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DISCUSSION OF

Across the Great Divide: Bridging the Gap between Economics- and Sociology-Based Research on Management Accounting

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I. INTRODUCTION

Over the past two decades, management accounting has evolved into a discipline that is open to multiple theoretical perspectives. In addition to the rational agency paradigm that has been the mainstay of analytical and archival accounting research, a rich body of research uses sociological approaches to examine antecedents and consequences of management accounting and control systems. However, limited research bridges the perspectives or combines them into a seamless framework. Instead, the discourse sometimes takes an "either/or" flavor where research, scholars, and sometimes even journals, are grouped into silos. Modell's (2020; hereafter, Modell) article is a refreshing change from the tightly sequestered groups of scholarly research in accounting.

Modell reviews the economic and sociological perspectives and concludes that they display paradigmatic purity and therefore have not produced a unified socio-economic perspective. He argues that a critical realist approach can assist in providing such a view. Modell's article offers a promising direction that can inform accounting research and practice. In this review I (1) critique Modell's arguments regarding the limitations of existing sociological studies in accounting, (2) provide additional analysis of institutional and agency theories applied in management accounting, (3) discuss the role of structuration theory, where economic and sociological elements are intertwined, and (4) suggest additional thoughts on critical realism in accounting.

II. CRITIQUE OF MODELL'S CRITIQUE

Modell argues that there are four limitations of management accounting research that use institutional theory: first, the starting point in hypothesis development is invariably economics; second, there is an either/or thinking whereby institutional pressures are believed to constrain economic efficiency; third, research applies context-specific meanings rather than socially constructed meanings; and finally, research pays no attention to the constitutive roles of accounting practices. In this section, I primarily focus on Modell's critique of the "theory juxtaposition approach" because this approach has experienced popularity in archival management accounting research.

First, let us dissect the criticism that the starting point is economics. This is a fair criticism. I attribute this problem to two main drivers. The first is the practical goal of the researcher who wants to publish in accounting journals. The second arises from where accounting is situated within an organization. Regarding the first, a researcher who needs to publish to make tenure or obtain promotion already faces an uphill battle by selecting management accounting topics of study. Furthermore, most North American accounting journals are wedded to an econometric notion of cause and effect. Therefore, we observe accounting fads that chase an *empirical* notion of causality, rather than a *theory-based* notion of causality. These include the "structural model" fad of the 1980s, the "instrumental variable" fad of the 1990s–2000s, and the current "identification" fad. If the current debates in business schools are any indication, the next is likely to be the "analytics" fad, whereby researchers believe that causality will magically appear if machine learning techniques are applied to millions of observations of real time data. The second driver arises from where accounting is situated within organizations. Accounting researchers are

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organizational researchers, and therefore are not amiss if they use an overarching theory of the firm (however loosely defined). In order to survive and thrive, most for-profit organizations do need to adopt some semblance of instrumentality and economic rationality, otherwise they would not be going concerns. Therefore, I argue that research that uses economics as a starting point is neither flawed nor misguided. Indeed, I believe that researchers who dismiss economics as a starting point or are critical of any type of juxtaposition between sociology and economics are themselves guilty of the same error as the one they accuse the other camp of making. For example, researchers that apply critical realism in the field, take organizations as a given. Is not any particular organization simply other people's or systems' (such as legal or economic) representations of reality? Bhaskar's (1991) thesis is that there is a reality independent of our representation and that while there could be an intransitive world that is natural and unchanging, there is also a transitive world that is social and historical. When a researcher takes an organization as a reality, they are assuming an intransitive organizational field, which is the same error that economists make when they assume a rational, profit-maximizing organization. Thus, to be true to critical realist philosophy, researchers need to reconstruct organizations, rather than take for granted their legal and economic definitions.

Modell's second criticism of accounting research that uses the theory juxtaposition approach is that it uses an either/or thinking. I agree that a classification of pressures into institutional versus rational does exist in accounting research. One reason for this outcome is that historically, any accountant who used sociological theories was dismissed outright unless they showed how the economic equilibrium could be better explained or made richer when combined with insights from sociology (or psychology). An example of such research is in the area of "conformance," where researchers show that organizations adopt new practices or templates in order to be perceived as legitimate or appropriate, whether these practices or templates are performance enhancing, performance neutral, or performance diminishing (Heugens and Lander 2009). However, the institutional versus rational thinking also exists in sociology. Indeed, the theory of decoupling (DiMaggio and Powell 1983) uses an instrumental rationality framework to argue that organizations may adopt templates in policy but decouple them in practice if they do not pass some type of economic benefit-cost test or are not perceived as decision relevant. Scott's (2014) conceptualization of institutional theory proposes three pillars—regulative, normative, and cultural-cognitive—and discusses these three elements as a continuum where the regulative is conscious and legally enforced, and the cultural-cognitive is unconscious and taken for granted. Thus, I would argue that the analytical separation used by the theory juxtaposition approach is consistent with the sociological notion of institutions.

Third, Modell makes a valid argument that research in accounting is guilty of using context-specific meanings, such as using ownership forms as proxies for institutional constraints, rather than socially constructed meanings. Additionally, he argues that extant research pays no attention to the constitutive roles of accounting practices. Critical realism would request for a relational perspective where accounting systems are based on socially produced rather than naturally occurring human knowledge, dynamic and transient rather than static and permanent, and fallible rather than perfect. However, any given accounting, reporting, or control system is at a particular point in time, a given. Thus, to address this criticism, research must not only reconstruct organizations and redefine accounting, but also never conclude about any findings, because of their transient nature.

III. INSTITUTIONAL AND AGENCY THEORIES APPLIED IN MANAGEMENT ACCOUNTING

Institutional theory has indeed taken root in accounting in the past several years, with healthcare being a popular empirical setting. The primary questions that are explored in accounting research that uses an institutional lens are the contribution of rational versus social forces on organizational behavior, whether isomorphism is a reaction to economic or institutional pressures, and whether economic and institutional factors are mediators, moderators, or predictors of accounting choices. For example, Covaleski, Dirsmith, and Michelman (1993) use a healthcare setting to study the diagnosis-based reimbursement system that was instituted in the mid-1980s and was diametrically opposite to the prevailing cost-plus reimbursement system. They suggest that while the declared purpose of the diagnosis-based system was economic efficiency, the implied purpose was ritualistic. The objective was to create procedural order and institutional conformance. Balakrishnan, Eldenburg, Krishnan, and Soderstrom (2010) predict and find that hospital ownership and the attendant institutional pressures result in differences in outsourcing behavior. Eldenburg and Krishnan (2008) juxtapose agency and institutional theory to examine the effect of ownership structure on the use of accounting information for control. They find support for both agency and institutional views for the use of accounting information for control purposes.

Empirical studies that use institutional theory pay special attention to the regulative pillar because it conforms to the conventional economic assumptions of instrumentality and expediency. The regulative pillar can be conveniently operationalized as the presence or absence of regulations, and their nature and form, which provides the much desired "identification strategy" for empiricists. Additionally, the drivers and evolution of regulatory environments are assumed to be largely independent of the internal dynamics of the firm. To the extent that empirical studies employ a narrow time horizon for the analysis, the damage from the bias caused by the neglect of the constitutive roles of accounting practices is somewhat limited.

In terms of future research directions, there are some established topics in sociology and management that have potential to be studied in accounting research. For example, research could examine the effect of isomorphism of accounting templates on symbolic performance (that is, performance that produces positive social evaluations) as well as more economic notions of performance such as accounting and market performance (Heugens and Lander 2009). Research could also examine why some organizations acquiesce versus others resist (Oliver 1991) certain types of accounting templates. Finally, sociological theory emphasizes the contribution of professional organizations such as audit firms on isomorphism (Deephouse and Suchman 2008); yet this topic is underexplored.

IV. OTHER SOCIOLOGICAL APPROACHES

Structuration

A question that plagues sociological approaches such as institutional theory is conflation. When agency is institutionally embedded, either structure gets reduced to action, action to structure, or both (Archer 1982). The critical realist approach recognizes that social reality could be a given and could predate the actors and their actions. Often, actors *use* structures, but may not have the power to create them.

Structuration theory is another approach that recognizes the interplay between multiple powers. Structuration theory concerns bridging the gap between a deterministic, objective, and static notion of organizations (espoused by agency theorists or other rational theorists) and the random, subjective, and dynamic notion (espoused by interpretive humanists such as Macintosh and Scapens [1990]). Structuration theory (Giddens 1976, 1984) emphasizes the duality of structure and agency. It posits that institutional practices shape human action and these actions cause changes to the institutional structure (Barley 1986). Giddens (1979) views the structural properties of any social system at a given point in time as the medium for practices as well as the outcome of practices. In essence, structuration seeks to construct a bridge between the objectivists who perceive a hard social reality sans actors, and subjectivists who disbelieve in a social reality outside the interpretations and perceptions of actors.

Structuration theory studies three key dimensions of social systems—signification, domination, and legitimization. Signification refers to a cognitive and abstract dimension organized around semantic codes that provide meaning to a social system. Actors situated in the social system interpret and apply these cognitive structures and communicate through stocks of knowledge, skills, and rules. Domination refers to the process by which power over resources, property rights, and knowledge capital is generated and distributed to agents in the social system using both allocative and authoritative means. Legitimization, like the institutional notion, confers a moral dimension to the structure and operates through norms and social pressures. Barley (1986) applies structuration theory in a healthcare setting in the context of adoption of new CT scanner technology in two hospitals. Barley (1986) shows that technology can become a social, rather than a physical object, and can alter structures and institutionalized interactions. Later work in technology adoption has used structuration theory to study *appropriation,* where the technology is used differently than its original use (DeSanctis and Poole 1994), as well as the *duality* between structure and agency where the process of adapting the technology to the context and the process of adapting the context to the technology occurs parallelly (Orlikowski, Yates, Okamura, and Fujimoto 1995).

Management accounting is a socially constructed system where organizational actors construct, reconstruct, and interpret accounting systems depending on how they personally interact with the system and their exposure to other structures and processes during the course of their interactions (Macintosh and Scapens 1990; Ahrens and Chapman 2007; Chua 1988). A study by Krishnan, Mistry, and Narayanan (2012) uses structuration theory and conducts a longitudinal field study of user acceptance, adoption, and attitudes toward a new accounting system in a pharmaceutical company that replaced activity-based costing with the theory of constraints. Future research could combine structuration and critical realism to examine if accounting systems have agency that is independent or linked to organizational actors, how these systems are interpreted, whether these interpretations change, conditions under which accounting systems can destabilize the social order, and the reciprocal relations between accounting and the social order of organizations.

Agent-Based Models

Standard empirical tools fall short in studying and analyzing systems that can exist independent of our knowledge of them (detectible and undetectable phenomenon), that may not follow law-bound patterns, and operate at different levels of realism. Management researchers have suggested agent-based modeling as another empirical tool that is consistent with critical realist theories (Miller 2015). Agent-based models develop process theories of how causal mechanisms translate into system dynamics and thus capture the "being" (entities) and the "becoming" (processes). Miller (2015) argues that "agent-based models promote ontological clarity by focusing researchers' attention on the properties and relations of people and things, and their dynamics over time." Accounting research can apply agent-based modeling tools to better understand management accounting design and outcomes.

V. FURTHER MUSINGS ON CRITICAL REALISM AND ACCOUNTING

Modell argues that for a wholistic perspective, it is important "to combine emic and etic perspectives to delve into the complex causal relationships that give rise to context-specific events as well as more generally occurring tendencies." I agree that accounting is generally guilty of an etic view where universal laws (such as wealth maximizing agents or profit maximizing firms) are applied to social systems and actors within the system. One small case in point is the theory of moral hazard, which has its roots in insurance risk where insured individuals take more risks than they would if they were uninsured. In accounting, moral hazard refers to the possibility that an organizational agent (such as a manager or an employee) will shirk or use asymmetric information for personal gains. An etic view on moral hazard permeates in accounting, with the attendant proliferation of research that tries to find solutions to moral hazard via the design of accounting and control systems. The moral hazard framework is an example of a rigid application of the etic view, which does not consider differences in organizational strategy, culture, patterns of communication, and so on. This is surprising because the term "moral" has never had a straightforward definition in English or other languages. Philosophers have long debated about the meaning of the term "moral." The neutralist view of a moral principle is simply whether any particular person holds the principle as one that overrides all other principles. The descriptivist view provides a form and content to morality based on the context. For example, if people in a system agree that morality is associated with suffering and happiness, then a moral judgement is one that is connected to suffering and happiness. Moreover, important in this definition, is that the suffering and happiness of all individuals should be equally important and no one individual has greater claim to happiness (Singer 1973). Obviously, the accounting notion of moral hazard, wherein we feel an urgent need to design control systems to prevent an employee from shirking because such shirking behavior reduces the wealth of the owner simply does not pass the philosophical definition of morality. Morality is simply not amenable to an etic approach. A combination of the emic and the etic views would require that we simply refrain from using value-laden terms such as "moral" hazard as though they are scientific principles. Instead, we should begin with the position that the accounting researcher's world assumes that shareholders have a greater claim on the wealth produced by the organization relative to the employees and therefore accounting and control systems should be designed to transfer the maximum extent of wealth to the shareholders. Then, we can leave it to other readers to decide whether they agree or disagree with this assumption of the all-deserving shareholders and the undeserving employees.

VI. CONCLUSION

Modell's position that we need to take accounting research beyond the paradigmatic considerations makes a lot of sense. As researchers, our access to knowledge about organizations' accounting systems is almost always mediated by other actors and systems. We begin our research with a stock of existing theoretical frameworks that were provided by other researchers and that constitute their subjective views and opinions. We access organizations through agents that apply their own interpretative lens when they explain the systems to the researchers. Given that organizations are constantly shifting and evolving, it is important that as accounting researchers we celebrate the evolution and attempt to study accounting in a more nuanced manner, rather than dressing accounting systems into etic-based straightjackets.

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