Accounting Control and Controlling Accounting
Interdisciplinary and Critical Perspectives

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Introduction (1)

- As the title suggests we are concerned with Accounting Control and Controlling Accounting, exploring these concepts through a range of interdisciplinary and critical perspectives.

- The empirical focus is with the delivery of Public Services – many of which continue to be provided through Public Sector Organisations – with a specific emphasis on the UK.
Our central argument is that Public Sector Organisations, using the UK as an example of a more general change across many countries:

- Are subject to extensive and intrusive forms of Accounting Control;
- These are, in turn, resisted by Public Sector Organisations, through Controlling Accounting strategies.
- These forces and counterforces are a waste of effort and energy, create long term damage to the delivery of Public Services and need to be fundamentally changed.
The ideas are drawn from a book we are currently writing with the same title to be published by Emerald Publishing in 2013.

Inevitably in the time we have available we can only provide a brief overview of some of the key arguments.

To achieve this the presentation will be divided into four parts:

- A Conceptual Overview of Societal and Organisational Control
- Insights into Accounting Control in Public Sector Organisations in the UK.
- Insights into Controlling Accounting in Public Sector Organisations in the UK.
- An Alternative Way Forward
A Conceptual Overview: Choice of a Research Approach

- The RESEARCH APPROACH that we use to explore Accounting Control and Controlling Accounting is what we call ‘Middle Range Thinking’.
- We always refer to Research Approaches rather than research methods or research methodology since the former includes the latter but clarifies all the underlying assumptions for viewing any particular empirical focus.
- A ‘Middle Range Thinking’ Research Approach is a Kantian/Hegelian approach to looking at the empirical world which can be compared and contrasted with Kantian/Fichtean and Comtean research approaches.
Organisations and societies made up of people and non-human phenomena.
SOCIETY, ORGANISATIONS AND (STEERING) CONTROL: AN ADAPTATION OF HABERMAS’ UNDERSTANDING

SOCIETAL LIFEWORLDS

STEERING MEDIA
(SOCIETAL (STEERING) INSTITUTIONS)

SYSTEMS
(ORGANISATIONS)

STEERING MECHANISMS
A Conceptual Overview (1)

- Our focus in this presentation and the book is to use an analysis of the UK’s public sector to explore the nature of the:
  - **Generic Characteristics of the Accounting Control Inter-Organisational Steering Mechanisms** between Societal Steering Institutions and Public Sector Organisations.
  - **Generic Characteristics of the Controlling Accounting Intra-Organisational Steering Mechanisms** that Public Sector Organisations use in relation to these Accounting Control Inter-Organisational Steering Mechanisms.
  - **Alternatives to these Accounting Control and Controlling Accounting strategies.**
A Conceptual Overview (2)

- Money is the key *inter* and *intra* organisational steering mechanism.
- Money is a ‘pure instrument’ (Simmel, 1978: 211) but when combined with primarily ‘accounting’ information it forms a ‘…code by means of which information can be transmitted from a sender to a receiver.’ (Habermas, 1987: 264).
- These accounting information codes are *ex ante* – clarifying expectations for the use of money transferred - and *ex post* – providing directly and indirectly an account as to whether these ex ante expectations have been achieved.
A Conceptual Overview (3)

- Accounting can be defined as:
  - ‘The ex ante and ex post information codes accompanying direct and indirect money transfers which collectively constitute the key steering mechanisms of societal institutions and organisations.’
A Conceptual Overview (4)

➢ Accounting Control:
  ➢ Is concerned with the construction and subsequent use of systems of accounting that attempt to ensure that the outcomes expected when money is transferred are achieved.

➢ Controlling Accounting:
  ➢ Is embedded in the handling and processing of accounting and accounting control to ensure these practices fit with and further the ethos, values and concerns of institutions and organisations.

➢ The main focus of the book is with the Accounting Control Inter-Organisational Steering Mechanisms and the resulting Controlling Accounting Intra-Organisational Steering Mechanisms in Public Sector Organisations.
The nature of Accounting Control will be driven by a particular Performance Management System (PMS) which can be TRANSACTIONAL or RELATIONAL in nature.

A Transactional PMS:
- has high levels of measurement specificity in the ends to achieve;
- has clear specification of means needed to achieve these ends;
- and is often project-based linked to short to medium term contracts.

A Relational PMS:
- can be less specific on ends to achieve and the means to achieve these but this depends on the key criteria of agreement between stakeholders and ownership of the requirements;
- are often less project-based and more concerned with long term sustainability.
MODELS OF RATIONALITY

INSTRUMENTAL RATIONALITY

COMMUNICATIVE RATIONALITY

PERFORMANCE MANAGEMENT SYSTEM (PMS)

The 12 Questions Related to the ENDS and MEANS of ACTION, INFORMATION USE, PMS COHERENCE etc as Specified by Ferreira and Otley (2009)

CONTEXT

TRANSACTIONAL

RELATIONAL

EXPLICIT OF IMPLICIT FINANCIAL TRANSFERS AND ACCOUNTABILITY REQUIREMENTS IN A RELATIONSHIP BETWEEN A TRANSFEROR AND A TRANSFEREE
A Conceptual Overview

- **Controlling Accounting** involves ‘handling and processing of accounting and Accounting Control to ensure that these practices fit with and further the ethos, values and concerns’ of Public Sector Organisations.

- Conceptually Accounting Control is a form of organisational ‘**disturbance**’ that can, through choice but also circumstance, ‘**track**’ its way through **four** different organisational ‘**pathways**’.
REBUTTAL FIRST ORDER CHANGE PATHWAY (ADAPTED FIGURE 2 FROM LAUGHLIN (1991:216))

DISTURBANCE

THE ORGANISATION

INTERPRETATIVE SCHEME 1

BALANCE

DESIGN ARCHETYPE 1

BALANCE

SUB-SYSTEM 1

CP1

CP2

CP = CHANGE PATHWAY
REORIENTATION FIRST ORDER CHANGE PATHWAY (ADAPTED FIGURE 3 FROM LAUGHLIN (1991: 217))
COLONISATION SECOND ORDER CHANGE PATHWAY (ADAPTED FIGURE 4 FROM LAUGHLIN (1991: 219))

THE ORGANISATION

DISTURBANCE

INTERPRETATIVE SCHEME 1

DESIGN ARCHETYPe 1

SUB-SYSTEM 1

BALANCE

INTERPRETATIVE SCHEME 2

DESIGN ARCHETYPe 2

SUB-SYSTEM 2

CP = CHANGE PATHWAY

CP1

CP2

CP3
INTERPRETATIVE SCHEME 1

DESIGN ARCHETYPE 1

SUB-SYSTEM 1

INTERPRETATIVE SCHEME 2

DESIGN ARCHETYPE 2

SUB-SYSTEM 2

THE ORGANISATION

DISTURBANCE AS A POSSIBLE STIMULUS?

CP1 \(\rightarrow\) BALANCE

CP2 \(\rightarrow\) BALANCE

CP3 \(\rightarrow\) BALANCE

CP4 \(\rightarrow\) BALANCE

CP = CHANGE PATHWAY

EVOLUTION SECOND ORDER CHANGE PATHWAY (ADAPTED FIGURE 5 FROM LAUGHLIN (1991: 221))
Based on our analysis the EX ANTE part of Accounting Control over Public Sector Organisations in the UK is driven by what we refer to as ACCOUNTING LOGIC:

- Namely ‘….that it is possible to evaluate each and every financial flow in terms of the outputs and preferably outcomes achieved’ (Laughlin, 2007:280)
- It is the underlying ‘something to something’ logic that makes a TRANSACTIONAL PMS meaningful.
- It is a logic that originates from traditional forms of accounting and double entry book-keeping but has permeated the thinking of not just accountants but many others as well, notably politicians, managers and those governing public sector organisations.
Accounting Control (2)

- The EX POST part of Accounting Control over Public Sector Organisations in the UK requires information that is contained in TRADITIONAL ACCOUNTING and ACCOUNTABILITY reports:
  - TRADITIONAL ACCOUNTING constitutes the information that is normally called accounting – notably Financial Accounting Statements and Management Accounting Reports.
  - ACCOUNTABILITY reports include the extensions of Traditional Accounting often referred to as Narrative Reporting but goes beyond this to all manner of Accounts that provide information as to what has been achieved with any money transfers.
Accounting Control (3)

- The **EX POST** reporting requirements over Public Sector Organisations in the UK both in terms of Traditional Accounting as well as Narrative Reporting largely replicate those required of **Private Sector Organisations**.
  - The overall emphasis of this replication is changing only slightly nationally (as in the UK) and internationally (with the International Public Sector Accounting Standards Board (IPSASB) as some standards manage (at last) to be different from the IFRS of the IASB.

- There are some **additional supplementary EX POST** accountability report requirements related to **EX ANTE expectations** where Traditional Accounting and Narrative Reports are not seen as adequate to provide this information.
These EX ANTE expectations and EX POST reporting requirements for Public Sector Organisations in the UK have been increasing and intensifying over the last few years.

Our view is that these changes are driven by the increasing TRANSACTIONAL PMS nature of the NEW PUBLIC FINANCIAL MANAGEMENT (NPFM) Public Sector reforms in countries such as the UK.

Whilst the UK experience of this is unique, the UK is one of a number of countries (Hood (1995) adds Sweden, Canada, New Zealand, Australia to the UK) that are advocates and enthusiastic high adopters of NPFM reforms.
AN HISTORIC PROFILE OF THE INTENSIFICATION OF TRANSACTIONAL ACCOUNTING CONTROL REQUIREMENTS OVER PUBLIC SECTOR ORGANISATIONS IN THE UK

- NEW PUBLIC FINANCIAL MANAGEMENT
- NEW PUBLIC MANAGEMENT
- PROGRESSIVE PUBLIC ADMINISTRATION

- 1998 Target Regime
- 1988 Next Steps
- 1968 Fulton Report?
- 1982 FMI

TRANSACTIONAL

RELATIONAL
Yet despite this dominant and clear trajectory this does not mean that all ACCOUNTING CONTROL over Public Sector Organisations is universally TRANSACTIONAL:

- There is a ‘delivery chain’ between Societal Steering Institutions and Public Sector Organisations that can modify these requirements.
- The case of Higher Education in the UK is an example of this.
- Some years ago the Accounting Control Inter-Organisational Steering Mechanisms were a mixture of TRANSACTIONAL and RELATIONAL even at the start of the ‘delivery chain’.
- But the trajectory is clearly moving towards the TRANSACTIONAL.
An Historical Profile of Government Funding of Higher Education in England

RELATIONAL

DfES

Funding Councils

HM Treasury

TRANSACTIONAL

DTI

Office for Science and Innovation

Joint Strategy Group

Research Councils UK

Research Councils

Higher Education Institutions
Controlling Accounting (1)

- CONTROLLING ACCOUNTING involves ACCOUNTING PROCESSES at the organisational level to meet the EX POST reporting requirements of ACCOUNTING CONTROL.

- CONTROLLING ACCOUNTING involves BEHAVIOURAL, ORGANISATIONAL (RATHER THAN ACCOUNTING) PROCESSES and PRACTICES when addressing the EX ANTE elements of ACCOUNTING CONTROL.

- From an organisational perspective the EX POST reporting requirements are LESS THREATENING than the EX ANTE expectations.
Controlling Accounting (2)

- These **EX ANTE** expectations invariably are **RESENTED**. They are very rarely seen as a source for organisational **EVOLUTION** and **DEVELOPMENT**.
- **RESISTANCE** to them is normal yet this is:
  - **DIFFICULT** where the EX ANTE expectations are tightly defined as in an extreme TRANSACTIONAL form of ACCOUNTING CONTROL.
  - **STILL ATTEMPTED**, despite this difficulty, such is the level of resentment created by these EX ANTE expectations.
- Involve the formation, processes and practices of ‘**SPECIALIST WORK GROUPS**’ (De Board, 1978: 43) to ‘handle’ both these EX ANTE expectations and EX POST reporting requirements.
Our research over the last twenty plus years has been looking at various specific Controlling Accounting processes in response to particular Accounting Control Inter-Organisational Steering Mechanisms.

In this context we have looked at the Controlling Accounting responses to specific Accounting Control requirements in four major areas of the Public Sector:

- **Schools** in response to the 1988 Local Management of Schools Initiative.
- **Universities** in response to a range of recent changes related to management and funding.
- **GP Practices** in response to (a) the 1990 GP Contract (b) the development of GP Fundholding.
- **Hospitals** in response to the Private Finance Initiative.
These research projects have been undertaken to:

- Put ‘flesh’ on the theoretical ‘skeleton’ related to organisational change pathways.
- Provide an empirical source for possibly adding to this theoretical ‘skeleton’.

What these research projects illustrate in different ways is:

- REBUTTAL
- REORIENTATION THROUGH ABSORPTION
- REORIENTATION THROUGH BOUNDARY MANAGEMENT

They DO NOT illustrate either COLONISATION or EVOLUTION.

Dent (1991) and his research in what he calls European Railways is an illustration of COLONISATION but there are no examples of EVOLUTION due to interpretative scheme clashes with the ‘disturbances’.
Controlling Accounting (5)

- The book explores these case studies of public sector change to see what can be added to our conceptual understanding of attempts at REBUTTAL, REORIENTATION (ABSORPTION and BOUNDARY MANAGEMENT) and COLONISATION. Some headline conclusions follow.

- **REBUTTAL** is difficult because of the positional power of the societal steering institutions over public sector organisations.
  - Consultation period for accounting standards is not as open as it is meant to be (e.g. ASB power over even HM Treasury’s views in Accounting for PFI).
  - Even when successful can be reshaped (e.g. Commissioning Groups in reaction to GP Fundholding Practices led to Government defined Primary Care Groups/Trusts. But Commission Groups are now back in vogue!!).
Again because of the positional power of the societal steering institutions, REORIENTATION, involves some level of **compliance but avoiding change in fundamental values**.

- **REORIENTATION** will only be possible where the Accounting Control steering mechanisms are **not fully transactional** in nature and **allow some flexibility** on what constitutes compliance.

**REORIENTATION THROUGH ABSORPTION** involves creating a devoted Specialist Work Group who ‘does’ the compliance whilst the rest of the organisation carries on with the ‘real work’.

- Can involve **locking up senior managers** in this work taking them away from the ‘real work’ they are meant to be doing (e.g. headteachers in schools).
- Can provide **new professional opportunities** where the Specialist Work Group is specially appointed (e.g. practice nurses and practice managers in GP practices).
REORIENTATION THROUGH BOUNDARY MANAGEMENT involves ‘filtering’ the Accounting Control requirements into the ‘real work’ of the organisation in such a way that key values are not affected by the changes.

This involves the Boundary Management Specialist Work Group managing boundaries with other organisational sub-groups to ensure the filtered requirements are applied (e.g. senior management in universities, facilities management of PFI contracts).

Even in the case of minimal filtration there will invariably be some nuancing of the requirements when ‘passed on’ by the Boundary Management Specialist Work Group (e.g. Government requirements in universities, facilities management of PFI contracts).

Boundary Management Specialist Work Groups can change their level of advocacy of the requirements leading to COLONISATION (e.g. in European Railways in Dent (1991)).
As a start to explore an alternative way forward it is important to be reminded of four key points:

1. Organisations are in existence to express and further societal lifeworlds.

2. That the preferred way organisations evolve is through deliberate choice rather than force and that they will resist the latter.

3. That societal steering institutions have a legitimate right and responsibility to steer societal organisations to ensure that they express and further societal lifeworlds.

4. The key question is how to tell when particular Accounting Control societal steering mechanisms are appropriate and when not?
An Alternative Way Forward (2)

- Steering mechanisms can be perceived by organisations to be:
  - Either ‘Regulative and amenable to substantive justification’
  - Or ‘Constitutive and legitimised only through procedure’ (Habermas, 1987: 365/366)

- To the organisations the latter steering mechanisms are perceived to be ‘juridification’ or ‘overregulation’ (Tuebner, 1987: 4) and need to be resisted.

- But should this perceived ‘overregulation’ occur from a societal perspective?
The answer to this question is when the ‘limits of effectiveness’ of the steering mechanism have been reached:

‘To find out whether fundamental limits has been reached, one must concentrate on the problem of structural coupling of law with social state policies as well as various social life areas…..The fundamental limits of structural coupling are reached either when relevance criteria are not met or when the conditions of self-reproductive organisation are endangered.’ (Tuebner, 1987: 26)
There are still some limited circumstances when despite the ‘limits of effectiveness’ being reached and structural coupling been breached the steering mechanism can be justified:

‘….once an organisation has been created, and a degree of autonomy of action has been granted, there needs to be a demonstrable abuse defined in the context of a full democratic debate before…[it is possible to justify] …..an attack on the organisational lifeworld’ (Broadbent and Laughlin, 1993: 343) (Emphasis in the original. Addition in square brackets)
The Accounting Control Inter-Organisational Steering Mechanisms over Public Sector Organisations in the UK are inappropriate, based on this logic, since they are:

- ‘Constitutive and legitimised only by procedure’.
- Forms of ‘overregulation’ and therefore ‘juridification’ at work.
- Beyond the ‘limits of effectiveness’ and therefore breaching ‘structural coupling’.
- Unjustified given these organisations have not ‘demonstrably abused’ their autonomy and there has been no ‘full democratic debate’ to assume otherwise.
Change is needed in the nature of the societal steering mechanisms over public sector organisations. They need to:

- Be less ‘constitutive and legitimised only by procedure’ and more ‘regulative and amenable to substantive justification’.
- Abandon the belief that every form of steering in relation to money has to be Transactional driven by Accounting Logic.
- Be closer to being Reflexive Law which will: ‘…..neither authoritively determine the social functions of other sub-systems nor regulate their input and output performances, but will foster mechanisms that systematically further the reflexion structures within social systems.’ (Teubner, 1983: 275)
Steering mechanisms driven by **Reflexive Law** would:

- ‘….encourage open, rather than constrained, discourse between participants’ (Laughlin and Broadbent, 1993: 347).
- Encourage public sector organisations to **decide** the ends they should pursue and the means they should use **conditional on involvement** of all **stakeholders using a defined discursive processes**:
  - Operationalised through Habermas’ Selection of Strategies Stage using regulative speech acts (cf Laughlin, 1987).
- Require societal steering institutions to be involved in this discourse (a) as **participant** (b) to have a **watching brief** to ensure **inclusivity** in these discursive processes.
- Acknowledge that the societal steering institutions have a **right and responsibility to intervene** (or attempt to intervene) in Public Sector Organisations if there is a consensus that there has been a demonstrable abuse in the ends and means pursued by these organisations.
This alternative way forward would lead to abandoning for ever:

Accounting Control Inter-Organisational Steering Mechanisms built on Accounting Logic in its ex ante and ex post form.

The wasted effort involved in the defensive Controlling Accounting behaviour that we have analysed.
It would also open up a new role for Accounting and Accounting Control without the necessity for this wasteful Controlling Accounting behaviour:

- Accounting defined as ‘the ex ante and ex post information codes accompanying direct and indirect money transfers’ and its role in being the ‘key steering mechanisms of societal institutions and organisations’ remains relevant and needed.

- What is needed is a revolution in the nature of these information codes to be driven by relational rather than transactional thinking. This provides a very different approach and understanding to Controlling Accounting behaviour.

- This will lead to an entirely different understanding of Accounting Control in relation to both Inter-Organisational and Intra-Organisational Steering Mechanisms.