests of all their stakeholders to be a fundamental purpose of their organisation are an exception today.

The breakdown of the classical model and the development of *stakeholder theory* has coincided with other movements in the same direction: The Sustainable Development Goals (SDGs), the refoundation of capitalism, and moral capitalism, among others. The common element in all of them is that the traditional model does not work and, therefore, profit-focused financial economics and accounting is not enough to understand the value that organisations in general, and companies in particular, contribute to or take out of society. In this critical context, social value is a central element. Citizens are interested in understanding the transfer of value from a broader perspective than that based on profit, and to do so a more holistic view is needed than that provided by financial economics and accounting. Whether we call this information system social accounting, non-financial reporting, stakeholder accounting, monetisation of social value; or use any other name, is totally irrelevant. What matters is that within this new perspective businesses are asking themselves what their purpose is, i.e., what value they contribute with to society; and they are proposing specific and systematic ways of assessing it and reporting on it to their stakeholders. The aim of the current issue of the journal is to further the current understanding of these matters.

We have invited different researchers who have outstanding publications in high-impact journals to write a summary that is more suited to the professional perspective. In some cases, this has been achieved better than in others, but all the articles selected, which have been previously peer-reviewed, are highly topical and relevant to business in general, and to Basque business in particular. We encourage you to read them from a practical perspective and to discern their potential usefulness in your organisations. We also offer you direct access to the authors, who will be happy to discuss the potential contribution of the articles and their applicability to specific business practice with anyone who is interested in doing so.