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## Management accounting and the institutionalization of trust

### Abstract

The crucial role of trust in the realization of effective organizational relationships has been widely acknowledged among researchers within various disciplines as well as among practitioners. In this paper it is argued that trust is not consumed by its use; conversely, by its use trust is enhanced. An attempt is made to explore and discuss how trust appears in management accounting contexts and it is elaborated on how management accounting can facilitate but also impede trust relationships. It is claimed that if the perspective of accounting as an institutional factor is adopted, where institution-based trust is inherent, accounting has a role in contributing towards establishing trust. Management accounting provides us with norms and rules that facilitate meaningful interpretation of financial facts and contributes to the stability of daily activities. Three typical symptoms of distrust are identified, i.e. distrust between the evaluator and the evaluated; distrust of the management accounting figures; and distrust of the management accountant. With lack of trust in the accounting figures, trust in the management accountant, and trust between the employees and the managers, trust within the organization may collapse. With trust in intra-organizational relations, it is possible to talk about trust as an institution in the organizational context.

**Keywords:** trust, distrust, management accounting, institutional theory, performance evaluation.

**JEL Classification:** M41.

### Introduction

The crucial role of trust in the realization of effective organizational relationships has been widely acknowledged among researchers within various disciplines as well as among practitioners (Harding, 2006). Furthermore, substantial interest has been directed towards the issue of how trust can be created and maintained in an organizational context (e.g., Davis et al., 2000; Dirks and Ferrin, 2001; Johansson and Baldvinsdottir, 2003). Although it is commonly accepted that in every society there must be some 'generalized morality level', we do not have a general agreement regarding the determinant of trust. This is due to the fact that the concept of trust requires knowledge of its particular context, and requires an examination of the nature of the parties' relation. Its determinants can vary since trust takes diverse forms in different relationships, depending on the stage of the relation, and how this relation has developed.

We certainly have to be watchful of those signals indicating there is no basis for trust to develop, but at the same time we have to be able to extend our trust in order to develop our relations. Thus, in an organization where people first and foremost strive to perform their own working tasks, and where control of others' performance comes second, we have to trust others and encourage them to trust us (Dekker, 2004). In a business environment this would mean that relations between management and em-

ployees that are imprinted by trust would lead to an increase in organizational efficiency. This is because both parties would assume that the other one would act not only in his or her own self-interest, but also would consider the common goals of the organization (e.g., Lewis and Weigert, 1985; Zucker, 1986).

Bearing in mind the important features of accounting figures for performance evaluation, their trustworthy value cannot be stressed enough. Surprisingly, with the overall focus on efficiency in today's companies and the intensified use of performance evaluation measurements, the question of trust is not yet established on the agenda in accounting research (Tomkins, 2001).

The aim of this study is thus to discuss if the management accounting practice and profession contribute to increased trust in general, and to increased trust within organizations in particular.

### 1. Theoretical framework

In recent decades, institutional approaches have constituted an increasingly common framework in organizational research. This growing interest is noticeable within several disciplines, such as sociology, economics and political science (e.g., Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983; Williamson, 1975, 1985; March and Olsen, 1984). A reason for this interest is the stress institutional theory puts upon regulatory systems, such as, for example, accounting. A further reason for the popularity of this type of research is that it highlights the historical reality within which the company operates. The emphasis upon history and time leads research inevitably towards those processes of change that may have taken place within a company as well as to their consequences. It also

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permits insights into the individual company's unique development and the way in which this development has produced those institutional bases that have formed the company (e.g., Selzenick, 1957; Berger and Luckmann, 1967).

**1.1. The trust concept.** The concept of trust has been given great significance within several academic fields as well as among practitioners and consultants. Although definition of the trust concept varies, most definitions are based on a theory of moral and ethical action. In its most elementary form, trust can be described as the fulfilment of a person's positive expectations concerning the outcome of a certain event or action (e.g., Meyer et al., 1995; Fukuyama, 1996; Das and Teng, 2004).

*1.1.1. Trust and the 'good' society.* The reason for the attention given the concept of trust is due to the common perception of trust as 'good' (e.g., Uslander, 2002). A relation that is characterized by trust is assumed to lead to voluntary cooperation resulting in benefits for those parties who are involved in the relation. At the same time, trust is assumed to reduce complexity since with trust it is possible to reduce the number of improbable scenarios. Attributes commonly ascribed to individuals who are involved in trusting situations are integrity, competence, consistency and loyalty (Butler and Cantrell, 1984). All four characteristics are regarded as moral values – values considered to contribute to the creation of a good society as it is described within normative philosophy (Rawls, 1967; Hosmer, 1995).

A good society is a society where its members by free will act in a way that benefits all. How such a society can be achieved has occupied the minds of the majority of well-known philosophers over time. Various sets of decision rules that should be followed in order to create the good society have been suggested. The alternative perspectives from the classical ethicists avow that a good person "should act not for his or her short-term self gain only, but for a mixture of that gain together with his or her vision of the future (Protagoras), his or her sense of self-worth (Aristotle), his or her goal of community (St. Augustine), his or her fear of retribution (Hobbes), his or her calculation of social benefit (Mill), his or her understanding of universal duty (Kant) or his or her recognition of individual rights (Jefferson)" (Hosmer, 1995, p. 395). The ideal perspective is still to be found but each perspective provides an alternative understanding of a moral problem.

Common to these perspectives is the ambition to limit the actor's self-interest and encourage him/her to take into account other individual's valid self-

interest. A decision maker who looks past his/her self-interest will create trust among members of the organization. Thereby, the possibilities of collaboration (beneficial to all involved parties) between members of the society will increase, resulting in a good society for all. The point of departure here is that trust allows individuals to engage in voluntary cooperation, partly because it is beneficial for themselves, but also because it contributes to the well being of others.

*1.1.2. Trust, vulnerability and confidence.* An individual with a secure and stable self-identity has the courage to expose herself to the vulnerability which trusting implies (Giddens, 1991). The vulnerability occurs when the trusting person (the trustor) delegates the control over the outcome to the person she trusts (the trustee) (Zand, 1972). The vulnerability stems also from the trustor's dependence on a positive outcome from the trustee's actions, since the trustor would be worse off if the trust was violated by the trustee, than she would have been if she had not entered into a trusting relation (e.g., Lorentz, 1988; Chiles and McMackin, 1996; Ring, 1996; Nooteboom, 1999). To trust someone means that the trustor is confident that the trustee will act in a way that is beneficial to the trustor, or at least in a way that will not cause harm to the trustor. This means that the view of the human being as solely a self-interested and profit-maximizing individual has to be abandoned. To engage in a trusting relation it is assumed that the trustee both values and looks after the trustor's rights and interests. This does not mean that the trustee's own self-interest is neglected, since it is based on insights about how it, in the long term, can be combined with others' (i.e., the trustor) valid self-interest (Wicks et al., 1999).

To trust another person involves specific expectations that the trusted person will act in a way that benefits one's interests, or at least does not harm one's interests. To trust is, however, not only to hold specific expectations. To trust is to feel secure that the trusted one will act as expected (e.g., Sheppard and Tuchinsky, 1996; Chenhall and Langfield-Smith, 2003). The question of trust comes up only in a specific context, i.e., the one that is trusted can through her actions harm the one who trusts. Thus, trust involves the acknowledgement of one's vulnerability to those actions and choices made by the trusted one. Trust means that the one who trusts will not try to protect herself from the actions of the trusted one, but will expose herself to the actions the trusted one chooses to carry through. To trust is, therefore, to act in a certain way in a relation, i.e., we only trust in situations where another individual is in the position of harming us, and hence to trust will always involve a situation of risk (Mayer et al.,

1995). Trust relations therefore always imply a lack of power symmetry. When there is no vulnerability to the power of others, the question of trust will not arise (Brien, 1998).

*1.1.3. Trust and openness.* When interacting with another person, we create an image of this person. We come to conclusions about his/her abilities, beliefs and values. We then will make our judgements about this person's character and reliability. It is by knowing something about the history of this person that we form considered trust judgements about him/her. Although we often face situations where we are required to trust people we do not know, trust develops over time and is maintained through knowledge about others and their history (e.g., Tomkins, 2001). The process of developing trust can be facilitated by openness, that is, by openly demonstrating one's motives and by showing conformity between words and actions. One can promote trust in oneself by demonstrating one is a reliable, thorough and sincere person 'that does the right thing' (Brien, 1998). On the other hand, we do not trust individuals who fail to conform to the norms of our community. If we believe trust is good, for us as individuals, for our companies and for our society. Having established the importance of trust for the good society, an entitled question is: how can the management accounting practice and profession contribute to increased trust in general, and to increased trust within organizations in particular?

**1.2. Management accounting as an institution.** The type of trust referred to here, when discussing management accounting and trust can be labelled knowledge-based trust. This is the type of trust Tomkins (2001) emphasizes when he says that trust is grounded in interactive learning and experience.

The belief that we live in a reasonably predictable world is the cornerstone to all co-operations, and the foundation for both planning and action. Trust is built up through repeated actions with consistent reactions. In new situations, however, trust may be extended to someone who is unknown to us, and judgements about continuing, withdrawing or extending the trust further will be based on the outcome of the actions taken by the trusted one (Mayer et al., 1995). This is what we can consider as institutionalized trust.

*1.2.1. Institutions.* Institutions consist of constitutive, normative and regulative structures that provide stability and meaning to social behavior. Institutions are sustained by various carriers – cultures, structures and routines – and they operate at multiple levels of jurisdiction (Scott, 1994). Within Old Institutional Economics (OIE) an early definition of institution by Hamilton proposes that an institution is:

"[...] a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people" (Hamilton, 1932, p. 84). This definition highlights the social and cultural characteristics of an institution and stresses the importance of habitual behavior. According to Hodgson (1993), habits are personal while routines may involve groups and are thereby components of institutions. Institutions themselves, however, incorporate particular patterns of thought and action that are common to a specific community (e.g., a company) and which are founded upon routines, habits, norms, customs, traditions and culture (Hodgson, 1993a). In other words, routines are formalized or institutional habits. Institutions may be seen as the social linkage of human activities, partly through the creation and recreation of habitual thought and action. In general, it may be said that institutions represent normative patterns that define – within a particular group or society – the appropriate, legitimate or expected methods of action and social relations.

*1.2.2. Patterns of thoughts and management accounting.* Fundamental to OIE's perspective is the assumption that management accounting processes are highly routinized in most companies (Scapens, 1994). Moreover, management accounting reinforces particular patterns of thought and action. Management accounting plays an important role in modern commercial company routines and an increasingly prominent one in the routines of other types of organizations. Nevertheless, it may be pertinent to point out the fact that accounting is not at the center of the institutionalized routines but is, instead, a part of a company's routine structure. The regular performance of management accounting over time (i.e., budgeting, cost analysis and performance evaluation) often results in the routinization of these activities. Regular usage of management accounting information, such as cost and profit reports, influences the company's shared perspective of how 'things are' and/or how 'things ought to be'. The existing management accounting routines and institutions are maintained since it is taken for granted by the organizational members that they represent the 'right' way to act and think within the company (Burns and Vaivo, 2001).

Patterns of thought and action that reinforce general visions of good profitability in many companies are, for instance, company rules demanding that members take responsibility for their budgets or sales forecasts and thereby contribute to the company's profits. Management accounting routines utilise the organisation's members accepted manner of performance, and routines are strengthened the more they are used. Budgets are prepared, results measured and reports produced in a regular and routi-

nized manner in which clear rules and procedures are employed (e.g., Drury, 2006). Management accounting provides us with norms and rules that facilitate meaningful interpretation of financial 'facts' and can thus be viewed as an institution itself, which, with its measurements and control possibilities, manages information and contributes to the stability of the daily activities. There are, however, also cases where the routines work in the opposite way, i.e., where they contribute to ineffective ways of working (Burns and Scapens, 2000).

According to Macintosh and Scapens (1990), the accounts provide a scheme for the interpretation of the company's activities. Since accounting is generally institutionalized, though in varying degrees, we may use it to predict and understand activities and thereby reduce uncertainty. Through accounting, facts may be produced in an uncertain world (Hopwood, 1994). With the assistance of accounting routines, the company's complex, dynamic and usually unpredictable daily activities may be reduced to something that is felt to be simpler and more manageable. The ongoing usage of accounting routines therefore creates stability within the company and thereby increases the organization members' potential to predict the outcome of specific actions. Management accounting routines can thus offer a consistent and coherent base that is understandable to the organization members and is useful for predicting the outcomes of one's own, as well as others', actions (Macintosh and Scapens, 1990). In this context it may be said that accounting routines define the area for economic processes within the company by controlling the means through which financial processes are made visible.

**1.3. Institutionalized trust and management accounting.** Trust is not consumed by its use; conversely, by its use it is enhanced (Brien, 1998). We tend to believe that a person, who habitually acts ethically, will act ethically on most occasions. If trust is fulfilled on one occasion, it will reinforce the image we have of the trusted one as trustworthy. We tend to continue to trust this person in the future. We feel secure that this person will perform the actions she has undertaken or those actions we expect her to undertake. We also feel secure that this person will not take advantage of our vulnerability and will act in a way that supports our interests. We conclude that such a person is trustworthy. This means that a person who wants to be found trustworthy has to behave ethically, i.e., in accordance with the norms that are prevalent in the community. If it is unlikely that an action will be found as promoting trust, it is also unlikely that this action will be perceived as ethical. To be found trustworthy on one occasion is likely to encourage

most individuals to perform their tasks in accordance with expectations since inevitably the next task they are assigned will lead to greater responsibility and importance. Also, using this institution of trust within one area will promote the use of trust within other areas, thus increasing the general freedom of people acting within the organization. As a result, there will be fewer hindrances and less monitoring within the various relations trusting people engage in. By this use of trust, trust will increase with all the benefits that arise from it.

A culture of trust can be promoted through the institutionalized use of management accounting. When management accounting, with its routinized and stable qualities, is used in a sensitive manner, it will encourage trustworthy and ethical behavior. If the use of management accounting focuses on beliefs, norms and values that emphasize trust, it can support a culture of trust. This includes the management accountant's respect for individuals and their sincerity, honesty and engagement in their tasks. When this type of culture is created, actions working against trust will be replaced. This result can only be achieved through education concerning the importance of trust and ethical behavior. People act as they do because of the values they have, values about what is good or bad, right or wrong, important and unimportant. If a person believes that trust is important, this person will have good grounds to perform acts that she believes promote trust (Brien, 1998).

## 2. Discussion

If the perspective of accounting as an institutional factor is adopted, where institution-based trust is inherent, accounting has a role in contributing towards establishing trust. However, control has traditionally been seen as one of the most important functions of accounting and control can hardly be seen as a trust developing mechanism. On the contrary, control is only needed when trust is insufficient. It can therefore be said that noticeable contradictions between trust and control exist, in view of the fact that if we were confident about the positive expectations concerning the other party's actions, the need for control would not arise (Seal et al., 1999; Tomkins, 2001). The objection to this is that trust cannot exist without at least some knowledge and control of the other party's intentions. A relation between two or more parties moves within the span of various trust levels, and it is in the interaction between people, that we learn what to expect within that relation. The knowledge about what to expect is controlled continually. Depending on the outcome, this in turn leads to adjustments within the span of trust and in the required control. It is by this control that knowledge about the other party's intentions can be at-

tained and it is possible to say that we have a positive exchange between control and trust.

**2.1. The accountants' self-assumed role.** Management accounting is a distinct type of occupation. It is expected that members of professions have specific theoretical knowledge and practical skills that are aimed at solving real human problems, i.e., there is a dimension of social responsibility within the etiquette of what is labelled as a profession. Professions are needed to make complex knowledge available for those who are not in the position of possessing that particular knowledge. The profession of management accounting is seen to be both important and powerful in today's society. It is important since members of a profession, through education and work experience, possess specialized knowledge that is needed, but is not available to all members of the society. Professionals are powerful since they master their knowledge and can to a certain degree control how it will be used (Brien, 1998). Therefore, society and its members are dependent on and vulnerable to the actions of members of professions, such as management accountants, e.g., how they produce, present and use accounting figures in specific situations.

The traditional responsibility of the management accountant has been as a distant supplier of objective accounting figures to the users of accounting information. This passive role means that the accountant in general is not involved in the relation between the evaluator and the evaluated in, for example, performance evaluation situations (e.g., Hopwood, 1994; Friedman and Lynn, 1997). Demands for greater financial awareness among organizational members have, however, made it apparent that another type of accountant is needed if such demands are to be met. It has been argued that the integration of the accountant within process teams with daily face-to-face interaction is crucial in order to build up the trust relationship necessary for constructive dialog. This type of an active and jointly responsible accountant, who steps out of the distant, critical and objective role, has a greater chance to contribute to a 'better' use of the accounting information (e.g., Burns and Baldvinsdottir, 2005). The consequences of such a change in the self-assumed role of the accountant might be far-reaching.

If the habits of the management accountant bring about closer association between her and the users of the accounting information, it will inevitably lead to changes in the institutional use of management accounting. Day-to-day interaction and close relationships will lead to a higher degree of initiation into the accountant's specialized knowledge and consequently the surrender of some of the professional

codes that distinguish the management accounting profession. Thus, the users of management accounting information will gain greater influence over and knowledge about the financial aspects of their activities. This means that in order to use accounting to create trust, the professional code of what it means to be a management accountant may have to change. This would mean a change from the role of a distant, critical and objective outsider, towards a management accountant who is active and jointly responsible with other users of management accounting figures and who contributes to the building of sustainable relations between organizational members (Johansson and Baldvinsdottir, 2003).

**2.2. The management accountants' use of the figures.** Time as well as consistency of actions is essential for trust to develop (Tomkins, 2001). Trust can be created and built up through the framing of new habits that are based on trustworthy behavior. In her communication with others, the management accountant has the possibility of putting her actions on display and openly showing how those will affect judgements of others. Evaluations can be made to judge or to evaluate. As long as the judgemental side of management accounting is de-emphasized and instead, negotiated evaluations that are made by the parties are accentuated, management accounting will not influence trust negatively. The longer the actions of the management accountants are perceived to be consistently competent, benevolent and upright by those who are affected by their actions, the more likely trust in the accountants, as well as in the information produced by them, will develop.

By acting supportively both to the ones who evaluate performance and to those whose performance is evaluated, the management accountant can create habits of trust around the use of management accounting in performance evaluation situations. The recurrent and predictable character of management accounting can constitute a sense of security for the parties involved in performance evaluation procedures. Although a manager strives to evaluate her employees' performance in a neutral and somewhat distant way, this can be done in a climate that is descriptive and with the possibilities of negotiating new answers that satisfy both the evaluator and the evaluated. The management accountant can assist in this process by holding a provisional attitude towards the initial figures, and by being open to new and possibly better information. Evaluation that is characterized by such supportiveness is more likely to diffuse feelings of anxiety often associated with performance evaluation. If the management accountants are to act as negotiators between the evaluators and the evaluated, it will demand interde-

pendency, diplomacy skills and sensitivity towards the needs of both parties (e.g., Sotto, 1983).

With a foundation in the figures, it is possible to create patterns of actions that establish trust. Management accounting can be a means of clarifying and regulating relations and may thereby contribute to greater stability within the organization or among various organizational members. When used sensitively, management accounting can create negotiated facts, and thereby trust in others' actions can increase (Baldvinsdottir, 2001; Nørreklit et al., 2006). There should be no question marks raised about the 'fairness' of the accounting figures.

**2.3. Listen, listen, listen...** One of the characteristics of trust is that the more there is of it, the more it increases. If we act in a trusting way in our relations with other individuals, with open eyes for the consequences of such actions, trusting will gradually turn into a habit. In turn, by habitually displaying our trust in others, we will encourage others to trust us. The result will be that before long, others will also trust us habitually. When individuals act in a trustworthy way, it will create trust in them and their actions. And when individuals feel that they are trusted, they will try to show that they are worthy of that trust. This means that trust creates trust. By our habits, we can show that we trust others and thereby it will be possible to contribute to the creation of a culture of trust.

Accounting can be viewed as a specific type of language, i.e., the language of business, which implies continuous evaluations of actions in various situations (McKernan, 2006). When performance evaluation results in questioning or criticism of an individual's actions, it can result in a threat against their position in the organization. If it is a larger unit, such as division or the organization as a whole, that is questioned or criticized, the individual's position may be threatened indirectly – although without demands for personal responsibility. Thus, the accounting language's propensity for making people feel threatened should not be underestimated. One reason for this can be that the use of the accounting language as such creates distance, i.e., a division into groups of those who evaluate and those who are evaluated. It is here the management accountant has an important role to play. By practicing her diplomatic skills and by being sensitive to nuances in the evaluation, the management accountant can support negotiations regarding the evaluation's content. This would ultimately imply a new feature for the management accountant's role, where she also would facilitate the communication between the evaluator and the evaluated. To do so, the accountant has to

make sure that the evaluator's expectations are understood by the evaluated and that the explanations from the evaluated are understood by the evaluator (Johansson and Baldvinsdottir, 2003).

Communication implies that all involved parties are granted space for expressing their views and that everyone can expect that their viewpoints will be taken seriously. However, to be able to express one's own point of view and to listen to others, we have to use the language in a way that promotes such a process. This can be achieved through negotiations that in turn will lead to re-descriptions of evaluations and of evaluation content (Rorty, 1989). The management accountant will thus be a co-creator of the 'best description' of how the performance evaluation is brought about. This description may not correspond fully to the best description of the management accountant, the evaluator or the evaluated. Nevertheless, it is the best description they can agree on. This in no way implies a management accountant who is neutral about values; instead, this means that we leave the image of the management accountant as an interpreter of the true state of affairs.

To conclude, this paper has presented three different symptoms of distrust have been identified: (1) distrust between the evaluator and the evaluated; (2) distrust of the management accounting figures; and (3) distrust of the management accountant. The first symptom occurs either when the employees distrust the performance evaluation made by the management or when the management distrusts the employees' performance. The treatment suggested in these situations is the mobilization of the management accountant's diplomacy. For the second symptom, distrust of the management accounting figures, the treatments suggested are: a) the mobilization of the management accountant's instrumental competence, i.e., 'correcting' the figures; or b) changing the basis for the evaluations. Finally, for the third symptom, distrust of the management accountant, the treatments suggested are: a) the identification and mobilization of the carrier of trust; or b) replace the management accountant. If symptoms of distrust between the management and the employees are to be rectified, symptoms of distrust for the management accounting figures as well as distrust for the management accountant have to be treated first. Without trust in the management accounting figures, trust in the management accountant, and trust between the employees and the managers, trust within the whole organization will collapse. With trust in those relations, it is possible to talk about trust as an institution in the organizational context.

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