Accounting for realities

Brian Kane, kane@cbs.dk

Summary

We know that bureaucracies have a need for making accounts of organizational ‘reality’. Accounts may be any symbol, e.g. textual or numerical, which are thought to *represent* some phenomenon in the organization, so accounts should be understood much more broadly than just financial figures. Apart from external reporting requirements, the need to produce these accounts can stem from a desire to *act* on part of reality, without actually being part of it, for instance when a manager wishes to take decisions based on reports, figures, or other accounts, without actually engaging with reality (Robson 1992). However, we may differentiate between different objectives for generating these representations than simply ‘acting’. Behn (2003) suggest eight different purposes of performance measurement, which relies heavily on accounts: We may wish to evaluate, control, budget, motivate, promote, celebrate, learn, or the overall ‘improve’ purpose. These purposes seem quite different. We might wonder, therefore, if we can use a one-size-fits-all approach in generating these accounts. Does one approach fulfill each of the objectives equally?

This article will not give a full picture of the different approaches of accounting ‘reality’, so regrettably we will not learn what ‘sizes’ exist, but rather less ambitiously discuss whether our accounting approach *matters* for the dynamics of our organization. For the impatient, the answer, not surprisingly, is yes, they do. This suggests that our accounting approaches might allow some room to maneuver in serving each of the eight purposes to different degrees, but also presents new questions for learning what approaches exist and how they relate to the different objectives we may have.

Accounting as picture-taking

Convincing arguments have been made that many forces are at play in trying to maintain that accounting images are *objective representations* of organizational reality (Roberts and Scapens 1985). A paradigm of managerialism seeks to uphold the view of accounting representations or *images* which equate them to the organizational ‘reality’. As our basic analogy, this may be thought of as the process of taking a photograph. We may thus equate the photographic image with reality, and act on it as such. This is a somewhat caricatured description, in the sense that participants of organizational reality probably realize, for instance, that a *report* on an organizational phenomenon *is* not the phenomenon, but they might *act* as if it were. As depicted in Figure 1, with our accounting practices we are creating representations (i.e. images) which are thought to be true (or adequate) *representations* of organizational reality. Perhaps this strikes us as somewhat naïve, and it is difficult to come to an understanding of how widespread consumers of accounting images, e.g. managers, trust that the representation can be used as if it *were* the phenomenon – presumably, this varies greatly. However, it is also difficult to dismiss that it is a widespread modus operandi. The effect of this, is acting on the image assuming that we are acting on ‘reality’, since the image is thought to simply be a proxy for reality.

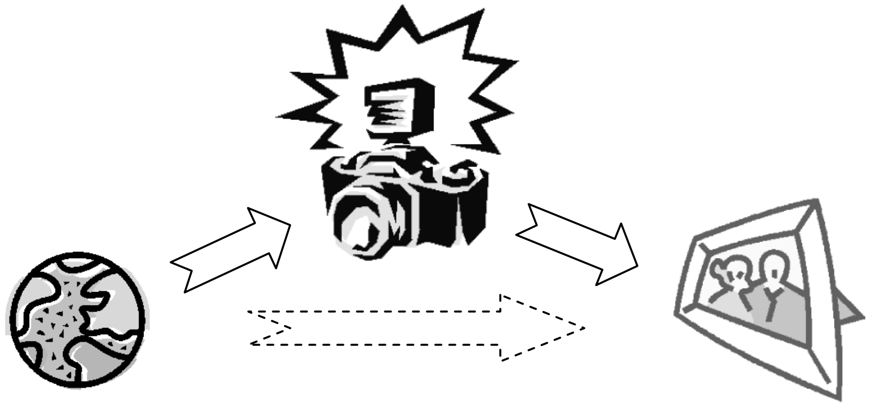

Figure 1: Accounting for reality

In the following, we will touch upon some work, which might question the usefulness of this analogy.

What’s wrong with this picture?

Roberts and Scapens note that

> *“the closer one gets to the production and use of accounting information the more the apparent solidity or reality of the image crumbles. In its place emerges a sense of the tenuous and recursive nature of the relationship between the image or picture produced in the Accounts, and the flow of organisational events and practices that the Accounts purport to record.” (Roberts and Scapens 1985, pp. 453-454)*

This indicates that some have found that our analogy is an *inappropriate* understanding of the production and consumption of accounting images. Our curiosity revolves around *what variants of objections to this analogy we know of and what this may mean for our support of accounting practices with information systems*. We will examine some interesting work (in this author’s view) on accounting practices’ constitutive force, and try to contrast it with our analogy of picture-taking, to try to find exactly what the objections are made of.

Some have proposed that we should judge the validity of our accounting representations with *criteria of the subject* (Hoebeke 1990). The validity of the resulting accounting image as a true representation of the phenomenon is, Hoebeke suggests, dependent on certain characteristics of the phenomenon, e.g. *stability* of the phenomenon, without which measuring will not be desirable, because a measurement does not make sense in a vacuum, but must always be understood as relative to something else, i.e. another measurement. In essence, this means that measuring always involves an explicit or implicit benchmarking. So this is not a dismissal of accounting per se, since measurement of physical events may be appropriate, while objectifying social event by treating them as if they were physical events is considered problematic.

Another type of objection can be made on the basis of what may seem like the trivial fact that accounting systems are *different*. Organizations implement them differently and use them in different ways. But if the development of an accounting system is not well-defined and even somewhat arbitrary, how can it yield a true, complete and objective image of organizational reality? Since the different organizations have different accounting systems, they would not produce the same accounting image. Thus the resulting image becomes contingent on the local system of representation. Based on this we can conclude that representations are influenced by the accounting practices and systems and not 1:1 representations of organizational reality.

The process of generating an accounting image may act as an agent of change. This can happen in various ways, but we may quickly conclude that accounting practices *alter* what participants view as *important* (Burchell, Clubb et al. 1980) and that reward systems determines what is done - rather than perhaps what we might all know needs to be done (Kerr 1975). This means that accounting practices act as a beacon of orientation for organizational actors. We also know, that we may use accounting images in an effort to *transform* ethos in the organization (Ezzamel, Lilley et al. 2004). This means that the simple step of accounting may change the subject's behavior. If accounting inscriptions can be used as vehicles of change, it follows that there must be some interaction between the world and the process of representing it. So it seems that accounting in a practical organizational setting may be understood as *both* simply depicting reality *and* altering it. In addition, different ambitions for producing accounting images, may have the second order impact on the subject, by being *used* to change the organization. We may for example have ambitions to legitimize, to learn and to mobilize the organization (Catasús and Gröjer 2006). To propose that we may have certain ambitions for using accounting for the organizational reality, we accept that accounting organizational reality is not a mechanical process. The framing of ambitions for using accounting images such as indicators, suggest that there is a conscious rationale behind the use. The production and dissemination of indicators becomes a weapon of painting a certain picture of the world: "Indicators can be treated beyond a production discourse and include the aesthetics and poetics that are part of any capable act of communication." (Catasús and Gröjer 2006, p. 199).

The conclusion is plainly that "Rather than reflecting an organizational reality, […] organizations may themselves be transformed by accounting systems" (Preston, Cooper et al. 1992, p. 589). This transformation is to be understood in a very practical sense. But is this actually a departure from a concept of ontological reality? Not quite, since changing reality does not mean that it is not 'real'.

However, some have also stepped further and proposed that accounting practices more fundamentally *constitute* organizational reality. Hoskin and Macve (1986) reframe what is deemed a regime of objective evaluation using Foucault's 'savoir-pouvoir' (e.g. Foucault and Sheridan 1977). They assert that the "book-keeping on pupils" (Hoskin and Macve 1986, p. 125) is an example of how quantification through examination inflicts judgment and commanding power. Power is not to be understood with negative connotations, simply patterns of behavior "which could be specified and which positively produced ways of behaving and predispositions in human subjects" (Hoskin and Macve 1986, p. 106). The discourse of accountancy seems to have positively produced ways of behaving and grown into our practices to an astonishing degree, so as we for example feel completely comfortable measuring people in roles such as a student. In this way we also impose definitions or statements of truth of what people are, so we both *define* and *control* them. Hoskin and Macve (1986) very fundamentally question the knowledge that results from the quantification of social phenomena. Accounting practices have crept successfully into many other untraditional domains, for example the public sector. This is interesting because we see a clearer change in practices as opposed to private sector contexts and therefore perhaps can observe more clearly the effects of these changed practices. Lapsley (1999) suggests that the so called New Public Management is building an *new ontology*, i.e. building a new public sector. Chua reflects that “one accounting map of an organization may be as good as any other since neither works because it better represent reality, each may differ fundamentally in terms of its institutionalized supporting structures and power effects” (Chua 1989, p. 114). A change in accounting practices may be thought of as interventions and that organization do not produce accounts to simply reflect reality but thinks of them in a game of more wide-ranging power motives. Agents both act as if they are objective *and* use them as leveraging tools to pursue various agendas.

This represents a move in our understanding of organization in general and accounting specifically from a view which presumes *cohesiveness* and ontological homogeneity, *one* world, to reframing accounting behavior as best understood as “action emanating from the meanings people attach to their social world” (Nahapiet 1988, p. 333). The assumptions is no longer that there is *one* reality and we are generating one-way representations, but rather that accounting practice and organization is reflexive, i.e. that the two are constituted, or given meaning, in relation to the other. Accounting practices therefore are more than simply free-standing systems without interaction with organizational reality. This assumption has also been applied in research of accounting practices, for example by theorizing accounting intervention through Habermas’ distinction between three ‘modes of rationality’; instrumental, moral and aesthetic (Chua and Degeling 1993). This again testifies at least, that a strictly functional understanding of accounting practices can seem too constricting. The implication is the prescription, that we must look beyond a functional or structuralist perspective to other spheres of understanding, for insights of what an accounting practice ‘is’. Although modernization has brought an emphasis on the instrumental mode of rationality, we see that the moral and aesthetic perspectives ‘enlarge the playing field’ of our understanding. The moral further supports the conceptualization of accounting practices as legitimizations and power struggles. A simple example is the old saying of “what gets measured, gets managed” and while we may wonder why this “phrase is stated as an axiom, a self-evident or universally recognized truth, and is accepted without formal proof.” (Emiliani 2000, p. 612), there is little doubt that there is *some* truth to it. However, we should question if a quantitative measure constitutes a reality in a desirable way and whether it is a sound representation of that reality.

Are we just taking pictures?

In an ideal situation, accounting is like taking a complete photograph, which fully represents the phenomenon in question. If this were the case, we could act simply on the basis of the photograph confident, that we would gain no further insights by interacting with reality first hand. So how does our findings fit so far with our analogy of accounting as taking ‘perfect’ pictures?

Firstly we have found that we have many different ‘cameras’, i.e. accounting systems, which we might think produce true representations of organizational reality, but if we imagined that two organizations could switch cameras, we would be producing different images. So we are at least not a *complete* photographic representation, but merely represent a certain *perspective*, which is based on certain choices. We have seen that we may have certain lenses and filters on our cameras, which capture certain aspects of reality with certain detail. We may also suggest that the ‘validity’ of the photograph depends on the subject. For some types of subjects (physical entities) we might be able to capture it in a photo, while social processes are more difficult to capture. If we do try to capture social processes, the resulting photograph will be particularly skewed and any action based on this may be particularly prone to be inappropriate.

We also know that the taking of a picture tells the subject what is deemed important and therefore also not/less important. This changes the behavior of the subject. So the picture-taking process motivates the participants to try to follow the explicit or implicit assertions about importance, and the actions of the participants is therefore different than they would have been without the accounting practice. In addition to the picture only being *part* of reality, we are actually *altering* reality.

But even if we accept that the picture-taking process changes the behavior of the subject, we still believe that the subject and the camera *exist* in a realistic sense. Another view we have seen would insist that the subject and the camera must be understood in relation to each other: we cannot step outside the role of the picture-taker, since we are so deeply embedded in the savoir-pouvoir spider’s web. The picture-taking therefore *defines* the subject, it *constitutes* certain realities, it *creates* ontologies. However, *consciousness* of being trapped as picture-takers bound to certain perspectives is possible. The subject of the accounting image as well as the picture taking process and the resulting accounting image, must therefore be understood in *relation* to each other.

So accounting systems both alter and constitute organizational reality. ”… so what?” you may ask.

Discussion

25 years ago, Otley (1984) says that accounting research is entrenched in a functionalist view. Although some questioning voices had been heard before this of the rationality of information systems in general (e.g. Ackoff 1967; Hopwood 1974) these were quite novel ideas at the time. Accounting systems were viewed primarily as an isolated technology in “a functionally autonomous sphere of practice” (Roberts and Scapens 1985, p. 444). Since then, we have evolved accounting research from research *in* accounting to research *of* accounting as Burchell, Clubb et al. (1980) suggested. This has acknowledges the powerful constitutive forces at play in accounting practices, which therefore could be *instrumental* in achieving various objectives.

What consequences does it have to reject the view that accounting images are perfect representations? What would happen if we adapted our conceptualization of accounting systems to some of the ideas proposed here, which departs from an objectivist view? Would the acknowledgement of the power dynamics, the constitutional force, the reciprocal interdependence, the perspectives and modes of rationality that may be embedded in systems of accounting not fundamentally change the possibilities of *using* these structures as vehicles of new legitimacies and organizational dynamics? New ways of accounting may obviously be used actively to induce production and reproduction of superior or desirable patterns of thinking, so while acknowledging the constitutive nature of accounting systems, we might use this trait as an instrument in achieving certain ends.

In practice we as consumers of accounting images might be skeptical about their validity as true representations, but *the systems we use to generate the images does not 'share' this skepticism*. So although there are significant voices which object to the structuralist/functionalist/deterministic view of social reality in the context of accounting practices, our information systems seem to fully embody these (perhaps) outdated views of accounting practices. Our systems of accounting, such as performance management systems are mainly based on highly organized and engineered patterns of thinking. 'Single-point-of-truth' has been heralded as the ideal in data management. Accounting as a discipline is entrenched within a certain epistemological camp which accepts the practice of representing almost anything numerically without losing validity. While this makes sense from an efficiency perspective, the basic assumption behind this ideal is that the whole organization must adopt the same understandings and definitions.

It could be proposed that the *different purposes of measuring performance proposed earlier, for example, control or learning (Behn 2003) are supported to different degrees by different accounting approaches,* which constitute organizational reality differently, or in other words, create different realities. For example, if we think it is appropriate to let 'McDonaldization' (Ritzer 2004) be the driving philosophy in our organization we perhaps need different accounting and representational approaches than if we want an intensively innovative organization. In environments where learning is of higher importance than control, we may both *use* our accounting practices to create a learning 'reality' and simultaneously create accounting practices, which accept a reality of reciprocal relations. Can we leverage information systems ability to organize information in ways that challenges the objectivist views while still accommodating the practical reality of organizations?

The sociologies of Giddens (e.g. 1986) and Latour (e.g. 1999) are examples of thinking which has sought to dissolve the dichotomies between the subject and object, or in this context perhaps more appropriately, between structure and action. 'Duality of structure' essentially proposes that structure both influences actions and is determined by actions, the two continuously produced and reproduced. Establishing opportunities for *development, innovation and learning* would mean affording the greatest possibilities for *action* to influence structural systems. Conversely, established structures that are *resilient* to the input or impact of action will be more conservative. We consider current ideals of highly organized information systems to testify to an implicit (non conscious) aim for *conservation* and reproduction and reinforcement of *current* structures.

Our information systems are perhaps built with the assumption that structures are the most appropriate perspective, and through the constitutive forces they harbor, we are perhaps at risk of excluding ourselves from the other side of the coin: the subjective and action oriented. Drawing on the analogy of the relationship between speech and language, we might equate our accounting systems to language (Daft and Wiginton 1979): this is what determines the *boundaries* of what can be meaningful in the organization, while speech is the *use* of the structure which language gives. The speech that is possible for us to express, with the current rigorous language aiming for single points of truth is inappropriate for some purposes. In opposition to this, we might assert that all ways of signification, i.e. all different forms of accounting signs, are not just able to be decoded to find the essence of the communication, but must be *given* meaning. So the prescription becomes to realize the power tensions and try to reconstitute them in a way deemed favorable. We will never be able to have anything other than *a* perspective in our accounting representations, but one perspective *is able to be* better than another. So this view would suggest that accounting as a representational practice can yield qualitatively different results, i.e. be good or bad accounting, without neither ending in true relativism where qualitative judgments become problematic, or ending in the naïve situation, where the accounting images are treated as if there were shared a 1:1 relationship with the phenomena in question. This "good" or "bad" accounting should be qualified relative to the objectives of accounting.

Embracing what might be viewed as 'the dark side' of the duality of structure poses significant challenges. This is messy business! This would mean embracing what might be viewed as chaotic, biased and personal ways of understanding organizational reality and acting on it. This would mean discarding what is thought of as objectivism, as the sole provider of legitimacy in the fabric of the information systems, which support accounting and management of performance. This would suggest that personal views, i.e. accounts, can and should coexist with conflicting 'versions' of the truth. This would be a bitter pill to swallow, for implicitly it would mark the beginning of the end of a paradigm of risk aversive dynamics, where we seek the comfort of objective havens and live in an illusion of control.

Future research should explore how accounting approaches can use other forms of representation; other picture-taking techniques, which yield other pictures. Or perhaps even depart entirely from the picture-taking analogy – what would accounting then be? Does accounting and accounting of performance presuppose quantities and 1:1 representation between organizational reality, i.e. the phenomenon, and the representation?

Burchell, Clubb et al. (1980) called for further research into the interplay between accounting practices and (other) organizational dynamics on the basis of the assertion that the relationship between the rationality of accounting and realities of organizational life is weak or at least not self-evident as dominant thinking at the time suggested.

We suggest that methods of accounting be explored, which allows for the action-oriented aspect to come closer to the surface, where we prefer inconsistent, but valid representation over consistent invalid representations. This development orientated approach would suggest that "a different set of organizational and social arrangements are possible, one in which workers empower "managers"." (Roslender 1996). But this is *not* for the sake of empowerment per se, but to induce leaning and exploration, which might not benefit from predefined structures of measurement.

Within the last 5 years or so, other areas of social life have adopted less structured approached to managing knowledge. Wikis, blogs, crowd sourcing, social network systems, etc. all take networked approach to *defining*. The "important" which Burchell, Clubb et al. (1980) tell us is inherent in systems of accounting is thus not predefined in these systems, but co-created in the relationships and interactions between the participants. Although many organization are exploring how they can leverage so called Web 2.0 ideas in a professional context (e.g. Bughin and Manyika 2007), these ideas have not entered into the realm of accounting or performance management. Typically, these efforts are not thought into an integrated effort, but remain standalone systems creating new islands of knowledge.

Conclusion

"Accounting for realities" has a twofold meaning. Firstly it means that we should acknowledge that accounting approaches create realities and that we should use this to pursue our goals. Secondly, we should nuance our accounting practices to suit the reality created. In this way, our representational approaches would mirror the duality of structure by both influenc*ing* reality and by being influenced *by* reality.

Answering *why* we should do it, is not as difficult as answering *how* we should do it. Numeric or other presumed objective representational forms should be augmented with others, which can more easily span differences and contrasts. We can think of a number of exotic representational forms, including wondering if *no* representations might be the most ideal approach (Catasús 2008). Nevertheless, *narrative* springs to mind as a strong candidate. "nothing counts as accounting knowledge until it is argued before one's peers." (Arrington and Schweiker 1992, p. 511) The importance of rhetoric in legitimization is crucial and we could consider rhetoric as a post-modern reaction to positivism as a tool to reach justification (Thompson 1991).

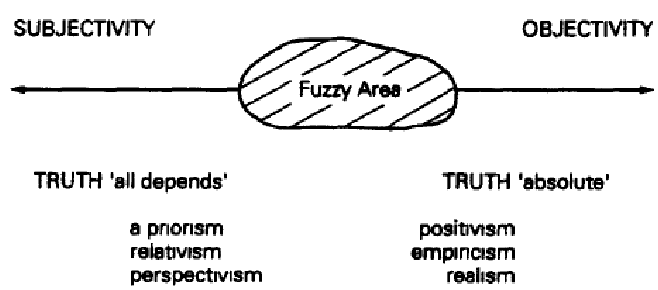

Figure 2: Rhetoric in the fuzzy area (Thompson 1991, p. 575)

So we propose that we, in the name of relevant accounting, investigate the concept of rhetoric as representational approach, and encourage " exploration of the interplay between instrumental and expressive symbolism in accounting." (Nahapiet 1988, p. 356). Rhetoric lies in the fuzzy area between the quick-sand of subjectivity and the dogmatism of objectivity - this is where the 'fuzzies' live!

Let's do Fuzzy Accounting.

Bibliography

Ackoff, R. L. (1967). "MANAGEMENT MISINFORMATION SYSTEMS." Management Science **14**(4): B-147-B-156.

Arrington, C. E. and W. Schweiker (1992). "The rhetoric and rationality of accounting research." Accounting, Organizations and Society **17**(6): 511-533.

Behn, R. D. (2003). "Why Measure Performance? Different Purposes Require Different Measures." Public Administration Review **63**(5): 586-606.

Bughin, J. and J. Manyika. (2007). "How businesses are using Web 2.0: A McKinsey Global Survey " The McKinsey Quarterley, from http://www.mckinseyquarterly.com/How_businesses_are_using_Web_20_A_McKinsey_Global_Survey_1913.

Burchell, S., C. Clubb, et al. (1980). "The roles of accounting in organizations and society." Accounting, Organizations and Society **5**(1): 5-27.

Catasús, B. (2008). "In search of accounting absence." Critical Perspectives on Accounting **19**(7): 1004-1019.

Catasús, B. and J. E. Gröjer (2006). "Indicators: on visualizing, classifying and dramatizing." Journal of Intellectual Capital **7**(2): 187-203.

Chua, W. (1989). "EXPERTS, NETWORKS AND INSCRIPTIONS IN THE FABRICATION OF ACCOUNTING IMAGES: A STORY OF THE REPRESENTATION OF THREE PUBLIC HOSPITALS." Hospital.

Chua, W. F. and P. Degeling (1993). "Interrogating an accounting-based intervention on three axes: instrumental, moral and aesthetic." Accounting, Organizations and Society **18**: 291-291.

Daft, R. L. and J. C. Wiginton (1979). "Language and Organization." Academy of Management Review **4**(2): 179-191.

Emiliani, M. L. (2000). "The false promise of 'what gets measured gets managed'." Management Decision **38**(9): 612-15.

Ezzamel, M., S. Lilley, et al. (2004). "Accounting representation and the road to commercial salvation." Accounting, Organizations and Society **29**(8): 783-813.

Foucault, M. and A. Sheridan (1977). Discipline and punish: the birth of the prison, 1979.

Giddens, A. (1986). The Constitution of Society: Outline of the Theory of Structuration, University of California Press.

Hoebeke, L. (1990). "Measuring in Organisations." Journal of Applied Systems Analysis **17**: 115-122.

Hopwood, T. (1974). Accounting and Human Behaviour, Haymarket Publishing.

Hoskin, K. W. and R. H. Macve (1986). "Accounting and the Examination: A Genealogy of Disciplinary Power." Accounting, Organizations and Society **11**(2): 105-136.

Kerr, S. (1975). "On the Folly of Rewarding A, While Hoping for B." Academy of Management Journal **18**(4): 769-783.

Lapsley, I. (1999). "Accounting and the New Public Management: Instruments of Substantive Efficiency or a Rationalising Modernity?" Financial Accountability and Management **15**(3&4): 201-207.

Latour, B. (1999). Pandora's hope: essays on the reality of science studies, Harvard University Press.

Nahapiet, J. (1988). "The rhetoric and reality of an accounting change: A study of resource allocation." Accounting, Organizations and Society **13**(4): 333-358.

Otley, D. T. (1984). Management Accounting and Organization Theory: A Review of their Interrelationship. Management Accounting, Organizational Theory and Capital Budgeting: Three Surveys. R. Scapens, D. Otley and R. Lister. London, Macmillan Press,.

Preston, A. M., D. J. Cooper, et al. (1992). "Fabricating budgets: A study of the production of management budgeting in the national health service." Accounting, Organizations and Society **17**(6): 561-593.

Ritzer, G. (2004). The McDonaldization of Society, Pine Forge Press.

Roberts, J. and R. Scapens (1985). "Accounting systems and systems of accountability -- understanding accounting practices in their organisational contexts." Accounting, Organizations and Society **10**(4): 443-456.

Robson, K. (1992). "Accounting numbers as 'inscription': action at a distance and the development of accounting." Accounting, Organizations and Society **17**(7): 685-708.

Roslender, R. (1996). "RELEVANCE LOST AND FOUND: CRITICAL PERSPECTIVES ON THE PROMISE OF MANAGEMENT ACCOUNTING." Critical Perspectives on Accounting **7**(5): 533-561.

Thompson, G. (1991). "Is accounting rhetorical? Methodology, Luca Pacioli and printing." Accounting, Organizations and Society **16**(5-6): 572-599.