The dilemma of implementing controls: the case of managerial accounting

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ABSTRACT
Managerial accounting contains a technical theory of control. Whenever this technical theory of control is correctly implemented to deal with issues that are embarrassing or threatening, the players activate their personal-human theory of control in order to remain 'in control'. The correct implementation of the personal-human theory of control necessary inhibits the effective implementation of the technical theory and vice versa.

The purpose of managerial functional disciplines, of which accounting is one, is to help managers govern. Each functional discipline represents a theory about how to govern in order to master events over which managers are responsible. Each theory may be described as a theory of control.

All theories of control have two features. One is the theory as it is espoused. Espoused theories of control are usually idealized visions that are rarely achieved. They represent an aspiration to be approximated.

The espoused theory of accounting recommends the use of concepts, usually coordinated to numbers, that are intended to be objective. The use of the concepts are dictated by a set of rules that are defined by the professionals as rigorously as they can make them. Once formulated, the rules are intended to apply to all cases in which they are considered relevant. (Ijiri, 1975; Solomons, 1986; Sterling, 1979; Yu, 1976.)

Productive reasoning is at the heart of the espoused theory of accounting. Productive reasoning includes defining premises as clearly as possible and making inferences explicit. Conclusions should be tested (testable) with the toughest tests that are available to the profession at that time.

If we observe the practice of accounting, we find that these ideals are rarely fully achieved. There are, at least, two reasons for the gap between theory and practice. First it is unlikely that any theory of control can be
formulated that is usable in practice that, ahead of time, is able to account for the full complexity and uniqueness of a given context. Given the present degree of sophistication of the discipline there will always be a requirement for gap-filling.

Second, accounting is often sold and defended as being objective and rigorous. Since this claim is likely to fall short in practice, a tension frequently develops between those who use the claim to defend accounting and those who use accounting but do not believe the claim. Often this results in conflicts whose discussion could lead the players to feel embarrassment or threat.

As we shall see below, most human beings activate a human theory of control to deal with embarrassment or threat. The dilemma is that this human theory of control is counterproductive to objectivity, rigor, tough testing of conclusions, that is, to productive reasoning. Practitioners often react by defining defensive routines to protect their practice. But the routines themselves may escalate the defensiveness. For example, in trying to deal with the espoused requirements of objectivity and the realities of conflict, practitioners may define rules that are 'precisely imprecise' and 'clearly vague' while at the same time denying not only the inherent ambiguity but, the fact that the ambiguity is designed. This may be an explanation for Hopwood's observation that accounting practice is positively invested in ambiguity and lacks the scientific, objective features in its espoused theory (Hopwood, forthcoming).

In this paper, I want to examine several dilemmas of implementing accounting. They are dilemmas because, I suggest, that the correct use of accounting ideas can lead to productive, and at the same time, counter-productive consequences.

EFFECTIVE IMPLEMENTATION

If productive reasoning is produced by implementing accounting principles then, not surprisingly, the first step in implementation is to teach the accounting principles that are relevant to problems at hand.

Implementation therefore often begins with a theory of instruction which assumes if human beings learn the principles of accounting; if they understand them fully; if they wish to use them; and if they are permitted to use them, then they will go ahead and use them. As long as they use the ideas consistently with sound accounting principles, the consequences promised by accounting will result.

There are two consequences that follow from the enthusiastic application of this theory of instruction. The accountants can come to believe that effective implementation is largely implementing the theory of instruction just described. This belief assumes an organization relatively dedicated to following the accounting ideas, especially if it can be shown that they do solve the problems at hand. The assumption is probably valid as long as the effective use of accounting knowledge is not embarrassing or threatening. But, sound accounting knowledge can be embarrassing and threatening precisely when it is most needed that is, when the organization is in real trouble.