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COMMENTARY

Critical Realism in Management Accounting Research: The Relevance of the Work of John R. Commons

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ABSTRACT: This paper re-affirms Professor Modell's argument as to the importance and potential contributions of viewing economic relationships as intricately tied with social concerns. As such it is fruitful for management accounting researchers to conceive of such notions as economic agency and rationality as being socially constructed phenomena. Here I draw heavily from the work of early institutional economists such as John R. Commons who was among the earliest to recognize the importance of working rules around transactions such as accounting in social decision making and resource allocation.

Keywords: economic agency; socially constructed; institutional rules; transactions; governance structures.

The notion of *critical realism* as defined by Professor Modell (2020) is a robust focal point to bridge the gap between economics and sociology-based research in management accounting, with a particular focus on where these two traditions might converge through transaction cost economics and institutional theory. This recognition of the duality within management accounting in terms of its relevance to the economic imperative of enhancing efficiency, but also to the wider concerns of social legitimacy, serves to enrich our conception of management accounting as *both* responding to changes in socioeconomic contexts as well as contributing to the social construction of emerging notions of economic rationality. Such recognition of the intertwining of economic and social concerns in specific contexts helps serve to avoid conceptions of economic actors as isolated, self-interested, and rational agents operating in a social vacuum, which results in an under-socialized view of how economic relationships come about and are sustained (Granovetter 1985). As such, Modell (2020) provides a cogent argument for a view of economic relationships as intricately intertwined with social concerns where management accounting researchers conceive of notions of economic agency and rationality as socially constructed phenomena.

Perhaps at the forefront of revealing the latent potential benefits of bridging the gap between economics and sociology-based research by conceiving notions of economic agency and rationality as socially constructed phenomena, is the work of early 20th century University of Wisconsin institutional economist John R. Commons (1893, 1924, 1934, 1965). The major concern for Commons was that the construction of purposeful collective action is invariably contested; thus, his focus was on the "rational" deployment of public resources that are supported by a complex set of such rationalizing techniques as accounting to solve broad social problems (McCarthy 1912; Hays 1959). Furthermore, Commons recognized that an important part of organizational uncertainty, politics, and social construction is the issue as to who is being constrained or influenced, as well as how this influence is being imparted. As observed by Covaleski, Dirsmith, and Samuel (2003), Commons' emphasis on volitional behavior in organizational and social relations raises the issue of purposeful selection to achieve strategic ends (Parsons 1985) which, in turn, is aligned with Modell's (2020) focus on the lived experiences of organizational actors in the meanings they attribute to management accounting.

Stinchcombe (1997, 4) also credited Commons for his emphasis of economic agency and rationality as socially constructed phenomena when he stated that "people ran these institutions by organizing activities on their behalf. Institutions were, in the first instance, created by purposive people . . . Thus, that in order to better understand the dynamics of how institutions of governance work, it behooves us to imitate such institutional economists as John R. Commons." On this point, Merino (1993, 163) had a particular focus on the "pecuniary calculus of accounting" and Commons' (1907, 1910, 1913) conception of

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organizations' use of such impersonal, rational forms of administration to regulate various industries. Such social construction and use of accounting provided the economic generalizations that served as systems of rationalization for the on-going system of economic power embedded in the oligopolistic markets of the time (Merino 1993). Here Covaleski et al. (2003) stated that both Merino (1993) and Stinchcombe (1997) advanced the importance of Commons' early recognition of economic agency and social construction of rationality as evident in Commons' (1924, 149) comments that "the state is not the people," nor "the public"; it is the "working rules" such as accounting that served to legitimize one system of decision-making (calculated criteria thought to be objective and rational) above another system of decision-making (the give-and-take of political debate).

Extending Commons' focus on the importance of bureaucratically organized forms of administration, Van de Ven (1993) observed that Commons must be credited with anticipating the work on transaction cost economic theory by Oliver Williamson. Van de Ven (1993) argued that Commons approached questions of efficiency within a broader context that emphasized power relationships, distribution, and the need for a reasonable framework of institutional rules. Commons argued that although courts primarily consider issues of efficiency and scarcity, ethical criteria of justice, equity, and fairness are equally present as well. Therefore, Commons offered a volitional theory that located the source of institutional change in conflicts between purposeful individuals within collective action, not based on organizational assessments of transactions that are exclusively based on reducing transaction costs (Van de Ven 1993). Commons' replacement of natural selection with artificial selection places human willfulness and values at center stage inside (not outside) of the conceptual framework.

The core of Commons' notion of institutional economics is his characterization of institutions of governance as not being simply a response to organizational process demands but, in addition, often serves to integrate relations among organizational actors' parties in conflict due to contentious institutional structure and processes. In turn, this characterization of institutional economics underpins Williamson's (1991) emphasis on the importance of human willfulness and values as the core issue of organizational analysis that spawns underlying conflict, tension, and opportunism. This common thread between Commons and Williamson highlights that organizations are both responding to and constructing these transactions, thus rendering organizational processes and governance of economic activities endogenous. This attribute of endogeneity is critical because it is the basis for the content and meaning of these transactions being characterized as socially constructed, thus further enhancing the influence of Commons on Williamson's work around the importance of embedding the study and definitions of efficiency within a broader social and organizational context that emphasizes power relationships around institutional rules. Here, Williamson (1990, 187) stated, "[Herb] Simon proposed that the 'decision premise' be made the basic unit of analysis. An alternative unit, proposed earlier by John R. Commons, has proved more promising. That the transaction is the basic unit of analysis." As Williamson (1985, 3) argued:

> The proposition that economic organization has the purpose of promoting the continuity of relationships by devising specialized governance structures, rather than permitting relationships to fracture under the hammer of unassisted market contracting, was an insight that could have been derived from Commons.

In short, Covaleski et al. (2003) identified Williamson's (1985, 1993) intellectual heritage to Commons (1934) primarily based on the importance of transactions in organizational governance structures and the institutional environment. These societal rules embedded in the rules of transactions impact organizational governance structures life not simply as input to operational economic decisions and behavior but, more importantly, also as a meaningful influence in the social construction of normative and cognitive frameworks that govern behavior. As such, Williamson (1985, 1996) appropriately credits Commons (1934) for transaction cost economics' recognition of the highly endogenous and reciprocal nature of relationships around transactions between organizations and their environments.

Just as Williamson (1987) credited Commons for recognizing the significance of transactions as a critical part of governance structures, DiMaggio and Powell (1991) acknowledged that Commons' "explanation for the historical evolution of forms of strategic transactions and the kinds of organizations" (Covaleski et al. 2003) that host these strategic transactions is consistent with the views of contemporary institutional scholars who see the nature and origin of social order as a process of institutionalization in which an organization's survival depends as much on ceremonially conforming to social expectations as it does on achieving high levels of production efficiency (Scott 1987). Here, Stinchcombe (1997) observed that early institutional theorists, including Commons (1934) and Selznick (1949, 1957), well recognized that displays of commitment were critical in building and maintaining institutions. Furthermore, a critical issue in enhancing the legitimacy of organizations is that the centrality of definitions (Friedland and Alford 1991) such as budgeting can serve to build trust in the administration of organizational relationships. While organizations seek to effectively shape key definitions of expected behavior through such tools as budgeting, individuals subject to their influence, in turn, may also use these organizational rule systems to their own advantage through their strategic reinterpretation and manipulation.

Extending this argument, Janowitz (1978, 400) observed that organizational institutional theorists have focused on budgeting because of its prominent role in institution building, which involves "those conscious efforts to direct societal change and to search for more effective social controls which are grounded in rationality." Therefore, institutional theory has proposed that part of the cultural iconography captured by the term "legitimacy" involves the existence of credible collective accounts (e.g., rational explanation through such tools as budgeting) of what an organization is doing and why (Janowitz, 1978, 400; see, also, Meyer and Rowan 1977; DiMaggio and Powell 1983; Meyer and Scott 1983; Jepperson 1991). As such, according to institutional theory perspectives, the role of budgeting in forging organizational legitimacy is not considered so much as an operational resource to be managed, but as representing a set of constitutive beliefs and cultural perceptions reflecting how organizations should be understood and evaluated (Carruthers 1995; Carruthers and Espeland 1991). In short, DiMaggio and Powell (1991, 2) argued that Commons provides a pragmatic and volitional theory of institutions that addresses the micro-macro link of how economic relationships are intricately intertwined with social concerns where we need to conceive of any notions of economic agency and rationality as socially constructed phenomena:

> The resurgence of interest in institutions also harkens back to an older tradition of political economy, associated with Veblen and Commons ... institutional economists sought to understand the mechanisms by which social and economic actions were carried out, but saw political, social and economic behavior as something more than merely the aggregate consequences of individual actions. The institutional school of economics was united by a common conviction that institutional arrangements and social processes matter a great deal. In short, organizations and social actors of Commons' era were not only efficiency seeking, but rather were also legitimacy seeking—a duality that continues to this day.

In summary, March and Olson (1983, 292) emphasized that a critical characteristic about organizational symbols such as managerial accounting information is the *duality of meaning* that can be embedded in this information:

> The argument is not that symbols are important to politics, although they certainly are. Rather, *the argument is the reverse—that politics is important to symbols, that a primary contribution of politics to life is in the development of meaning*. It is not necessary to decide here whether decision-making and the allocation of resources are symbols and the construction of meaning are more fundamental. They are heavily intertwined, and discussion of primacy may obscure that fact (emphasis added).

On this point, Modell's (2020) notion of *critical realism* resonates with this message because it is "deeply rooted in the lived experiences of the actors involved in the construction of management accounting practices and the meanings they attribute to such practices," and thus recognizes this duality in management accounting information. The "concept of 'efficiency,' as developed within the institutional economics framework of John R. Commons, was not merely instrumental in character" (Covaleski et al. 2003). Furthermore, "societal rules enter organizational life not merely as adjustments to the costs and benefits of specific instrumental behaviors, but also as pervasive normative and cognitive frameworks implicated in the social construction of reality" (Covaleski et al. 2003). When one considers the richness of the merging of the economic and sociological dimensions of control structure choices, the relationship between organizations and environment is a highly endogenous and reciprocal one and, as such, management accounting practices both "respond to changes in their socio-economic contexts as well as contribute to the social construction of emerging notions of economic rationality" (Modell 2020).

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