Profit from a Social Responsibility Perspective

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Abstract

The aim of the paper is to challenge the concept of profit and its often-misunderstood expressive power as information by building on the concept of sharing newly created value. The authors offer better solutions by making suggestions on how to supplement revenues and expenses as they need to be treated differently from a social responsibility perspective. They suggest three new types of expenses and define them in the context of the application of the principles of social responsibility. This enables a significantly better approximation to the newly created value called surplus value added, calling for a new approach to the company's information system.

Key words: profit, social responsibility, newly created value, compensation, surplus value added.

1 Introduction

Profit is one of the most commonly used, but also misunderstood, concepts in economics and finance. It can be defined from several perspectives – from accounting to economic and social.

The aim of the paper is to determine the expressive power of profit as information and to offer possible better solutions. We will use the method of analysing the current understanding of the concept of profit and compare it with the principles of social responsibility.

The text is relatively concise due to limited space, it means without numerical examples or formulas. It summarizes to a certain extent the findings of previous research on social responsibility. This is also the reason for the relatively numerous references to books that deal with social responsibility.

2 Starting points

According to the basic definition, profit is a positive operating result, namely the difference between all revenues and all expenses in a certain period (Turk, 2004, 80). However, such a definition is not unambiguous, it allows for many different understandings depending on the definitions of the content of revenues and expenses. Thus, we know different types of profit, for example, accounting profit, economic profit, operating profit, profit from regular operations, net profit[1].

From the basic definition, we can conclude that with it, among other things, we also want to define the newly created value in the company's operations. Therefore, it is often defined as the goal of the company (Friedman, 1970), with some insisting on this even more recently (e. g. Edmans, 2020). This understanding of profit also forms the basis of our legal order and Slovenian accounting standards.

Other authors emphasize the importance of stakeholders and their legitimate interests (e. g. Freeman *et al.,* 2010, xv). They emphasize the principles of corporate social responsibility that need to be regulated and institutionalized into ordinary business practice to go beyond the altruistic nature of corporate social responsibility (e. g. Hamidu *et al.*, 2015, p. 87, Wolf, 2020). Wolf even considers defining the rules of the game to be a »political problem of the first order«.

The definition of profit and understanding its role is also important from a social perspective, as the question arises whether profit belongs only to the owners of capital (capitalists). This question is increasingly exacerbated by the modern understanding of stakeholders in relation to corporate social responsibility.

Essentially, it is a problem of sharing newly created value in a company's operations. Solving this problem must be approached gradually, as it involves two aspects: measuring newly created value and its distribution or sharing.

In the following, we will primarily deal with understanding newly created value and the starting points for its measurement. This provides the basis for the second phase, which is its direction and sharing.

3 Newly created value

By newly created value, we mean the value created in a company that does not reduce the value of its assets (or the welfare of the entire society), even if it is consumed or spent in its entirety.

We have already established that the definition of revenues and expenses is important for the assessment of newly created value. Today, this definition is given by the Slovenian Accounting Standards (SRS), which take into account the International Financial Reporting Standards (IFRS).

From a social responsibility perspective, both revenues and expenses need to be treated differently.

[1] More about types of profit in Turk (2004, 81).

A company's revenues need to be expanded with non-accounting information that includes the environmental and social value that the company creates (or destroys) while creating new value. This is made possible, for example, by EVAS, the expanded value-added model developed by Mook (2007)[2].

Expenses also need to be expanded, which is not specifically provided for in the current accounting framework. These are in particular expenses that consider the use of natural resources in terms of environmental conservation within the framework of a company's sustainable orientation, but in principle they can still be recorded in the appropriate analytical accounting accounts. In addition, three new types of expenses, which are defined in the context of the application of the principles of social responsibility, namely (Bergant, 2024, 101):

1. Labor is consumed in the business process, as humans are not immortal. The evaluated consumption of labour can be compared to the depreciation of fixed assets, which already represents a material cost of the company (Bergant, 2024, 43). Labor consumption essentially means the biological consumption of employees, regardless of their work tasks. It can only be higher for employees in more difficult working conditions. It can be estimated using the minimum wage or minimum living costs, proportional to the time spent. It should be determined by an appropriate regulation. Employees would receive a salary as an additional income, namely from participation in the newly created value.

2. The fixed cost of operations should also be compensation for the use of the company's permanently invested assets (capital), which is reflected as an opportunity cost for investors (Bergant, 2024a, 192−196). The amount of compensation could be defined as the base interest rate - the basic interest rate in Slovenia (TOM) is 2.38 % for 2025 (SURS, 2025) - or the interest rate on deposits of people. The owners of capital contributions would also have the right to participate in the newly created value.

3. Similarly, the compensation for the use of borrowed funds should be a fixed cost, since these loans replace capital (Bergant, 196). Lenders should also be entitled to a share in the newly created value.

It is obvious that the company's major stakeholders, who also bear the majority of the business risk, participate in the sharing of newly created value. This also gives them the right to participate in the management of the company (Bergant, 2025, 54).

4 Conclusions

Considering the supplemented revenues and expenses of the company in the manner discussed above, their difference (in accordance with the basic definition of profit in the introduction) no longer corresponds to either the traditional understanding of profit or the classical definition of value added. A significantly better approximation to the newly created value is therefore needed. It can be called as surplus value added. It is the foundation for a substantially different approach to corporate economics and a different understanding of business success.

By considering the principles of social responsibility, the foundations of the traditional economics of a company are significantly changed. It is no longer based on profit, which loses the role of assessing the newly created value, and thus also its expressive power. Therefore, it loses the role of the goal of business and performance, which requires a new approach to the company's information system, especially to the accounting system (Bergant, 2023, 123−126).

The category of profit is today a pure accounting construct that only misleads. Its use in business decisions according to neoliberal principles is harmful, because due to the unequal participation of

[2] More about this model in Pustotnik (2019, 46).

stakeholders in profit, it causes dissatisfaction among the stakeholders, thereby increasing entropy in the entire society. We can see this in numerous negative trends and movements in the world. The only question is whether this is our intentional or voluntary blindness. Unfortunately, this blindness can also be »learned« within the educational system.

It follows from the above that all efforts to change profit sharing (e. g. employee participation) are devoid of proper professional basis and only confirm its misunderstanding. Therefore, preserving profit in the information system completely negates the basic principles of social responsibility. Therefore, any discussion of social responsibility and sustainable development, assuming the preservations of this concept in the information system, remains at the level of empty rhetoric.

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