

## A NOTE ON STYLES IN ACCOUNTING

George Gaskell and James Hampton

Financial accounting is a necessary and ubiquitous aspect of any organisation. It involves the recording of financial transactions that have already occurred but also entails the significant functions of forecasting and budgeting, functions which impinge on almost every aspect of the enterprise. That accounting is not neutral with respect to people is not a novel concept. Hopwood (1974) is one of a number who have written on the impact of accounting on human behaviour.

Accountants, as Hopwood says, have never operated in a behavioural vacuum. They make working assumptions about the way people are motivated, how reports are used and interpreted, and how particular systems fit into the realities of power and influence within an enterprise. In Hopwood's view the effectiveness of any accounting procedure, be it in the context of planning, co-ordinating or controlling various complex and interrelated activities, ultimately depends upon how it influences the behaviour of the people in the enterprise. The choice and operation of a particular accounting system is therefore an important aspect of the management style in that any system is based upon, and is justified by, a set of generalised beliefs and values about the right and wrong ways of organising people's activities.

The problem then is to relate the structure or social context of an organisation to the operation of its accounting system. Grid/group theory predicts that the generalised ideals about right and wrong ways of accounting will be found in particular organisational contexts. Thus, if organisations can be categorised in terms of grid and group, then the accounting system, the operationalising of the management's cosmology, should correspond to the grid/group categorisation of the particular organisation.

In 'Managers and Magic', Cleverly (1973) describes accountants as the priesthood of the organisation. As a priesthood they are organised in a hierarchy, possess arcane knowledge, operate a jealously guarded membership into which entry is accompanied by rituals of initiation. They are disciplined and act as guardians enforcing strict codes of behaviour and morality, both within and outside the profession. Their most important role is that of 'mediation' which only they can perform in the organisation because

they alone 'know they are right'. The worshipping managers rely on the accountant priests for advice, protection and prediction to help them through the insecure and chaotic world of business.

Accounting was selected as the focus of the present inquiry because its procedures imply decisions based on cosmological elements, generalised beliefs and values. As already noted, the selection of a method of accounting within an organisation implies certain generalised ideals about the control and influence of people and the right way to achieve objectives within a particular context. The grid/group theory predicts that personal theories about ideal accounting procedures arise out of the context of organisations. These personal theories will be imposed upon a particular organisation and the ultimate generalised ideals held by an individual will be generated within that social structure. Couched in more concrete terms, certain relevant differences should be observed in the theory of accounting, in its procedures and in the uses made of accounting in organisations with different grid and group characteristics. In order to achieve this we need the conceptual analysis and associated methodological tools to differentiate between first-order social contexts (attitudinal indices comprising the organisational dimension) and second-order moral or cosmological attitudes.

Thus we assess the social context dimensions using objective methods of inquiry. First-order attitudes and practices can then be assessed by self-report of the person in that social context. Finally, the second-order moral value system can be elicited by questioning the person about his views of the justifying principles by which he feels one should ideally operate. The test of our predictions then lies in the match or lack of match between these different levels of analysis for a particular organisation.

#### SOCIAL CONTEXT

The assessment of social context must be based on objective aspects of the particular organisation in order to avoid the informant's values colouring his account of his perceived situation. We can differentiate two levels of objective inquiry which would allow for an assessment of the grid and group position of an organisation.

- 1 The materials constituting the framework and traffic elements of the organisation.
- 2 The regulative legal and lesser principles governing and controlling the employees.

Any organisation leaves some material traces of its processes. The more obvious are the arrangements of the building, the provision of facilities for different employees, including parking spaces, offices, secretaries, sanitation, carpets and canteen facilities. Such things as writing paper, transport services, the type of food served are material traffic elements.

The regulative aspects are apparent in the macro-legal documents setting out the duties and liabilities of persons within the organisation, towards one another and to the outside world; contracts, the charter of incorporation, audits and minor regulations concerning security, preventing fraud, time-tabling, and union and staff association rights. Aspects of the wages and incomes policy of the organisation would also be important.

Given a description of those objective aspects of the organisation which are relevant to the working environment of the accountants it would be possible to classify their social context. All material regulative aspects systematically reflecting differences in status hierarchy in terms of the provision and quality of facilities, the extent and definition of responsibility and accountability would indicate grid strength. Group strength would be reflected in the interdependence of units within the organisation, the frequency of departmental and interdepartmental communication and meetings, sharing morning coffee, staff lunches, the importance of staff association and coffee clubs.

#### FIRST-ORDER COSMOLOGY: THE ORGANISATIONAL DIMENSION

Ten aspects of accounting procedures have been selected to indicate how the grid/group theory might be applied in the investigation of first-order cosmology (see Table 5.1). The grid and group dimensions are distinguished and the use of each aspect of accounting seen in

TABLE 5.1 Characteristics of accounting procedures associated with the grid and group dimensions

| Grid dimension                             | High strength                                       | Low strength  |
|--|---|---|
| 1 Origin of capital expenditure proposals. | Only by few people at the top.                      | By people at many levels.                                     |
| 2 Centrality of control of resources.      | Central control, compulsory use, no accountability. | Decentralised, optional use, accountable for efficient usage. |
| 3 Assessment of budget performance.        | Budget-constrained.                                 | Profit-conscious.   |
| 4 Treatment of uncertainty in accounts.    | Concealed.  | Revealed.   |
| 5 Agreement on success criteria.           | Poor agreement.                                     | Good agreement.   |
| Group dimension                            | High strength                                       | Low strength  |
| 1 Shuttling of blame.                      | Doesn't occur.                                      | Common.   |
| 2 Disbelief in accounts.                   | Doesn't occur.                                      | Common.   |
| 3 Use of budget information.               | Form of group ritual.                               | Scoring system of assessment.                                 |
| 4 Status of accountants in firm.           | Low level.  | Higher levels.  |
| 5 Penalties for exceeding budget.          | None.   | Serious.  |

the context of high and low strength on the two dimensions. In the following paragraphs we outline these accounting procedures and their implications for grid and group.

## THE GRID DIMENSION

### 1 Origins of capital expenditure proposals

Accountants are normally asked to predict the flow of such proposals and to assess them. One would expect that in a low-grid context such proposals could be produced at all levels of the organisation, whereas in a high-grid context only the highest authorities would have the freedom to produce them. The explicit systems of control (low autonomy) and strongly defined limits to job definitions (insulations) of high grid greatly reduce the scope for original ideas to emerge from the lower levels of the hierarchy.

### 2 Centrality of control of resources

There are three areas in which a contrast could be made between central control of resources and divisional autonomy.

#### (a) Use of capital

In high grid, all capital resources would be allocated by a central authority which also provides accounting information about returns on capital etc. By contrast in low grid, individual managers would be responsible for the return on capital employed within their own section, and would thus have more control and autonomy over the use of capital.

#### (b) Research and development

In a similar way, the provision of research and development facilities within an organisation could either be done through a central laboratory (high grid) or through each division having its own resources for which it is independently accountable (low grid).

#### (c) Consultancy and data processing services

Again, these services could be provided free of charge, but with a mandatory use, by a central authority, or alternatively, the individual divisions could choose to use them as need arose, and be accountable for the use made of them.

The issue of central control is also associated with grid for the following reason. When each department is individually accountable for the use it makes of capital, research and development, and other services, there is then an open competition possible between different departments, and every activity undertaken becomes a factor in the assessment of cost effectiveness. Thus competitiveness as well as autonomy contributes to the low-grid value of a decentralised organisation.

### 3 Assessment of budget performance

When managers come to be assessed for their performance with respect to meeting their budgets, Hopwood (1973) has distinguished two main ways in which the assessment can be made. The first is a budget-constrained method, where the constraints on spending are fixed in advance and assessment is purely concerned with whether these constraints have been broken. The alternative method is a profit-conscious assessment, in which extra profits generated are offset against overspending. The second method allows managers more scope for initiative in the same kind of way as described in 2 above. The profit-conscious method is, therefore, an indicator of a low-grid context, as compared with the high-grid budget-constrained method. Interestingly, another aspect of grid - the increased uncertainty experienced in low-grid contexts - is also apparent here. The profit-conscious method of assessment might be found to be necessary when there is turbulence and uncertainty in either production or marketing of a product. Where such uncertainty exists, there is a far greater need for risk-taking and opportunist flexibility in spending, and hence in those circumstances a profit-conscious method of assessment probably should be preferred to the inflexible budget-constrained method, which allows little autonomy to individual managers.

### 4 Treatment of uncertainty in accounts

As mentioned above, one aspect of low grid is the way in which uncertainty is dealt with. One can, therefore, expect that budgeting information in a low-grid context will display this uncertainty, and try to take some account of the probabilities involved in different situations. For example, when submitting a proposal, a manager would be required to give estimates of the best, worst and most likely possible outcomes of the scheme. In high grid, however, uncertainty tends not to be revealed in the budgeting information. The methods are fixed rather than flexible, and no attempt is made to estimate the range of accuracy of forecasts.

### 5 Agreement on success criteria

Dew and Gee (1973) have worked on the amount of agreement or disagreement that exists between superordinate and subordinate managers on the most important criteria by which the successful performance of the subordinate's job should be judged. They found a surprisingly large discrepancy existed in many cases between the criteria selected by the superordinate and those selected by the subordinate. One can expect that grid will be having an effect in this area as well. In high grid, where different levels are strongly insulated, with differential status and relatively formal channels of communication between them, one would expect a far greater disagreement concerning success criteria (and other aspects of the job description) between different levels, than would be found for a low-grid firm. At low grid, there are few barriers between different levels, and hierarchic

organisation is tempered by many cross-cutting areas of interaction. One would, therefore, expect people to have a much better idea of each other's goals, and to share a similar order of priorities.

## THE GROUP DIMENSION

### 1 Shuttling of blame

In a low-group firm, one might expect that each section would feel no compunction about blaming its failures of budget performance on a lack of proper support from other sections. Where group is high, however, this shuttling of blame should be absent. In particular, when grid is also high, there should be well-defined responsibilities so that blame-passing is simply not possible. With low grid and high group, the absence of blame-passing would be due to group pressures of loyalty; while it could not take place overtly, however, some underground system of covert suspicion may well be found, similar to the witchcraft-ridden societies described by Douglas (1970) as belonging to this corner of the diagram.

### 2 Disbelief in accounts

It is sometimes found that different sections of a firm keep their own records of accounting information, and express doubt and criticism about the accuracy of information put out by other sections. This form of scepticism should occur particularly in firms with a low-group structure between departments, since two independent information systems could not co-exist within a tightly-knit group. It should be noted that group strength within each department, however, may be quite high, encouraging an 'us/them' attitude to other departments. This proviso applies equally to the shuttling of blame described above.

### 3 Use of budget information

In a low-group firm, budget information is taken seriously. People hold their jobs by right of their efficiency and a contribution which is strictly accountable. The budget is a competitive scoring system for assessing individuals. With a high-group firm, however, a person has his job by virtue of belonging to the group. Failure is, therefore, an embarrassment for all, and would be treated as an illness. In these high-group firms, therefore, the budget becomes a form of ritual, in which all the effort and discussion goes into the preparation, and very little attention is paid to assessing performance against forecasts. As a prediction, very little use would be made of budget information in high-group firms.

### 4 Status of accountants in firm

Given that high-group firms do not find it easy to justify assessing

people by their performance, one can expect that the role of the accountant in such firms will be kept to a low level in the power structure. An approach that is continually concerned with competitive assessment of individuals is not tolerated in high-group firms, where the inefficiency of particular individuals is an embarrassment that must not be brought out into the open. The low-group firm, however, could well have accountants in senior positions.

### 5 Penalties for exceeding budgets

It follows from the two previous points that a very different attitude to penalties for exceeding budgets would be found in high- and low-group firms. In low group, dismissal, transfer or a reduction in autonomy may well follow a serious failure in budget performance. Overspending is a crime which carries penalties. For high-group firms, however, little attention is paid to budget, and there are no penalties imposed for failure to keep to a budget. Overspending is a form of illness which can be cured by increased group support, leading to an increased commitment to the group by the individual.

## SECOND-ORDER COSMOLOGICAL ATTITUDES

Selected from the list of more general structural hypotheses there appear to be at least two particular fields in which the judgment of right behaviour can count as cosmological in the sense of reflecting opinions concerning the basic principles of social or professional life. These fields are attitudes to truth and credibility on the one hand and attitudes to rewards and punishments on the other. Here some tentative but specific predictions with respect to the relations of social context to second-order cosmology are proposed.

### Truth and credibility

- (a) If the management and accountants know that the budget figures are subject to a great deal of uncertainty, should this be acknowledged? Would it be right in an ideal firm for everyone to be told the full extent of the uncertainty? Or would it be best for this to be known only to the specialised and responsible officials?

Prediction: Individuals in companies with high grid strength would tend to believe in concealing uncertainty.

- (b) It may be difficult to arrive at an accurate allocation of responsibility for costs. Is it inevitable that any given assessment of cost between units be disputed? Does it matter if blame tends to be shifted from one unit to another?

Prediction: Individuals in companies with high group strength would disapprove of blame-shuttling.

- (c) When dealing with information from the accountant, do the units in the organisation accept it as a true statement, or is there a tendency to find such information incomprehensible or inaccurate?

Prediction: Individuals in companies with high group strength would tend to accept the validity of accounting information, as a matter of principle.

### Penalties

The use of penalties reflects a very basic part of the cosmology of an organisation. In line with the first-order behavioural predictions, the following cosmological values may be predicted.

- (a) Penalties may be simple monetary ones, or involve a complex system of promotion deferment, allocation of status rewards etc.

Prediction: High-grid companies use status and long-term penalties. Low-grid ones use financial ones. Beliefs in the efficacy of different penalties will be found justifying these systems.

- (b) Penalties may be imposed for failure to comply with rules (such as budgetary limits) or for poor overall performance (such as profit figures).

Prediction: High-grid companies penalise failure to conform to rules, low-grid ones penalise failure to produce profits. Beliefs concerning managerial success will be in line with this system.

- (c) The use of penalties at all is a possible source of weakening group commitment.

Prediction: High-group companies will be less likely to have any explicit penalty system, and will express the belief that such systems do not work.

This conceptual analysis is presented as a challenge both to organisational and grid/group theory. The challenge to organisational theory is that grid and group offers a convenient taxonomic system and provides in addition a systematic approach relating the important aspects of organisations - structure, climate and performance. In its conception of the links between the individual and the social context grid/group theory integrates the psychological and sociological levels of analysis and incorporates the cultural dimension.

The challenge to grid/group theory is that an empirical evaluation will require detailed predictions to be made for a specific situation including the operationalising of the concepts of social context and cosmology in a new setting. In this paper the basics are laid with respect to accounting, but one aspect of an organisation. Seen in the context of accounting the complexities introduced by organisational size, technology and market stability must be worked through.

This is an interdisciplinary undertaking and one involving many problematic theoretical and empirical issues. However, the current state of organisation and grid/group theory suggests that a marriage might be convenient, the former characterised by a body of empirical data in need of theory and the latter a theory in search of empirical validation.

### ACKNOWLEDGMENT

We are greatly indebted to Dr K. Gee of Lancaster University for assistance in the analysis of the technical aspects of accounting in relation to grid and group.

### BIBLIOGRAPHY

- CLEVERLY, G. (1973), 'Managers and Magic', Harmondsworth, Penguin.  
 DEW, R. and K.P. GEE (1973), 'Management Control and Information', London, Macmillan.  
 DOUGLAS, M. (1973), 'Natural Symbols - Explorations in Cosmology', Harmondsworth, Penguin.  
 HOPWOOD, A. (1974), 'Accounting and Human Behaviour', London, Accountancy Age Books.