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Stakeholder Theory and Value for Money Audit

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Abstract: In contemporary organizational landscapes, the intersection of stakeholder theory and value for money audits has garnered significant attention from scholars and practitioners. Stakeholder theory, originating from R. E. Freeman's seminal work in the 1980s, shifts organizational focus from shareholder - centric to broader stakeholder considerations. It emphasizes understanding and managing multifaceted relationships with stakeholders, promoting sustainability and ethical practices. Value for money audit, rooted in accountability and efficiency, assesses resource utilization in achieving optimal outcomes. This study explores their intersection, highlighting how stakeholder engagement influences value-for-money audit outcomes and organizational success using information from secondary sources such as books, journals, and magazines. The study also explores the concepts' foundations, including stakeholder salience and audit processes, highlighting their roles in organizational management and governance. The integration of stakeholder theory and value-for-money audit presents a synergistic approach to organizational governance, emphasizing stakeholder engagement, efficiency, and sustainability. The study explores their interconnection, addressing challenges, opportunities, and future directions in enhancing organizational resilience, regulatory compliance, and stakeholder satisfaction. Opportunities for digital transformation, inclusiveness, and advanced analytics are highlighted alongside the potential for global standards and collaborative frameworks. Organizational management balances financial concerns with societal responsibilities through stakeholder theory and value for money audit. Emphasizing continuous improvement, it anticipates future relevance amidst global trends, fostering resilience and stakeholder well-being.

Keywords**:** Accountability, efficiency, stakeholder theory, sustainability, value for money audit, M42

1.1. BACKGROUND OF THE STUDY

In contemporary organizational landscapes, the complex dance between stakeholder theory and the thorough examination of value for money audits has emerged as a central point for scholars and practitioners alike. These two concepts, while entrenched

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in distinct realms, intersect in profound ways, determining the path of decision-making, resource allocation, and overall organizational performance. As businesses and public entities traverse the intricacies of an evolving global environment, the need to balance stakeholder interests with efficient resource deployment becomes paramount. This study explores the dynamic relationship between stakeholder theory and the outcomes of value for money audit.

Stakeholder theory suggests that entities are not merely economic entities but complex networks of relationships with various parties, each holding a stake in the organization's success (Freeman, 1984). According to Freeman (1984), organizations move beyond a narrow focus on shareholder value, considering the broader consequences of their actions on a variety of stakeholders, comprising employees, customers, suppliers, civil societies, governments, shareholders, and the community at large. Understanding the dynamics of these relationships is fundamental for understanding how decisions are made, how resources are allotted, and eventually, how value is created within organizations. This theory explores the fact that any group or individual who can affect or is affected by the corporation is regarded as an interested party. According to Schaltegger et al. (2019), stakeholder theory is a theory of business ethics and organizational management. The theory encourages organizations to recognize and consider their stakeholders, which exist internally or externally in the organization. It calls for the promotion of understanding and managing the needs, wants, and demands of the stakeholders. Recognizing the existence of stakeholders will enable organizations to maximize their value creation, and also safeguard their long-term success and sustainability (Svendsen, 1998).

Stakeholder theory, a foundation in contemporary organizational management, stems from the acknowledgment that businesses and institutions are not isolated entities operating solely to maximize shareholder wealth (Freeman, 1984). This theory represents a paradigm shift from the traditional shareholder-centric approach. The seminal work of R. Edward Freeman in the early 1980s laid the theoretical groundwork by suggesting that organizations should consider a broader set of stakeholders beyond shareholders, recognizing the diverse interests and relationships that shape an entity's existence.

At its center, stakeholder theory contends that understanding and managing these complex relationships are important for sustainable organizational success. Stakeholders, broadly defined, comprise any individual or group that can affect or be affected by an organization's actions and decisions (Freeman, 1984). This expansive viewpoint encourages organizations to move beyond a myopic emphasis on short-term financial gains and to consider the broader societal and ethical consequences of their operations. Consequently, the theory has gained traction not only in the realm of business but also in public administration, where governmental agencies increasingly

embrace stakeholder-oriented approaches to foster transparency, inclusivity, and social responsibility (Dhanda & Shrotryia, 2021).

The development of stakeholder theory has led to the evolution of various models and frameworks aimed at scientifically identifying and prioritizing stakeholders, understanding their expectations, and bringing into line organizational strategies to accommodate these diverse interests. As organizations pass an era of intensified scrutiny and social consciousness, stakeholder theory remains a fundamental lens through which to understand the complex dynamics of modern business and governance, emphasizing the need for a balanced and comprehensive approach to organizational management (Bacq & Aguilera, 2022).

One of the critical facets of stakeholder theory is the emphasis on engagement and dialogue with various stakeholders. Stakeholder engagement is actively involving and communicating with various stakeholders to understand their concerns, gather input, and incorporate their perceptions into decision-making processes. This engagement goes beyond mere acknowledgment of stakeholders to nurture meaningful relationships and mutual value creation between internal and external parties with a vested interest in the company's activities. It also involves creating open and transparent communication conduits to exchange information and visions. This can involve regular meetings, surveys, or other feedback mechanisms.

It ensures inclusivity by considering various perspectives and involving stakeholders in discussions that affect them (Freeman, 1984). This promotes a more comprehensive understanding of possible impacts. There are collaborative creativities where stakeholders and the organization work together to address joint challenges or opportunities thereby bringing about innovative solutions and improved relationships (Aksoy et al., 2022). The salient advantages of stakeholders' engagement include:

Enhanced Decision-Making: Actively engaging stakeholders offers organizations diverse perspectives, insights, and expertise. This wealth of input can lead to more informed and well-rounded decision-making processes. By considering the interests of various stakeholders, organizations can make choices that align with a broader range of concerns and expectations (Donaldson & Preston, 1995).

Improved Reputation and Trust: Organizations that effectively engage with stakeholders often build stronger relationships, fostering trust and credibility. Positive stakeholder relationships contribute to a positive organizational reputation. This trust can be invaluable during challenging times, as stakeholders are more likely to support an organization they perceive as transparent, ethical, and responsive to their needs (Freeman, 2010).

Risk Mitigation: Engaging with stakeholders allows organizations to identify and address potential issues and concerns early (Freeman, 1984). By proactively

managing relationships, organizations can mitigate risks associated with stakeholder dissatisfaction, regulatory compliance, or adverse public opinion. This proactive approach contributes to long-term stability and resilience.

Innovation and Adaptability: Stakeholder engagement fosters a culture of innovation. Organizations that listen to and collaborate with stakeholders are more likely to adapt to changing market conditions, technological advancements, and evolving societal expectations (Freeman, 2010). This adaptability is crucial for staying competitive and relevant in dynamic environments.

Employee Engagement and Satisfaction: According to Freeman (2010), employees are internal stakeholders whose engagement is critical for organizational success. Engaging employees in decision-making processes and considering their perspectives contributes to a positive workplace culture. Satisfied and engaged employees are more likely to be productive, creative, and committed to the organization's goals.

Customer Loyalty: External stakeholders, particularly customers, appreciate organizations that value their opinions and needs. Engaging with customers through feedback mechanisms, surveys, and other channels not only builds loyalty but also provides valuable insights for product/service improvement. Customer satisfaction is directly linked to repeat business and positive word-of-mouth.

Social and Environmental Responsibility: Stakeholder engagement extends to the broader community and the environment. Organizations that actively involve communities, NGOs, and environmental groups in decision-making processes demonstrate a commitment to social and environmental responsibility. This proactive engagement contributes to a positive societal impact and can enhance an organization's social license to operate (Elkington, 1997).

Legal and Regulatory Compliance: Engaging with stakeholders helps organizations stay attuned to changing regulatory landscapes and legal requirements. By involving relevant stakeholders in compliance discussions, organizations can navigate legal challenges more effectively, avoiding costly penalties and maintaining a positive legal standing.

Therefore, stakeholder engagement is a multifaceted strategy that positively influences organizational success. Recognizing and valuing the perspectives of diverse stakeholders, organizations can build stronger relationships, make better-informed decisions, and ultimately create sustainable value for all involved parties (Donaldson & Preston, 1995).

Stakeholder Dialogue: Stakeholder dialogue is a key instrument in managing expectations and building mutually beneficial relationships. Dialogue serves as a crucial tool for fostering communication and engagement among various stakeholders involved with an organization (Freeman et al., 2007). Dialogue, in this context, refers to an open

and interactive communication process between the organization and its stakeholders. It enables the exchange of information, perspectives, and concerns, fostering mutual understanding.

Effective dialogue helps build trust by demonstrating transparency and a commitment to considering stakeholder concerns. This, in turn, contributes to the development of positive relationships between the organization and its stakeholders. Stakeholder interests may sometimes conflict. Dialogue provides a platform to address and resolve conflicts through negotiation and compromise (Freeman et al., 2007). Stakeholder theory underscores the ethical responsibility of organizations to consider the impacts of their actions on all stakeholders. Dialogue facilitates the integration of social and environmental considerations into decision-making processes (Donaldson & Preston, 1995).

According to INTOSAI, (1992) value for money audit is defined as an audit of the economy, efficiency and effectiveness with which the entity uses its resources in performing its responsibilities. Simultaneously, the value for money audit emerges as a critical mechanism for assessing the efficiency, effectiveness, and economy of organizational activities (INTOSAI, 1992). Rooted in the public sector's accountability ethos, value for money audit has transcended its governmental origin, finding applications in diverse organizational settings. This audit scrutinizes the utilization of resources to ensure that they align with organizational objectives, providing a lens through which to enhance transparency, accountability, and overall performance (Lonsdale, 2000).

Value for Money audit has its roots in the principles of accountability and efficiency, particularly within the public sector (Lonsdale, 2000). Originating in the realm of government spending and resource allocation, value for money audit emerged as a response to the increasing demand for transparency and responsible use of public funds. The concept gained prominence in the latter half of the 20th century as governments worldwide recognized the need to ensure that taxpayers' money was being utilized effectively, economically, and with due consideration for the outcomes achieved (Kururia, 2018).

The fundamental objective of value for money audit is to assess whether the resources expended in a particular activity, programme, or project have resulted in optimal outcomes. This extends beyond financial considerations, encompassing the broader spectrum of efficiency, effectiveness, and economy. In essence, value for money audit ensures organizations obtain the best possible results with the resources available, considering the quality of outcomes achieved in relation to the costs incurred. As the public sector's commitment to accountability and transparency deepened, value for money audit methodologies evolved to become integral components of financial oversight and

performance evaluation (Demirag & Khadaroo, 2011). Beyond governmental bodies, this approach has transcended its initial context, finding application in various sectors, including non-profit organizations and private enterprises. In today's dynamic and competitive landscape, where organizations are under constant pressure to demonstrate responsible stewardship of resources, value for money audit has become a crucial tool for assessing and enhancing organizational performance.

Modern value for money audits go beyond a retrospective financial analysis; they involve a forward-looking perspective, emphasizing risk management, strategic planning, and the achievement of long-term value (Morin, 2004). By providing a structured framework for evaluating the efficiency and effectiveness of organizational activities, value for money audit contributes to informed decision-making, fosters accountability, and ensures that resources are directed toward initiatives that align with organizational goals and deliver maximum value to stakeholders. As organizations grapple with the challenges of resource scarcity and heightened expectations for accountability, the evolution and application of value for money audit continue to play a pivotal role in shaping responsible governance and effective resource management (Glynn, 1985).

Proponents of value for money audit emphasize its role in ensuring efficiency, effectiveness, and economy in public spending. Advocates argue that this approach provides a comprehensive evaluation of government expenditures, holding public entities accountable for delivering services in the most cost-effective manner (Lapsley & Pong, 2000). By scrutinizing the relationship between inputs, outputs, and outcomes, proponents believe value for money audit enables better resource allocation, identifying areas for improvement and innovation. It also aids in fostering transparency and public trust by demonstrating responsible financial stewardship. Furthermore, supporters argue that value for money goes beyond mere compliance and focuses on achieving optimal results, making it a valuable tool for enhancing the overall performance of public organizations.

Various organizations and professionals advocate for value for money audits, each highlighting specific aspects of its importance. Here are some key proponents:

International Organization of Supreme Audit Institutions (INTOSAI): INTOSAI founded in 1953 is an international professional organization that promotes good governance and effective auditing practices. INTOSAI emphasizes the significance of value for money audits in its guidance and frameworks, encouraging member countries to adopt these approaches to enhance the efficiency and effectiveness of public spending (Saaq et al., 2016).

Government Accountability Office (GAO): The GAO established in 1921, is the audit institution of the United States federal government. GAO has been a proponent

of value for money audit, incorporating it into its auditing methodologies. The GAO's approach involves assessing how well government programs achieve their objectives and whether resources are utilized efficiently (Flesher & Zarzeski, 2002).

Public Sector Internal Audit Standards Board (PSIASB): PSIASB founded in 1941 is a standard-setting body for internal audit within the public sector. PSIASB recognizes the importance of value for money considerations in internal audits. Their standards emphasize the need for internal auditors to evaluate and contribute to the improvement of risk management, control, and governance processes, including those related to efficiency and effectiveness (Coderre & Police, 2005).

Government Leaders and Reform Advocates: Governments aiming for increased efficiency and accountability often promote value for money audits as a means to achieve these goals. Leaders recognize the importance of demonstrating responsible use of public funds, and value for money audits align with these objectives (Johnsen et al., 2001).

These proponents collectively contribute to the widespread acceptance and adoption of value for money audit practices, emphasizing its role in promoting accountability, transparency, and the efficient use of public resources.

Academic Researchers: Various academics contribute to the discourse on public finance and auditing practices. Scholars in fields such as public administration, economics, and auditing research and advocate for value for money audit as a tool to enhance accountability and performance in the public sector. Their research works often provide insights into best practices and methodologies. There are numerous researchers in the fields of public administration, economics, and auditing who have contributed to the discourse on value for money audits.

Some of the researchers are David F. Axson who is known for his work in performance management, budgeting, and finance. His publications often delve into the optimization of resources and achieving value for money; Ian Ball has been associated with international public sector accounting standards. His contributions include research on financial management practices in the public sector, including aspects of efficiency and effectiveness; Kathryn E. Newcomer, a professor and researcher, focuses on public management and performance measurement. Her work often explores strategies for enhancing programme efficiency and effectiveness.

Others include; Gary Bandy who has researched and written about performance auditing and value for money auditing. His work often addresses methodologies for assessing the efficiency and effectiveness of public programmes; Guy Peters, known for his contributions to the field of public policy and administration. His research covers various aspects of government performance and efficiency; Laura B. Rawlings who has worked extensively on development economics, including research on the effectiveness

of social programmes. Her contributions often involve evaluating the impact and efficiency of public interventions and Michael Power who has researched extensively on the role of auditing and accountability, particularly in the public sector. His work touches on issues related to performance measurement and value for money.

Value for Money audit is a strategic approach employed to scrutinize the judicious utilization of resources in the public sector. It is conducted by government audit offices or external auditors, and involves a comprehensive examination of financial, human, and physical resources to determine if they have been expended efficiently, economically, and effectively in achieving intended outcomes. Efficiency is a paramount focus in value for money audits. Auditors delve into the dynamics of resource utilization, assessing whether inputs such as financial investments, time, and effort have been optimized to produce the desired outputs. Cost-benefit analyses are a common tool employed, aiding auditors in evaluating whether the benefits derived from a particular activity outweigh the costs incurred (Kururia, 2018).

Economy, another facet of value for money, centers on cost minimization. Auditors assess whether resources have been acquired at the most advantageous price without compromising quality, ensuring that the public receives optimal value for the funds expended. Effectiveness, a key component of value for money audits, shifts the focus to the achievement of objectives. Auditors scrutinize the outputs and outcomes of a programme or activity, comparing them against the intended results. This involves not only assessing the tangible results but also delving into the broader impact on intended beneficiaries or the community (Flesher & Zarzeski, 2002). Benchmarking plays a significant role in value for money audits, where the performance of a programme or entity is measured against established standards, best practices, or similar entities. This comparative analysis aids auditors in identifying areas of strength and opportunities for improvement.

Risk management is integral to value for money audits. Auditors identify risks that may impede the efficient and effective use of resources, considering both internal and external factors. Recommendations for mitigating these risks are provided to enhance the overall value for money. Compliance and governance form a critical aspect of value for money audits. Auditors assess the entity's adherence to relevant laws and regulations, ensuring legal and regulatory compliance. The governance structure is also evaluated to ascertain the presence of mechanisms promoting accountability, transparency, and ethical conduct.

Documentation and reporting are fundamental to value for money audits. Comprehensive reports are generated, offering a detailed analysis of the efficiency, economy, and effectiveness of the audited entity or programme. Recommendations for improvement are provided, addressing identified weaknesses in resource utilization.

Despite its significance, value for money audits encounters challenges. Subjectivity in measuring non-financial benefits or outcomes and the availability and reliability of data pose hurdles. Nonetheless, value for money audits contribute to a continuous improvement cycle, providing valuable insights for enhancing processes and decision-making in the public sector. For a successful audit engagement, the exercise is planned in a logical manner (Morin, 2004).

Defining Objectives and Criteria: Value for money Audit begins with clearly defining the objectives of the audit and the criteria against which the value for money will be assessed. This involves understanding the specific goals of the public sector organization and establishing benchmarks for efficiency, effectiveness, and economy (Flesher & Zarzeski, 2002).

Risk Identification and Assessment: Auditors conduct a thorough risk analysis to identify potential areas of inefficiency, waste, or mismanagement. This involves assessing the risks associated with the organization's activities and evaluating the likelihood and impact of these risks on the achievement of value for money.

Data Collection and Analysis: During the fieldwork phase, auditors collect relevant data to evaluate the organization's performance against value for money criteria. This may involve examining financial records, operational processes, and key performance indicators. Data analysis is crucial for identifying trends, patterns, and potential areas for improvement (Kururia, 2018).

Benchmarking and Comparison: Benchmarking is a key element of value for money Audit. Auditors compare the organization's performance with industry benchmarks, best practices, and relevant standards. This comparative analysis provides insights into whether the organization is achieving value for money in line with external benchmarks (Muniaín, 2005).

Performance Measurement: Auditors assess the efficiency, effectiveness, and economy of the organization's activities. This includes evaluating how resources are allocated, whether desired outcomes are achieved, and if expenditures are justified about the benefits derived (Muniaín, 2005).

Stakeholder Engagement: Value for money Audit often involves engaging with stakeholders to understand their perspectives on the organization's performance. Stakeholder input provides valuable insights into the perceived value for money and helps auditors assess the alignment of organizational activities with stakeholder expectations (Flesher & Zarzeski, 2002).

Documentation and Evidence: Auditors meticulously document their procedures, findings, and evidence throughout the audit process. This documentation serves as the basis for audit reports and ensures transparency and accountability in the assessment of value for money.

Recommendations and Continuous Improvement: Based on audit findings, auditors provide recommendations for improving the organization's efficiency and effectiveness. These recommendations are aimed at enhancing value for money in future operations. Public sector organizations are encouraged to incorporate these suggestions into their practices for continuous improvement.

Reporting: The results of the value for money audit are communicated through a comprehensive audit report. This report typically includes the auditor's opinion on whether the organization has achieved value for money, key findings, areas of improvement, and recommendations. Clear and transparent reporting is essential for accountability and public trust.

Follow-Up and Accountability: Auditors may follow up on the implementation of their recommendations to ensure that corrective actions are taken. This process enhances accountability and helps organizations address identified weaknesses or inefficiencies.

Legal and Regulatory Compliance: Value for money audit also assesses whether the organization complies with legal and regulatory requirements related to resource allocation and financial management. Ensuring compliance is critical for maintaining public trust and avoiding legal issues.

Therefore, value for money audit in practice involves a comprehensive evaluation of an organization's performance in terms of efficiency, effectiveness, and economy. It requires a thorough understanding of organizational goals, stakeholder engagement, benchmarking, and a commitment to continuous improvement to ensure that public resources are used optimally.

The juxtaposition of stakeholder theory and value for money audit offers a unique vantage point to delve into the intricacies of decision-making, revealing how stakeholder considerations shape the outcomes of value for money audit and, in turn, impact organizational value creation. Value for money audit is well established in the U.K. and Netherlands (Bowerman, 1996). Despite the growing recognition of the importance of both stakeholder theory and value for money audits, there remains a noticeable gap in literature concerning their interplay as there have been very few studies on this topic. This study endeavors to bridge this gap by bringing these two spheres into focus, exploring how stakeholder engagement influences the conduct and outcomes of value for money audit.

1.2. OBJECTIVE OF THE STUDY

The objective of this study is to investigate the relationship between stakeholder theory and value for money audit, aiming to understand how stakeholder perspectives influence the assessment of value for money in organizational operations. This study also seeks

to examine the theoretical underpinnings of stakeholder theory and its implications for value for money auditing practices, to provide insights into how organizations can enhance accountability, transparency, and overall performance by considering stakeholder interests in their auditing processes.

1.3. SIGNIFICANCE OF THIS STUDY

The significance of this study lies in its potential to contribute to both academic literature and practical organizational management. Examining the intersection of stakeholder theory and value for money audit, this study will offer valuable insights into how organizations can align their strategic decision-making processes with stakeholder interests while ensuring optimal resource allocation and accountability. Understanding the dynamics between stakeholder perspectives and value for money auditing practices can help organizations enhance their governance structures, improve performance, and foster stakeholder trust and satisfaction. This study has the potential to inform policy development and regulatory frameworks aimed at promoting responsible business practices and effective utilization of resources across various sectors. Ultimately, the study's insights have the potential to facilitate more robust and sustainable organizational practices, benefiting both stakeholders and society at large.

2. LITERATURE REVIEW

2.1. Conceptual Review

2.1.1. Concepts of Stakeholder Theory

The construct of the stakeholder theory revolves around the intricate web of relationships and interactions that organizations engage in with various entities, recognizing the multifaceted nature of their stakeholders. At its core, this construct acknowledges that organizations are not isolated entities solely driven by shareholder interests but are embedded within a broader social context (Freeman, 1984). According to Freeman (1984), stakeholders, as defined within this theory, encompass a diverse array of individuals or groups who can affect or be affected by the organization's actions and decisions. This expansive definition includes not only shareholders but also employees, customers, suppliers, communities, and even regulatory bodies. The essence of the construct lies in understanding and managing these complex relationships to achieve sustainable and responsible organizational outcomes.

One key aspect of the stakeholder theory construct is the emphasis on inclusivity and the acknowledgment of various stakeholders' interests. This stands in contrast to traditional models that primarily prioritized shareholder value. According to Mele

and Schepers (2013) by recognizing the legitimacy of multiple stakeholders, the theory encourages organizations to adopt a more holistic perspective, considering the needs and expectations of a broader range of constituents. This construct implies that successful organizations navigate the intricate balance of meeting the diverse demands of stakeholders, ensuring their engagement, and contributing positively to the overall societal well-being.

Furthermore, the stakeholder theory construct introduces the concept of stakeholder salience, suggesting that not all stakeholders hold the same level of significance or influence. Stakeholders can vary in terms of their power, legitimacy, and urgency about the organization, leading to different levels of attention and engagement (Donaldson & Preston, 1995). Understanding stakeholder salience is crucial for organizations in prioritizing their efforts, resources, and communication strategies. As a result, the construct of stakeholder theory provides a framework for organizations to systematically identify, analyze, and manage their stakeholders in a way that aligns with ethical, social, and environmental considerations, fostering a more comprehensive and responsible approach to organizational management (Hart, 1997).

Stakeholder theory, as a conceptual framework for organizational management, has evolved with contributions from various scholars. The foundations of stakeholder theory rest on several key principles and concepts:

Definition of Stakeholders: According to Freeman (1984) stakeholder theory broadens the traditional focus on shareholders to include any individual or group that can affect or is affected by the achievement of an organization's objectives. This encompasses customers, employees, suppliers, government, creditors, communities, and more.

Normative Foundations: Early normative foundations of stakeholder theory can be traced back to seminal works by R. Edward Freeman and others. Freeman's definition emphasizes that stakeholders are those who have a stake or interest in the organization, and he introduced the idea of considering stakeholder interests in management decision-making. The normative approach prioritizes stakeholders as the ends rather than the means to achieve financial outcomes (Donaldson & Preston, 1995).

Descriptive Foundations: The descriptive aspect of stakeholder theory focuses on observing and understanding how organizations function in the real world concerning their relationships with stakeholders. It recognizes the complex and dynamic nature of these relationships, acknowledging that stakeholder influence is not solely determined by financial investments (Donaldson & Preston, 1995).

Instrumental Foundations: Instrumental perspectives emphasize that recognizing and managing stakeholder relationships strategically contribute to organizational success. Engaging stakeholders is seen not just as a moral obligation but as a means to

enhance organizational performance, mitigate risks, and create long-term value. This instrumental approach emphasizes the significance of stakeholder management due to its contribution to financial outcomes (Donaldson & Preston, 1995).

Unified Stakeholders Jones and Wicks (1999) proposed a unified stakeholder theory that integrates diverse perspectives and approaches. The authors acknowledged that the field of stakeholder theory had become fragmented, with different scholars concentrating on various aspects of the stakeholder. To address this issue, they put forth a unified theory of stakeholders that integrated three perspectives: instrumental, normative, and descriptive. By integrating these perspectives, the authors aimed to develop a more comprehensive and cohesive stakeholder theory.

Ethical Foundations: Ethical considerations are integral to stakeholder theory. According to Donaldson and Preston, (1995), the theory proposes that organizations have ethical responsibilities to consider the interests of all stakeholders and not just prioritize the financial interests of shareholders. This ethical stance emphasizes fairness, transparency, and accountability.

Dynamic Nature: Stakeholder relationships are dynamic and can evolve. Organizations must adapt to changes in stakeholder expectations, societal norms, and external circumstances. The theory recognizes the need for continuous engagement and responsiveness (Freeman et al., 2007).

Strategic Management: According to Freeman (1984), stakeholder theory has strong ties to strategic management. It encourages organizations to view stakeholders as partners in the creation of value, influencing strategy formulation and execution. This strategic approach goes beyond compliance to create a competitive advantage. It ensures that strategic decisions consider both internal goals and external stakeholder expectations.

Corporate Social Responsibility (CSR): An integral component of stakeholder theory is corporate social responsibility (CSR). Organizations are increasingly expected to go beyond profit generation and contribute positively to society. Corporate social responsibility is a key concept within stakeholder theory, emphasizing the ethical and social obligations of businesses beyond mere profit generation. In the context of stakeholder theory (Donaldson & Preston, 1995). CSR involves acknowledging and addressing the interests and impacts of various stakeholders associated with an organization. CSR is aligned with stakeholder theory as it recognizes that businesses have responsibilities to a wide range of stakeholders, including employees, customers, local communities, suppliers, and shareholders. This theoretical framework has become a guiding principle for modern businesses seeking to balance financial objectives with broader social and environmental responsibilities

Critics of Stakeholder Theory: Stakeholder theory, a framework advocating for businesses to consider the interests of various stakeholders beyond shareholders,

has garnered both support and criticism. One notable critique centers on the lack of clarity and consistency in defining who qualifies as a stakeholder. Critics argue that this ambiguity can hinder businesses from effectively identifying and prioritizing stakeholders, potentially leading to confusion in decision-making processes. Carson, (2003) argued that the theory lacks a principled basis for determining the relative importance of different stakeholders and may inadvertently endorse morally objectionable decisions.

Implementation challenges also feature prominently among the criticisms. Critics contend that, in practice, balancing conflicting stakeholder interests can be intimidating for businesses, raising questions about the feasibility of successfully executing stakeholder theory. Moreover, some argue that the theory grants too much managerial discretion, potentially resulting in decisions aligned more with personal managerial preferences than with stakeholders' best interests.

A recurrent concern revolves around the potential impact on competitiveness. Detractors suggest that prioritizing stakeholders beyond shareholders might divert resources from profit-centric activities, potentially affecting a company's ability to remain competitive in the marketplace. Additionally, there are reservations about businesses prioritizing short-term financial gains over long-term sustainability and the well-being of stakeholders. The primary responsibility of a business is to maximize shareholder wealth (Miles, 2012). According to the study, diverting resources to serve broader societal interests could undermine the efficiency and purpose of businesses.

Critics also highlight the challenge of holding businesses accountable for their stakeholder-related activities. The lack of clear metrics for evaluation can be seen as a weakness in stakeholder theory, making it difficult to measure success or failure and impeding efforts to ensure responsible business practices. Some critics go further, suggesting that companies might adopt stakeholder theory instrumentally, using it as a public relations or marketing strategy without genuinely integrating stakeholder interests into decision-making processes.

Justification for Stakeholder Theory in this Study: However, stakeholder theory is appropriate in this study as evident through its alignment with the objectives and methodologies of value for money (VFM) audits. Stakeholder theory emphasizes the importance of considering the interests of all relevant stakeholders in organizational decision-making processes, which directly correlates with the multifaceted nature of VFM audits (Parmar et al., 2010). These audits not only assess financial efficiency but also evaluate whether public resources are utilized to meet the diverse needs of society.

Stakeholder theory enhances accountability and transparency by advocating for responsiveness to stakeholder needs and concerns. In the context of VFM audits, stakeholders include taxpayers, customers, employees, government agencies, and others

affected by the allocation of public funds. By incorporating stakeholder perspectives into the audit process, policymakers and auditors can ensure that public spending initiatives align with societal expectations and priorities, thereby fostering greater public trust and confidence in government operations.

Furthermore, stakeholder theory helps auditors identify the key drivers of value creation for various stakeholder groups. By understanding stakeholder preferences and priorities, auditors can assess the effectiveness of public sector programs in delivering value for money (Ogungbade et al., 2021). This insight enables auditors to make recommendations for optimizing resource allocation and improving service delivery outcomes, ultimately enhancing the overall impact and efficiency of public sector operations.

Stakeholder theory also contributes to risk management and mitigation in value for money audits. By proactively engaging with stakeholders and addressing their concerns, auditors can identify and mitigate risks associated with the misuse of public resources. This proactive approach helps safeguard the integrity of public sector operations and reduces the likelihood of fraud, waste, or abuse of taxpayer money, thereby ensuring that public funds are used responsibly and effectively.

Therefore, stakeholder theory provides a robust framework for understanding the interests, expectations, and relationships of stakeholders involved in public sector decision-making processes. By incorporating stakeholder perspectives into value for money audits, policymakers and auditors can enhance accountability, transparency, and value creation in the allocation and management of public resources, ultimately benefiting society as a whole.

2.1.2. Concept of Value for Money Audit

The construct of value for money audit is rooted in the principles of accountability, efficiency, and effectiveness, primarily within the realm of public sector governance. At its core, value for money audit seeks to evaluate whether resources have been utilized optimally, ensuring that the outcomes achieved justify the costs incurred (Bacq & Aguilera, 2022). This construct extends beyond a narrow financial lens, encompassing broader considerations of the efficiency in resource usage, the effectiveness of achieved results, and the overall economy in delivering outcomes. The value for money audit construct emerged as a response to the increasing demand for transparency and responsible use of public funds, serving as a mechanism to scrutinize governmental spending and resource allocation.

The value for money audit construct involves a systematic and comprehensive examination of organizational activities, projects, or programmes. This examination aims to assess whether the resources expended align with organizational objectives,

providing assurance that public or organizational funds are utilized most effectively and economically possible. Unlike traditional financial audits, value for money audits place a strong emphasis on the quality and impact of outcomes, ensuring that the organization not only spent funds prudently but also achieved meaningful and sustainable results. The construct recognizes the importance of considering not just the cost of inputs but also the value generated in terms of outcomes and societal benefits.

Furthermore, the value for money audit construct has evolved to incorporate a forward-looking perspective, emphasizing the importance of strategic planning and risk management. Organizations and public entities are now encouraged to not only evaluate past performance but also anticipate future challenges and opportunities, aligning their actions with long-term value creation. This construct highlights the need for organizations to adopt a holistic approach to resource management, considering both financial and non-financial aspects to achieve optimal value for stakeholders. As a result, the value for money audit construct serves as a critical tool in promoting responsible governance, transparency, and the efficient allocation of resources, contributing to overall organizational effectiveness and sustainability (Kururia, 2018).

Value for money audit is an assessment process designed to evaluate whether public sector organizations are achieving optimal value in their use of resources. This type of audit goes beyond traditional financial audits, focusing on the efficiency, economy, and effectiveness of public expenditures (Alwardat et al., 2015). Here are key aspects of the Value for Money Audit process:

Objective and Scope: The primary objective of value for money audit is to ensure that public funds are utilized efficiently and effectively to achieve the intended outcomes. This includes assessing whether resources are being used economically, with a focus on obtaining the best value for the money spent. Value for money audit examines both financial and non-financial aspects of public sector activities.

Audit Criteria and Standards: Value for money audit is guided by established criteria and standards, often set by auditing bodies or government agencies. These criteria help auditors assess the economy, efficiency, and effectiveness of public expenditures. Standards may include benchmarks, best practices, and performance indicators against which audit findings are evaluated.

Economic Considerations: The economic dimension of value for money audit evaluates whether resources are acquired at the best possible cost. This involves examining procurement processes, analyzing competitive bidding, and ensuring that public sector entities are obtaining goods and services at market prices.

Efficiency Assessment: Value for money audit assesses the efficiency of resource utilization. This involves evaluating how well public sector organizations convert inputs (resources) into outputs (goods and services). Auditors may analyze processes,

workflows, and operational procedures to identify areas for improvement and cost savings.

Effectiveness Evaluation: Effectiveness in value for money audit refers to the extent to which public sector organizations achieve their objectives. Auditors assess whether the outcomes and impacts align with stated goals and whether alternative approaches could have achieved better results.

Risk Analysis: Value for money audit includes a comprehensive risk analysis to identify potential areas of waste, fraud, or mismanagement. This proactive approach helps prevent and address issues that could compromise the value achieved from public expenditures.

Reporting and Recommendations: Upon completion of the audit, findings and recommendations are reported to relevant stakeholders, including government officials and the public. The report typically includes insights into areas of improvement, best practices, and suggestions for enhancing the value derived from public funds.

Continuous Improvement: Value for money audit is not a one-time event but part of a continuous improvement cycle. Public sector organizations are encouraged to incorporate audit recommendations into their practices, fostering a culture of accountability, transparency, and ongoing enhancement of resource utilization.

Public Accountability: Value for money audit plays a crucial role in maintaining public trust and accountability. By ensuring that public funds are used effectively and efficiently, the audit process contributes to transparency in government spending and demonstrates a commitment to responsible financial management.

Therefore, value for money audit is a systematic process that goes beyond financial compliance, focusing on the overall efficiency and effectiveness of public expenditures. It serves as a valuable tool for promoting accountability, transparency, and continuous improvement in the management of public resources.

3. METHODOLOGY

This study adopts an exploratory approach to investigate the relationship between stakeholder theory and value for money audit, utilizing secondary sources. Extensive literature review is conducted to identify relevant theories, concepts, and empirical findings pertaining to stakeholder theory and value for money audit. This review encompasses academic journals, books, conference proceedings, government reports, publications of professional accounting bodies and reputable online databases, providing a comprehensive understanding of the topic's theoretical underpinnings and practical implications. The secondary sources provide valuable context and insights into emerging trends, challenges, and best practices within stakeholder theory and value for money audit.

Comparative technique is employed to discern differences, integration, challenges and opportunities between stakeholder perspectives and the objectives of value for money audit. The exploratory nature of this study generates insights, propositions, and avenues for future research, contributing to both theoretical advancements and practical applications in the fields of stakeholder theory and auditing.

4. INTEGRATION OF STAKEHOLDER THEORY AND VALUE FOR MONEY AUDIT

Research on stakeholder theory and value-for-money audit revealed a profound interconnection, rooted in their shared focus on organizational governance and performance. Stakeholder theory delves into the intricate web of relationships an organization maintains with its various stakeholders, aiming to comprehend their diverse interests and expectations. These stakeholders encompass shareholders, employees, customers, and the broader community, each holding a stake in the organization's success (Morin, 2001). On the other hand, value-for-money audit scrutinizes the efficiency and effectiveness of resource utilization to achieve desired outcomes. While these two domains may initially seem distinct, a closer examination unveils their symbiotic relationship (Lapsley & Pong, 2000).

In the realm of value-for-money audit, the principles of stakeholder theory become pivotal. Efficient resource allocation and optimal performance are not solely financial considerations; they also hinge on the alignment with stakeholder expectations. Incorporating stakeholder interests into decision-making processes during audits ensures a more holistic evaluation, one that goes beyond mere financial metrics. This approach acknowledges that satisfying stakeholders is not merely a peripheral concern but a fundamental driver of long-term organizational success. Research in this intersection could explore the distinct ways stakeholder-centric perspectives influence the methodologies and criteria employed in value-for-money audits (Levy, 1996).

Furthermore, understanding how stakeholder theory influences decision-making in value-for-money audits unveils a pathway to enhancing organizational resilience. By integrating stakeholder considerations into audit frameworks, organizations can fortify their reputation, engender trust, and foster a supportive environment. This approach reflects a shift from a purely transactional mindset to a relational one, recognizing that sustained success requires a delicate balance between financial stewardship and stakeholder satisfaction. Research in this space might illuminate best practices, frameworks, or case studies that showcase the positive outcomes of aligning value-for-money audits with stakeholder theory (Aksoy et al., 2022).

Moreover, the integration of stakeholder theory into value-for-money audits can contribute to a more comprehensive understanding of organizational value. Beyond

financial outcomes, the broader societal impact and ethical dimensions come to the forefront. Researchers exploring this intersection can investigate how value-for-money audits, guided by stakeholder theory, can be employed as strategic tools for organizations to fulfill their societal responsibilities. This perspective expands the traditional scope of audits, emphasizing the importance of social and environmental factors in assessing overall organizational value.

Therefore the synergy between stakeholder theory and value-for-money audit is a rich area for research, promising insights that go beyond conventional financial assessments. By recognizing the intrinsic link between stakeholder interests and efficient resource utilization, organizations can cultivate a sustainable path to success, one that not only maximizes financial returns but also nurtures positive relationships and societal impact. The intersection of these two domains offers a holistic framework for organizational governance and performance evaluation, providing a distinct understanding of value that transcends monetary metrics.

While stakeholder theory and value-for-money audit share a complementary relationship in many aspects, there are potential areas of contradiction that arise from their differing emphases and priorities. One potential contradiction lies in the balancing act between short-term financial gains and long-term stakeholder satisfaction (Aksoy et al., 2022). Value-for-money audits often focus on immediate financial efficiency, seeking to optimize resource allocation for immediate results. In contrast, stakeholder theory encourages a more holistic, long-term view that considers the broader impact of organizational decisions on stakeholders. This tension may create challenges when organizations face decisions where short-term financial gains conflict with the long-term satisfaction of stakeholders (Alwardat et al., 2015).

Another area of potential contradiction arises in the measurement metrics. Value-for-money audits typically rely on quantifiable financial metrics to assess efficiency, while stakeholder theory incorporates qualitative factors and diverse perspectives. Balancing these quantitative and qualitative aspects in a way that satisfies the requirements of both value-for-money audits and stakeholder theory can be challenging, potentially leading to conflicts in prioritizing certain criteria over others.

Moreover, the speed of decision-making may pose a contradiction. Value-for-money audits often demand quick assessments to address immediate financial concerns. In contrast, stakeholder theory advocates for a more deliberative approach, involving stakeholders in decision-making processes. This discrepancy in pace may create tensions, particularly in time-sensitive situations where the need for swift financial decisions clashes with the desire for inclusive stakeholder engagement (Lapsley & Pong, 2000).

Ultimately, the potential areas of contradiction between stakeholder theory and value-for-money audit highlight the need for organizations to navigate a delicate

balance. Striking a harmonious integration of these approaches requires thoughtful consideration, recognizing that both financial efficiency and stakeholder satisfaction are essential components of sustainable organizational success. Addressing these contradictions involves developing frameworks that reconcile short-term financial goals with long-term stakeholder interests and finding ways to measure and balance quantitative and qualitative factors effectively (Morin, 2001).

4.1. Challenges

4.1.1. Divergent Stakeholder Interests

Stakeholder theory contends with the challenge of managing diverse and sometimes conflicting stakeholder interests. Balancing the expectations of different stakeholders can be complex, especially when their priorities vary, potentially leading to challenges in decision-making and resource allocation.

4.1.2. Subjectivity in Stakeholder Assessment

Assessing and prioritizing stakeholder interests can be subjective. Determining which stakeholders to engage with and how to weigh their concerns in decision-making processes may lack a standardized methodology, leading to potential biases or oversights.

4.1.3. Limited Quantification of Stakeholder Impact

Quantifying the impact of stakeholder relationships on financial outcomes can be challenging. While qualitative assessments are crucial, the lack of standardized metrics for measuring stakeholder impact makes it difficult to integrate these considerations into quantitative analyses, such as those in value for money Audit.

4.1.4. Short-Term vs. Long-Term Orientation

Organizations often face the challenge of balancing short-term financial goals with long-term stakeholder relationships. Pressures for immediate financial results may conflict with the patient and long-term approach required to build sustainable stakeholder partnerships.

4.1.5. Data Availability and Quality

Value for money audit encounters challenges related to the availability and quality of data. Assessing value for money requires accurate and comprehensive information, and deficiencies in data quality or accessibility can limit the effectiveness of the audit process.

4.1.6. Resistance to Change

Both stakeholder theory and value for money audits may face resistance to change within organizations. Stakeholder engagement may be resisted by those accustomed to traditional decision-making models, while suggestions for efficiency improvements from value for money audits may encounter resistance from employees reluctant to alter established processes.

4.2. Opportunities

4.2.1. Enhanced Organizational Reputation

Successfully integrating stakeholder theory and value for money audits presents an opportunity to enhance organizational reputation. Demonstrating a commitment to stakeholder engagement and responsible resource allocation contributes positively to public perception and trust.

4.2.2. Innovation and Competitive Advantage

Stakeholder engagement fosters innovation by incorporating diverse perspectives. Organizations that successfully leverage stakeholder insights and implement recommendations from value for money audits may gain a competitive advantage through improved products, services, or operational efficiencies.

4.2.3. Long-Term Sustainability

Integrating stakeholder theory and value for money audits aligns organizations with principles of long-term sustainability. By considering social, environmental, and economic impacts, organizations can create sustainable value that extends beyond immediate financial gains.

4.2.4. Stakeholder Loyalty and Support

Proactive engagement with stakeholders contributes to their loyalty and support. Organizations that prioritize stakeholder interests may benefit from increased customer loyalty, employee satisfaction, and community support, creating a positive feedback loop.

4.2.5. Adaptability to Changing Conditions

The integration provides organizations with the opportunity to be more adaptable to changing conditions. Regular stakeholder engagement and value for money audit enable organizations to identify and address challenges promptly, ensuring resilience in dynamic environments.

4.2.6. Regulatory Compliance and Risk Mitigation

Successfully integrating stakeholder theory and value for money audit can contribute to better regulatory compliance and risk mitigation. Addressing stakeholder concerns and implementing efficient practices identified in the audit can help organizations avoid legal issues and reputational damage.

4.2.7. Learning and Continuous Improvement

The integration offers opportunities for organizational learning and continuous improvement. Stakeholder feedback and audit recommendations provide valuable insights that organizations can use to refine their strategies, enhance operations, and foster a culture of continuous improvement.

In addressing these challenges and capitalizing on opportunities, organizations can create a synergistic approach that aligns stakeholder interests with efficient resource utilization, ultimately contributing to sustained organizational success.

5. CONCLUSION

This holistic approach to organizational management emphasizes the importance of balancing financial considerations with the broader societal and environmental responsibilities captured in stakeholder theory. The study advocates for continuous improvement, suggesting that organizations can leverage stakeholder perspectives to inform value-driven decision-making and further enhance the outcomes assessed in value for money audit. As we look to the future, the integration of stakeholder theory and value for money audit stands poised to become even more pertinent, aligning with global trends emphasizing sustainability, transparency, and social impact.

Addressing the challenges and capitalizing on the opportunities presented, organizations have the potential to foster resilience, trust, and sustained success in an ever-evolving landscape. This study serves as a catalyst for further exploration and refinement of these integrated frameworks, encouraging organizations, auditors, and policymakers to collectively advance principles that contribute not only to the efficiency of financial operations but also to the broader well-being of stakeholders and the communities they serve.

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