

## ACCOUNTING AS REALITY CONSTRUCTION: TOWARDS A NEW EPISTEMOLOGY FOR ACCOUNTING PRACTICE\*

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### Abstract

Accountants often see themselves as objective appraisers of reality, representing reality "as is". This paper takes a different view, arguing that accountants typically construct reality in limited and one-sided ways. It shows that the idea of objectivity in accounting is largely a myth, and one which stands in the way of interesting future developments in the discipline. The paper develops an alternative perspective on the nature of the accounting process, building on insights regarding the interpretive and metaphorical nature of accounting, and arguing that accounting should be approached as a form of "dialogue" through which accountants can construct, "read" and probe situations in a variety of ways.

I'd like you to visualize an Escher lithograph. Perhaps it is *Hand With Reflecting Globe*, which features Escher looking at himself in a crystal ball (Fig. 1). The artist has created an image of himself looking at himself which binds the viewer into the picture as if he or she were actually standing in Escher's shoes.

In this lithograph the artist is making a fundamental epistemological point. It is that he as an artist, and we as everyday observers and participants in life, are active producers of what we see and experience. In a broad sense, all knowledge is a matter of perspective. Just as an artist makes a limited representation of the "reality" captured on his or her canvas, the knowledge generated by the natural scientist, by the social scientist, or by the layperson in the course of everyday experience, is always a limited, partial knowledge. While this knowledge usually "says something", it also leaves a great deal unsaid. And what is said only rings true from the standpoint of a limited view: just as the laws of physics only apply within clearly defined parameters.<sup>1</sup>

I am evoking this imagery as a basis for the argument that follows, since I want to focus on the problems faced by accountants in representing the reality of the situations they wish to "account for". Accountants often see themselves as engaged in an objective, value-free, technical enterprise, representing reality "as is". But in fact, they are subjective "constructors of reality": presenting and representing the situations in limited and one-sided ways. They are not just technicians practising a technical craft. They are part of a much broader process of reality construction, producing partial and rather one-sided views of reality, exactly as an artist is obliged to produce a partial view of the reality he or she wishes to represent.

By appreciating and exploring this dimension of the accounting process, accountants have a means of developing a new epistemology of accounting that will emphasize the interpretive as opposed to the supposedly "objective" aspects of the discipline, perhaps in a way that will help broaden and deepen the accountants' contributions to economic and social life.

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<sup>1</sup> I have explored this theme at great length in Morgan (1983), showing how different approaches to social research capture inherently limited aspects of the situations to which they are applied.



Fig. 1. Hand with reflecting globe: self-portrait by M. C. Escher (lithograph, 1935). Reprinted by permission of Haags Gemeentemuseum, The Hague, courtesy of Vopal Gallery, San Francisco and New York City, and by permission of the heirs of M. C. Escher, c/o Cordon Arts-Baarn, Holland.

#### THE METAPHORICAL NATURE OF KNOWLEDGE

If one wishes to get a fresh view of one's discipline, it is often a good idea to try and see it from the outside. So let's look beyond our im-

mediate concerns as accountants and examine some recent developments in the field of organization theory, where the problems of perspective and interpretation parallel those faced in accounting and in the production of knowledge generally.

Elsewhere (Morgan, 1980, 1986), I have suggested that organization theory is a metaphorical enterprise, and that its history is really a story of broadening metaphorical development. For example, early theories of organization built on the image that organizations are machines. Interest focussed on understanding relations between structure, technology, goals and efficiency, on the premise that organizations can be rationally designed as structures of clearly defined parts, coordinated and controlled in pursuit of pre-specified goals. This created an internally oriented view of organizations that made efficient organization a question of good bureaucratic design. The theory had strengths, but also limitations requiring new metaphorical perspectives to put them aright. Hence, mechanistic theorizing was quickly supplemented by ideas generated through organic imagery focussing attention on the flexible and adaptive properties of organisms. By developing the idea that organizations are more like organisms than machines, theorists began to emphasize that an organization's "environment" was all important, and that the main task facing organizations was that of survival. Like organisms, organizations became viewed as open systems with sets of "needs" that must be satisfied. Looking towards the external environment, it was observed that just as polar bears fare well in cold climates, and camels in deserts, different social, technical and economic environments favour different forms of organization. A contingency theory of organization developed, emphasizing the importance of achieving a good fit between organization and environment, noting that while bureaucracies are able to survive quite well in stable environments, under conditions of turbulence more organic forms are often more appropriate. In the process, modified forms of Darwinism began to replace the principles of engineering and mechanism as the primary source of inspiration for ideas on organization and management.

Since the late 1970s other metaphors have also exerted an increasing influence on organization theory. For example, much credence is now given to the idea that organizations are cultures:

mini-societies with their own systems of ideology, myth, ritual, ceremony and other forms of symbolism. Under the influence of this metaphor, corporate culture is being viewed as the key factor influencing the success of organizations, and managers, particularly those at a senior level, are encouraged to develop skills in shaping the core values and beliefs that are to guide organizational practice. As witnessed by the success of books like *In Search of Excellence* (Peters & Waterman, 1982), the metaphor has captured the thinking of many practising managers in a major way and, at least in North America, is providing the basis for a new orthodoxy.

Other metaphors have also been explored to create important insights on the politics of organization, on the cybernetic properties of decision-making, on the ugly features associated with exploitation and domination, and so on.

This short review is intended to be no more than illustrative. The point is that our understanding of organization is based on the use of metaphors which generate important insights that always have clearly defined limitations. Different metaphors grasp and highlight different aspects of organization but, in the process, tend to hide or distort others. A full understanding of organization thus requires that we find ways of integrating the many and often paradoxical insights that our theories and explanations create.

My own solution to the problem has been to argue that this can be achieved by explicitly recognizing that organizations are many things at once (Morgan, 1986). They are enterprises that collectively have to engage in certain activities to survive. They provide the scene for individual careerism and interpersonal politics. They are often reduced to battlegrounds between rival factions. They are arenas where people construct meaning and engage in all kinds of symbolically significant activities. And so on. The way we understand these many dimensions, and judge their significance is a matter of perspective, shaped by all kinds of motivations and intentions. If we are charged with managing an organization we may find one perspective more helpful than another. If our purpose is

to critique or to revolutionize existing social relations, we are more likely to favour and adopt yet another. Like artists, we face the problem that whatever perspective we choose to adopt, others are squeezed from view.

An understanding of the metaphorical nature of knowledge thus leads to a basic problem of epistemology. It leads us to recognize that human agency and the limitations imposed by perspective are fundamental in the generation of knowledge, and that our knowledge always falls short in representing the full texture of reality. Our lot as human beings dealing with a complex, multi-dimensional and paradoxical world, is that our knowledge can do no more than create a weak and rather uni-dimensional representation of that world. Though achievements in technology may convince us that we are much more knowledgeable than we actually are — since the ability to manipulate with predictable results is *not* a true measure of knowledge or understanding — our knowledge always falls short of the ideal state which philosophers from Plato to Hegel have encouraged us to achieve.

#### ACCOUNTING AS A METAPHORICAL ENTERPRISE

It may seem that our discussion has brought us a long way from the topic of accounting. But we are right at its heart because accounting is ultimately concerned with the problems of representation and “accounting for”. Like organization theorists, accountants ultimately have to represent complex multi-dimensional realities through metaphorical constructs that are always limited and incomplete.

Accounting practice is framed by an overarching metaphor encouraging a numerical view of reality. Just as early organization theorists attempted to represent organizations through

bureaucratic principles deriving from the image that organizations are machines, accountants try to represent organizations and their activities in terms of numbers. This is metaphorical. And like all use of metaphor, it gives but a partial and incomplete representation of the reality to which the numbers relate. The numerical view highlights those aspects of organizational reality that are quantifiable and built into the accounting framework (e.g. flows of costs, revenues and other values), but ignores those aspects of organizational reality that are not quantifiable in this way. Just as we might attempt to rate the quality of last night’s dinner on a scale of 1–10, and in giving it “a 9” capture that it was indeed a very good meal, the accountant’s numerical form of representation provides a very “thin” and limited characterization. It leaves much of the quality and over-all experience of the meal out of account. The metaphor “it was a 9” remains silent on so many things.

We are addressing here one of the major problems in accounting practice. Accountants have long recognized the limitations of numerical modes of representation, but have been hamstrung in their attempts to overcome them because the numerical view has been equated with an *objective view*. The idea that accountants represent reality “as is” through the means of numbers that are objective and value free, has clouded the much more important insight that accountants are always engaged in *interpreting* a complex reality, partially, and in a way that is heavily weighted in favour of what the accountant is *able* to measure and *chooses* to measure, through the particular schemes of accounting to be adopted.<sup>2</sup>

But that is by no means the end of the matter, because within the framework of a numerical view of reality, accounting theory and accounting practice have been shaped by other metaphors which offer competing views as to

<sup>2</sup> The idea of objectivity and the choice of accounting measures has, of course, also been sustained by the fact that accounting is designed to serve certain interests. There is an important political dimension to reality construction among accountants that must always be examined in providing explanations of the history of the profession. My aim in this article is to focus on epistemological aspects of the problem; i.e. my paper is framed and limited by the metaphor “accounting as reality construction”, rather than “accounting as power”, “accounting as domination”, etc.

*how* numerical reality should be represented and understood (Davis *et al.*, 1982). Accounting as a discipline has constructed and changed its identity over the years, in a manner that provides a close parallel with that found in organization theory. Just as organization theory has been developed and enriched by viewing organizations as machines, organisms, cybernetic brains, cultures, political systems, instruments of domination, and so on, accounting theory has been shaped and formed by metaphorical interpretations that encourage accountants to construct and interpret the significance and merit of different accounting schemes from all kinds of vantage points.

For example, here is a list of some of the major metaphors that have exerted an impact on recent accounting theory:

*Accounting as history:* the view that accounting is concerned with providing a faithful record of the transactions of an enterprise, and with reporting such transactions in a manner suited to the needs of users (e.g. Paton & Littleton, 1940; Littleton, 1953).

*Accounting as economics:* the view that accounting should try to mirror current economic realities and reflect basic economic principles (see, for example, Davis *et al.*, 1982).

*Accounting as information:* the view that accounting should form part of a wider MIS framework (e.g. Prakash & Rappaport, 1977; Snowball, 1980).

*Accounting as a language:* the view that accounting provides concepts and frameworks which structure thought, conversation, perceptions and decision-making (e.g. Belkaoui, 1978), especially to support capitalism.

*Accounting as rhetoric:* the view that accounting, and the debate about different accounting systems, is largely a question of argument and discourse where various proponents attempt to convince others of the superiority of one principle over another (e.g. Arrington, 1987).

*Accounting as politics:* the view that accounting and accounting systems reflect and support the values and needs of specific interest groups, and that accounting information is constructed and used as a resource in shaping corporate politics, especially in decision-making and impression management (e.g. Burchell *et al.*, 1980).

*Accounting as mythology:* the view that accounting systems provide a societal resource to be used in sustaining myths of rationality, and as a means of justifying, rationalizing and legitimizing decisions that ultimately serve other individual and social ends (e.g. Boland, 1982).

*Accounting as magic:* the view that underneath the veneer of rationality, accounting and the use of accounting

information forms part of a societal "rite" serving the same functions for modern decision-makers as the entrails of chickens served for old witch doctors (e.g. Gambling, 1977).

*Accounting as disciplined control:* the view that one of the primary functions of accounting is to exercise surveillance by creating "visibility": just as prisons are often designed to maximize the visibility and scrutiny of inmates, accounting systems are often designed to increase the visibility and scrutiny exercised over employees, even those working in remote locations without direct forms of supervision (e.g. Burchell *et al.*, 1980).

*Accounting as ideology:* the view that accounting systems form part of the ideological apparatus that sustains the ability of a society to produce and reproduce itself in accordance with clearly defined principles. (e.g. Merino & Neimark, 1982; Tinker *et al.*, 1982).

*Accounting as domination and exploitation:* the view that accounting provides techniques for the extraction of wealth in support of elite interest groups, both at the expense of Mother Nature (in terms of natural resources and the ecological balance of the planet), and of the people employed in the service of others (e.g. Tinker, 1985).

All these metaphors have been developed to form competing interpretations regarding the nature and significance of accounting, and how accounting principles can or should be developed. Interestingly, they all grasp significant elements of what accounting is all about, and often suggest interesting principles for accounting design. However, no one metaphor grasps the total nature of accounting as a social phenomenon, for accounting, like other aspects of social life, is inherently complex, multi-dimensional and paradoxical. The accountant and accounting theorist stands in exactly the same relationship to the reality he or she wishes to represent as does the artist, organization theorist or any other person wishing to understand some complex aspect of the world around us. In recognizing this, accountants can move towards a new epistemology for understanding and conducting their craft.

#### ACCOUNTING AND THE MYTH OF OBJECTIVITY

Historically, the belief has developed that accounting is grounded in a quest for objectivity

and, by implication, that it is possible for accountants to be objective and to present the reality of a situation in a “true” manner. Clearly, this is an impossible ideal, for, as shown above, accountants are able to do no more than grasp limited aspects of the reality to which their accounting schemes relate. Accounting can never be truly objective, for, as George Berkeley observed in the seventeenth century, objectivity is always as much a part of the observer as of the object observed. Accountants are linked to their observations through accounting principles and practices that are ultimately based on metaphors creating partial and one-sided ways of viewing the world.

The myth of objectivity disguises the true nature of accounting and creates many operational problems because, as every *practising* accountant knows, it is pretty well impossible to defend one’s objectivity under close attack from people who have a detailed knowledge of the situations to which the accountant’s statements relate. In actual practice, many people know that the accountant’s work is based on somewhat arbitrary assumptions and conventions. They know that the accountant is really in the business of trying to persuade others that his or her concepts, or latest set of figures, “give a true and fair view” or have superior insight, when in reality this view, whatever the figures might say, is as partial as any other. The accountant’s view of reality often carries more weight than other views, because of the power relations associated with the allocation and control of scarce resources. But this should in no way be seen as due to the accountant’s “objectivity”.

#### ACCOUNTING AS AN INTERPRETIVE ART

The only viable long-term solution to this problem rests in recognizing and accepting the basic subjectivity of accounting, and in developing a code of practice that will allow the accountant to recognize that he or she is not an “objective commentator”, but a person engaged in a complex web of reality construction. The accountant represents complex situations, such as

the economic vitality of an enterprise, the benefits of a particular investment decision or the operational effectiveness of a production system, in limited and rather one-sided ways. But these representations become part of the fabric through which the situation “accounted for” is then sustained or changed. Accountants interpret reality. But their interpretations — in the form of statements about general economic vitality, a capital budget decision, or cost over-run report — became resources in the ongoing construction and reconstruction of reality, as these accounting reports are used to shape or rationalize future decisions.

Four short examples will serve to illustrate how accountants play an active role in this web of reality construction, shaping and sustaining organizational realities through partial ways of seeing.

#### *Accounting and corporate culture*

Accounting systems do more than just monitor or mirror reality; they also shape reality. Consider, for example, how the introduction of rigorous financial controls can reshape the culture and general orientation of an organization. For example, in hospitals introducing systems that make patients or departments profit or cost centres, nurses and other staff often end up as extensions of the new financial systems, recording and allocating their time and use of materials much more rigorously than under more traditional systems of management (Davis, 1986). In the process, the nurses’ relations with patients on the one hand and doctors on the other, change, as an orientation to control costs, or “stay within budget”, intrudes on decisions that used to be dominated by considerations of health care. The process seems to be particularly evident in relation to the more qualitative aspects of nursing, especially in nonlife-threatening situations. Under the requirement of “meeting budget” the whole work orientation of nursing staff can change towards an administrative rather than patient-oriented focus.

Financial controls can make hospitals more efficient. But they can also make them less humane. Accounting systems grasp and shape

important aspects of the reality of running a hospital, especially the economic and financial aspects, but in the process, they also change the nature and quality of other aspects.

#### *Accounting and technological change*

Most organizations now require that capital expenditures in new technology be subjected to some kind of rigorous financial appraisal. These appraisals might often do an excellent job in determining the financial and economic viability of a proposal, but leave other aspects, such as the general social and human consequences, and even the wider strategic impact, unaddressed. As a result, decision-making is often conducted in a way that promotes "cost consciousness", at the expense of a broader understanding of the implications of a proposed technological change. The existence of techniques and data for evaluating projects in a uni-dimensional way tends to encourage uni-dimensional decision-making. Again, we have an example of how accounting practices that grasp an aspect of "the reality" of organizational decision-making, can have a disturbing influence on others.

#### *Accounting and economic and social policy*

In the 1984–85 coal miners strike in the U.K. accounting practices and related cost and other financial data were used to arrive at National Coal Board (NCB) calculations as to what constitutes an economic coal-mine, with a view to rationalizing which mines should remain open, and which should be closed. The calculations were based on many detailed accounting conventions, on assumptions with regard to the price of coal, and on assumptions that it was legitimate to conceptualize and restrict the economics of pit closure to costs and revenues directly associated with NCB operations (see Berry *et al.*, 1985). There were alternatives to the accounting principles selected to calculate profitability. The price of coal used to estimate future revenues assumed social and political decisions that would result in nuclear energy providing the primary source of future power. Also, the costs of unemployment benefits arising from closure of selected mines, which would have

fallen on the British Government rather than directly on the NCB, were excluded from the calculations, even though the British Government, the ultimate paymaster for the NCB, ultimately had to foot the bill — whether in the form of wages or unemployment benefits.

The point is that the decision regarding what constitutes an economic pit is underpinned by many social and political choices, and that the accounting and economic principles used in actual decision-making captured but a small aspect of the wider socio-political decisions being faced.

#### *Accounting and the "shareholder view" of organization*

Much accounting practice is geared to providing and sustaining a shareholder view of organization, but in recent years, the idea of viewing organizations from a "stakeholder perspective" has grown in importance. Increasingly, organizations are becoming viewed as being as much the property and concern of employees, customers, managers and the general public, as they are of "owners", in the sense that each of these groups has a deep stake, whether for better or worse, in the existence of an organization. Those who provide capital may legally own an organization, but employees and managers invest their working lives, careers, creativity, energy and initiative. Customers may be vitally dependent on the quality of the organization's products for their continued well-being. The public at large also has a stake in ensuring that the organization is a good citizen, and does not pollute the environment or engage in other socially irresponsible practices.

Accountants typically work with the interests of just one or two of these stakeholder groups in mind, even though the health and well-being of the organization may ultimately demand a broader view.

### IMPLICATIONS AND CONCLUSION

The point about these four examples of accounting in practice is that they all illustrate: (a)

the perspective-based nature of accounting; and (b) how accounting is central to the process of reality construction within an organization, shaping decision-making in accordance with the values and perspectives underpinning the accounting principles used.

Accountants are enmeshed in a process of reality construction. They grasp and articulate complex realities in partial ways, and these graspings and articulations help to sustain the realities *as perceived*.

One of the major challenges facing the accounting profession is to come to grips with these essential limitations. Rather than cling to an outdated concept of objectivity, they should confront the basic subjectivity of their craft and develop means of coping with these limitations. In my view, this will lead them to adopt a much more interpretive style of accounting, building on the principles that: (a) accounting is an interpretive art and always perspective-based; and (b) that the challenge facing accountants is to develop forms of practice that emphasize how accounting statements and insights should be regarded and used as elements of a *conversation* or *dialogue*, rather than as foundational claims asserting a particular kind of objectivity or "truth".

A model for developing this interpretive view of accounting is found in Morgan (1986), where the view that effective managers and organizational analysts have to become skilled in the art of "reading" the situations that they are attempting to organize or manage is developed.<sup>3</sup> They have to learn to see and understand the many and paradoxical dimensions of organizations, and find ways of blending them to provide a critical understanding of the multiple meanings and range of possible actions with which they are faced. Skilled managers develop the knack of reading complex situations with various scenarios in mind, and of forging actions appropriate to the understandings obtained.

In a similar way, accountants need to be sensitive to the many dimensions of the realities

which they are attempting to "account for". They need to learn how to probe these dimensions so that multiple insights can emerge, to provide broad-based understandings and platforms for relevant actions. Rather than attempt to represent situations narrowly, through one-sided accounting schemes, they should aim to develop broad-based schemes. But, perhaps most importantly, whatever scheme they use they should always be as sensitive to the elements of reality *excluded* by the scheme, as to those elements that are included. They should realize that in using schemes that highlight certain aspects of organizational reality, they always tend to obliterate other aspects from view.

In essence, this approach requires a reflective and critical understanding of the relationship between the accountant and what is "accounted for", and an ability to discern the hidden or repressed dimensions of a particular set of accounts or approach to the interpretation of those accounts. Accountants have long appreciated the significance of "double-entry" accounting in the production of accounts. What I am advocating here amounts to a kind of "double-view accounting" in the interpretation of accounts. The accountant must recognize the tension that exists between "the world as viewed by the accountant", and "the world in a wider sense".

In recognizing this tension, the accountant will begin to interact and "dialogue" with situations in a much more open-ended interpretive mode, than is the case when they see themselves as producing objective or "true" statements. They will see that their ultimate aim should be to develop the art of "reading" and probing situations to create intelligent, actionable insights, rather than to produce rigid technical statements as ends in themselves. In the process, they will be able to develop an approach to accounting that is able to address many of the problems and tensions that characterize relations between accounting, organizations and society.

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<sup>3</sup> A related view is also developed in Morgan (1983), which describes how social science research can develop a "conversational" mode.



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