MANAGEMENT CONTROL, TRUST AND ACCOUNTABILITY

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ABSTRACT

The central problem in the accounting theory is the agency problem. Incentives aim to align the interests of the principal and the agent(s) by enhancing behavior that is in the interest of both, the principal and the agent.

In this paper, we agree while the above model has been working for years, that a new model of organizational trust which is based on cooperation and teamwork among the different stakeholders. Accountability is exercised by enabling people to express their opinions by encouraging interaction and sharing. This model will create an environment of learning and improvement.

Introduction

Accounting refers to counting and measurement, to calculation and valuation. It consists of distinctive practices that qualify not only in mere financial terms, but also in non-financial terms. As a consequence of the latter, accounting has the potential to deeply penetrate in the organization and to provide vital knowledge for the governance and control of the organization.

Accounting in this broad sense is implicated in the more encompassing construct of "accountability" (Roberts, 2001). Accountability is viewed as an individual's capacity and willingness to render an account, explanation or reason in relation to conduct (Munro, 1996), or in process terms as "the giving and meaning of reasons for conduct" (Roberts & Scapens, 1985). Compared to the concept of "responsibility", it benefits from the association with the objective and scientific connotations of accounting methodologies (Hopwood, 1984).

Essentially, a shift in attention from accounting to accountability entails a shift in focus from accounting as a technology towards a focus on accounting as social and institutional practice. This paper questions the emphasis on organizational economics and the emphasis on management by numbers to human management tools "which tend to narrow the behavioral motives of individuals, and therefore run the risk of social impoverishment, resulting in an underdevelopment of the learning capacity of an organization. The paper introduces a new concept of performance management which is based on a relational accountability as it emerges in networks and demonstrates its mobilizing power and its potential to strengthen the learning capacity of the organization. A new system that is based on trust more than the traditional control systems.

Control and Performance Management

The traditional approach to management control flows from the work of Robert Anthony (1965), where he defined management control as the "process by which managers assume that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives". Central here is the role of managers who know the organization's objectives and can provide assurance that the resources are used to achieve them through control devices. Reviewers of the management control systems' literature continue to see a strong flow of cybernetics flowing through them (Merchant and Otley, 2007).

Since Anthony (1965) there has been a flow of papers noting the problems of a systems perspective and also the concept of control (Otley and Berry, 1980; Hofstede (1981).

In 1995, Simons wrote an article, where he defined management control systems as "the formal, information – based routines and procedures used by managers to maintain or alter patterns in organization's activities". While Simons recognized that group patterns are important, he doesn't explore how these patterns are formed. He also saw the relationship of individuals with the organization as "sets of relationship among self-interested participants, each of whom is balancing personal well-being and organizational needs". This view which is influenced by organizational economics, particularly the branch is known as the "contracting theory", or "agency theory".

The Agency Theory

The insights from organizational economics (particularly from agency theory) get materialized through "management by numbers" in private as well as public organizations. In the name of the economic performance of the organization at large, "performance contracts" between managers at different levels in the organization are concluded. In these "performance contracts" agreements about desired output, available resources, action constraints, the monitor and incentives are made. These "performance contracts" can be viewed as an extension of the labor contracts concluded at the labor market. Basically, in the name of efficient governance and management of the organization, they aim to motivate individuals and to compensate for potential opportunistic behavior by those individuals.

In these contracts, transacting parties have divergent interests and each party aims to safeguarding his/her interests. Parties know of each other that they are self-interested and that they might act opportunistically, and therefore they might reasonably expect that negotiating entails the hiding or distortion of information, and thus, is under conditions of information asymmetry. These expectations reflect mistrust between parties.

Although the influence of organizational economics proves to be quite strong, and still used, the authors agree that the current attitude seems to be an unwillingness to go beyond the organization as a system, or to arrive at a means of achieving the empowerment which is advocated.

Organizational Trust

Trust plays a key role in organizational learning and performance (Shaw 1997), and organizations must learn continuously (Drucker, 1999). Trust is usually viewed as important for successful organizational function, and distrust is considered deleterious for organizational harmony and performance.

The concept of organizational trust is elusive and subject to a wide range of definitions, as well as contributing factors and circumstances. Trust is subtle, and is sensitive to situation as well as organizational context. As with other organizational constructs, such as culture or climate, we cannot measure organizational trust directly. Instead, we rely on the perceptions of individuals within the organization, who will have different views of recalled situations and contexts based on their experience.

Shockley defines trust as follows:

> "The organization's willingness, based on its culture and communication behaviors in relationships and transactions to be appropriately vulnerable if it believes that another individual, group, or organization is competent, open, and honest, concerned, reliable, and identified with common goals, norms and values" (Shockley et al, 2000).

Building trust requires attention to every aspect of a firm's design – its culture, management policies and practices, technological systems, informal culture, the values and expectations of its members, and the behavior of those in leadership positions.

While trust is becoming more important to business success, it is also becoming more difficult to achieve as firms change the way they operate.

The Accountability Frame

The accountability frame in an organization conceptualized as a social network reflects and constructs a performance management regime through which individuals benefit from open communication. The "less guarded flow of information" (Argyris, 1990) opens opportunities to challenge, elaborate, clarify and to question (Roberts, 2001). Individuals are mobilized through trust (building). Positive expectations about the ability, the benevolence and the integrity of other individuals form the input for willingness to accept vulnerability. The output of such willingness is risk-taking behavior in the relationship, which is the behavior manifestation of trust. Trust enables, encourages and mobilizes commitment and identification with the organization, whereas mistrust entails safeguards against opportunism and creates distance between individuals. The presence of trust will induce a problem solving attitude and the sharing of information. This is quite contradictory to the organizational economic model, where there is an unequal distribution of information across parties. In other words, there is information asymmetry that parties might explore to their own interests.

Managerial Implications

The pace and magnitude of organizational change and uncertainty of the last couple years will not likely slow down in the coming years, so organizational leaders must develop and maintain a continual strategy for building and sustaining organizational trust. It takes conscious, proactive efforts to create trust-building opportunities, and constant monitoring to ensure the intended benefits are being realized.

Organizations and team leaders have to build organizational trust through daily activities directed at improving communication, employee involvement, building familiarity and respect among diverse work groups, developing a culture of accountability, and encouraging cooperative behavior.

Another important component of building trust is to focus on two other elements of the trust equation – expectations and vulnerability, hence, they have the best chance of being influenced by organizational leaders.

Employees are vulnerable because their livelihood is in the hands of other people (dependence), the resources to do their job are contingent upon others (reliance) and they are exposed to negative outcomes (e.g., failure, loss of job) when others let them down (risk). Together dependence, reliance and risk all contribute to high vulnerability (Curroll, 1990).

Each person has a different perception and threshold for vulnerability within their organization, but eventfully everyone makes an assessment of risk, which informs decisions, commitments, and workplace performance.

Summary and Conclusion

From an economic perspective, accountability is an instrumental way. It has individualizing and disciplining consequences. Instrumental accountability encourages transaction, not interaction. In order to compensate for the individualistic attitude and the mistrust between the transacting principal and agent, performance is safeguarded through monitoring, bonding and incentivization. Control in the economic sense is coercive. It is predominantly cybernetic of nature. As it underemphasizes the social relationship, a performance management paradox might occur; although performance management is intended to enhance performance, as a result of the social poverty and the mistrust that it reflects and even creates, it does not capitalize on the benefits of social relations and interdependencies.

An alternative conceptualization of the organization that does not originate from economic discourse is the organization as a social network of committed individuals who trust each other. Accountability in such social networks is framed in a relational way. It enables people to express their opinions, to commonly make sense of their activities and to legitimize their actions. Accounting creates a visibility in face-to-face encounters with rich communication. In creating that visibility, it enhances reflexivity and learning. It has the potential to mobilize (Mouristen, 2005).

Considerable progress has been made by scholars in understanding the nature, development, and maintenance of trust in organizations. Yet, this understanding has not been fully translated to the business community in a way that encouraged the actions necessary to reduce the growing trust deficit.

Business leaders should re-double their efforts to build better practices for communication and employee involvement, along with strategies for reducing employee vulnerability and dependence.

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