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## CRITICAL AND REALISTICAL APPROACHES IN ACCOUNTING BUDGETING PROCESS

*This article presents a vignette on the organisational change processes of an integrated political system within Malaysian accounting firms when developing their annual operating budgets. This is where the fundamental economic questions concerning distribution of scarce resources among numerous demands meet reality. This paper discusses how different research approaches provide fundamentally different behaviours and attitudes to this problem. It is demonstrated how theory can provide useful yet markedly different interpretations of the organizational budgeting process. Critical theory and interpretive theory operate from varying or transitive epistemological dimension, whereas critical realism tends to emphasize the importance of ontological issues. Each has important things for our overall understanding. The paper argues that, for the particular case under examination, critical realism provides more useful tools from the employee's point of view.*

*Keywords:* accounting; SME; critical theory; interpretive theory; critical realism.

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## КРИТИЧНИЙ ТА РЕАЛІСТИЧНИЙ ПІДХОДИ ДО ВИВЧЕННЯ ПРОЦЕСІВ ОБЛІКУ ТА ФІНАНСУВАННЯ

*У статті представлено огляд процесів організаційних змін на бухгалтерських фірмах Малайзії у межах складання річного бюджету. Найважливішим питанням при цьому є розподіл нечисельних ресурсів за багаточисельними потребами. Розглянуто різні підходи до вивчення та вирішення даної проблеми. Продемонстровано, що різні теоретичні підходи по-різному трактують організацію бюджетного процесу. Критична теорія та теорія інтерпретації виходить з різних епістемологічних позицій, в той час як критичний реалізм робить акцент на онтології. При цьому кожна із зазначених теорій робить свій внесок у загальне розуміння питання. У даному конкретному випадку найефективнішим підходом з точки зору співробітників є критичний реалізм.*

*Ключові слова:* облік; МСБ; критична теорія; теорія інтерпретацій; критичний реалізм.

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## КРИТИЧЕСКИЙ И РЕАЛИСТИЧЕСКИЙ ПОДХОДЫ К ИЗУЧЕНИЮ ПРОЦЕССОВ УЧЕТА И ФИНАНСИРОВАНИЯ

*В статье представлен обзор процессов организационных изменений на бухгалтерских фирмах Малайзии в рамках составления годового бюджета. Важнейшим вопросом при этом является распределение немногочисленных ресурсов за множественными потребностями. Рассмотрены различные подходы к изучению и решению данной проблемы. Продемонстрировано, что различные теоретические подходы по-разному трактуют организацию бюджетного процесса. Критическая теория и теория интерпретации выходят из различных эпистемологических начал, в то время как критический реализм делает акцент на онтологии. При этом каждая из обозначенных теорий дополняет общее понимание вопроса. В данном конкретном случае самым эффективным подходом с точки зрения сотрудников является критический реализм.*

*Ключевые слова:* учет; МСБ; критическая теория; теория интерпретаций; критический реализм.

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**Introduction.** A case will be presented on the SME accounting firms to identify the variables that influence the development of a workable budget and are sourced from professional accounting, organizational behaviour, and management. The vignette is designed to address questions concerning the political structure that surfaces during this most important budgetary process, and then it examines how this research is developed from a critical, interpretivistic and realistic perspectives.

Alvesson & Willmott (1992) and Wong E.S (2003, 2004) identify case research traditions as basically following 3 major philosophical approaches – positivist, interpretive and critical, with the interpretive and the critical responding to the shortcomings of the positivism. This division neglects the contemporary realistic approaches and such a division reflects a commonly held view equating realism with positivism. This article calls for a recognition that modern realistic approaches can also address many of the criticisms of positivism.

**The case.** When I joined a planning group in the mid 2000's, an organisation had recently completed the required managerial and budgetary processes report, establishing a budget in the model of SME accounting professional practices in Malaysia. The report itself was largely formulated along the same lines as the other internal business plans, it covered the participants, their communication methods, the budgetary controls, and the evaluation of the budget. This report also included the roles of various actors, their role in decision-making, their information resources, and their interpersonal relationships, all meaning to improve the competitive advantages of their respective firms, and all using the integrated budgetary control model.

Prior to the decision to establish a budget model in SME accounting professional practices, organization saw the budget department as providing a service function:

*The organisation in those days considered the budget process as not a necessary need. They were focused on one of two things, financial considerations and the necessary audit, which was something they had to have, but they didn't really want to spend any money on it and all the money they had spent, was too much – where was the return on the investment? – that was the continual question. (Interview – Senior accountant)*

The development of the first integrated budgetary control model plan was the major achievement in a financial focused organization, yet there was a degree of opposition to this idea as an employee later pointed out:

*The prevailing view of executives at the time was that it was completely inappropriate to describe the information thing as a business. That caused quite a bit of grief and controversy – it is merely a process. No way is it a core business, it is just a support process or function.*

In order to properly complete the integrated budgetary control model plan there was an initial need to examine the information requirements of various business processes – the senior accountant led this modelling exercise. Over the period 2007-2010 the senior accountant developed the integrated budgetary control model plan and continued work on process modelling and investigations into the non-core processes:

*On the practical side of delivering a service we were starting to shine, we were winning TQM awards, the quality of our service was very good, and we were getting accolades in the press, the cost of our service was benchmarked internationally as in the top six in the world. So things were going very, very well. (Cost Accountant).*

This observation was confirmed in later interview with the then managing director. He indicated that the budgeting process department was benchmarked ranked as being one of the leaders internationally within the industrial sector as well as being in the top in other similar industries.

The senior accountant originally felt that the investigation into target costing was simply an exercise with no real plan to move ahead with budgeting planning:

*In fact I went to a board meeting where the question was raised "Why the hell are we looking at target costing, when we've just had a new budgeting plan successfully benchmarked internationally; we know we run efficiently, effectively – we've just given these guys the first TQM award in the organisation because they're working so well. So why the hell do we even bother looking at it?" And what came back was it's the board of directors' directive that we look at it. So we really told the staff don't worry, it's an exercise that the board of directors' government wants to go through and that we know that the results and figures will show there's no way people can come and run it any cheaper than we do. And that wasn't true, the exercise was "this gets outsourced, whether it was economic or not". It took a while for me – I believed, and my senior staff believed that this was a paper exercise and we were looking at budgeting planning of many areas. It was an agenda simply to force auditing staff out whether it was economic or not. (Senior Accountant Manager)*

Integrated budgetary control model planning came to be considered as non-core and was one of the first areas to be targeted for outsourcing. In the mid-2000s the outsourcing project was initially termed "*business process re-engineering*" (BPR). Staff initially accepted this BPR tag but over time they came to reject the term, as they felt it did not reflect what was actually happening – they felt that the study was basically an investigation into the feasibility of outsourcing, not BPR. This dissatisfaction emanated from the planning manager and other staff and prompted a change in the title of the project to "*corporate repositioning*" and then again, at a later date, to "*outsourcing*". According to the senior accountant at the time, the term integrated budgetary control model planning annoyed the staff:

*Well, the staff simply refused to call it that "Let's call a spade a spade – Bugger this, we won't call it BPR any more," they said – "It's a false term. Let's not pretend." After a while it became obvious what the agenda was and some of the directors who pushed BPR themselves, objected to hiding outsourcing under the term BPR.*

### **The research question**

**Critical Theory and Accounting Research.** The aim of critical theory for accounting studies is to understand how practices and institutions of accounting management are developed and legitimized within relationships of power and domination. It is to address and eliminate many aspects of organizational life such as inequality, domination and politics (Alvesson and Willmott, 1996), so that the inherent accounting management system can be transformed to enable freedom from these situations and problems to allow greater contributions by employees to the goals of an organization. For critical theory, a researcher is not a neutral observer, rather a researcher is very clear about his/her own values and objectives in undertaking the research. As Best and Kellner (1991) suggest, because truth is seen as a temporary consensus, values become of central importance when adopting a critical perspective.

According to Prasad and Caproni (1997), critical theory emphasize on the social construction of reality, that is, focusing on issues of power and ideology, understanding

social or organizational phenomena, and recognizing the importance of praxis (defined here as the new and ongoing construction of social arrangements that are conducive to the flourishing of human condition rather than established or habitual practices).

There are two approaches to critical theory (Alvesson and Deetz, 1996). First is the ideology critique derived from Marxist principles and often focused on the exploitation of workers by managers (Clegg and Dunkerley, 1980; Salaman, 1981). The main focus of the traditional ideology critique within critical theory has been built upon 4 processes: naturalization, universalization of management interests, primacy of instrumental reasoning, and the notion of hegemony. Second, is the idea of the ideal oral expression situation (by Habermas) where individuals might attempt to reform institutions through an ethically driven discourse which is arrived at in an ideal speech situation. The communication pattern is examined in the hope of removing systematic communicative distortions of misrepresentation (Alvesson and Willmott, 1988) in order to form an accurate, honest and legitimate communication that provides the basis for rational, reflective and moral decision-making (Broadbent and Laughlin, 1997). Only by this, consensus can be achieved and the validity claims made in such discussion as can be assessed on the basis of criteria of comprehensibility, sincerity, truthfulness and legitimacy (Habermas, 1971, 1972, 1973, 1974).

Habermas (1987) highlights the important role language and communication play within critical theory when he suggests that people can follow two fundamental postures in a social situation – achieving success or communication. Actions directed on achieving success (purposive rational) can be either instrumental or strategic. Instrumental action treats participants as inanimate constraints who can be manipulated to serve the interests of a main actor. In contrast, strategic action treats participants as intelligent, involved players with their own interests and aims, thus requiring a strategic approach to properly achieve the main actor's interests.

In this case example, critical theory could emphasize the role language plays in social situations. An organisational change process of an integrated political system within Malaysian accounting firms when developing their annual operating budgets could be presented as an example of the important role language plays in social situations and how language can implicitly construct a particular reality. Critical theory emphasizes the importance of identifying inequitable structures – such identification provides an opportunity to understand and lead to a consequent emancipation. This emphasis on understanding and description suggests the research would be directed on the examination of the role language plays in the corporate change process and the possible emancipatory opportunity provided by changing the name of a change process. There would not be a single research question on which to base the research but an emphasis on identification and understanding.

***Explaining Critical Realism Theory.*** Critical realists rejected "empirical realism" as an example of the "epistemic fallacy" that lets the question "what can we know?" determine our notions of what exists (Bhaskar, 1978). Critical realism was allied to the post-Kuhnian attack positivism which, nevertheless, also differs from Kuhn's relativism through repudiating the idea "that we create and change the world, along with our theories" (Bhaskar, 1986). Relativism may have the aim of opposing positivists through objectivist, that is a belief in independent truths, epistemology, but the resultant sceptical alternative was emptied of any possible grounds for critique or interven-

tion. The philosophical imperative for critical realism was that truth must be more than the outputs of a language game yet it could not be absolute.

Margolis (1986) argues there is a clear connection between what he calls metaphysical (in the sense of being ontological) realism, that is that the structures of the world do not depend upon the cognitive structures of human investigators and what he called epistemological realism, where the view that such structures were cognitively accessible to those investigators. For Margolis "realism" embraces both aspects (Putnam, 1993). The acceptance of the metaphysical do not necessarily entail the acceptance of the epistemological as Trigg (1980) argues what reality is and how we conceive it are different questions since many things are beyond our conceptual and linguistic capacities. In short, both Margolis and Trigg believe metaphysical commitment with things that could not be measured or observed via our senses may be still real. According to Bhaskar (1978), the products of science are always transitive but they are an intransitive object and we must speak of them and know of them as such. Therefore, Bhaskar accepts what he has defined as "epistemic relativism" where knowledge is always socially constructed. He argues that where "incommensurability of sense" occurs between two competing theories, it is still possible to make a rational choice between them through an appeal to the intransitive dimensions in common aspects of reality over which they compete. However, due to epistemic relativism, this thought to entail the creation of different realities which necessarily led to incommensurability of referents and hence entails judgemental relativism since there are no common grounds for adjudication between the theories.

Bhaskar's opposition to judgemental relativism is through his question on how can we judge the explanatory power of a theory. For Bhaskar it was evident that judgemental relativism deprived us of any basis for an informed evaluation of science since it reduces science to a self-referential exercise. A purpose of Bhaskar's realist stance is to restore such a capacity for critique in the term "critical realism". Bhaskar acknowledges the role of discourse in influencing how we apprehend reality and by implication in how we think and behave. Therefore, the central issue in critical realism is the active role of a human agent which can constrain or facilitate human actions. So while our transitive explanations of events change according to socio-historical variations in human understanding, intransitive causal mechanisms located in the external reality do not change unless dependent upon human actions and intents.

Critical realists considered that the observable behaviour of people and objects ("appearances") is not explicable unless located in the causal context of non-empirical structures, or intrinsic natures ("essences") and their interactions. Therefore, observed constant conjunctions may be explained as being connected by an underlying necessity which derives from the essential structure of the observations in question. So for critical realists causation is not about positivists taken either as a deductive test or as a necessary and sufficient proof of causation, thereby construing prediction and explanation as symmetrical. Instead, according to critical realists, causation is identifiable by exploring the underlying generative mechanisms, or powers, which produce events even though not directly observable, underlie and govern the events of experience. Retrodution (a "what if" process) moves from a description of some given phenomenon to a description of a different type of thing such a mechanism or structure which either produces the given phenomenon. For Bhaskar, the

objective of a critical realistic science is metaphorically to "dig deeper" so as to identify these "real" "intransitive" essences, or "causal powers", which lie behind conceptually mediated (transitive) empirical patterns. In contrast, Keat and Urry (1982) ambiguously play down the Bhaskar's epistemological relativism by presenting an essentialist aim for realism to represent the "unobservable" "structures and mechanisms" or "essences" "correctly" so that a "phenomena could be causally explained" (1982). Surely the metaphysical dimension of critical realism made it difficult to substantiate knowledge claims about processes which are simultaneously thought to be unobservable save for their testing through empirical examination of their effects in observable events, in a different perspective, in order for critical realism to be realized.

To avoid internal self-contradiction, critical theory has to deal with two interrelated epistemological problems: First, because critical realists reject the possibility of a theory-neutral observational language how can they then establish the veracity of, by their own admission, epistemologically transitive constructions yet simultaneously avoid the articulation of the very "super idealism" which Bhaskar so vehemently decries? Secondly, if traditional forms of empiricism are untenable since experience cannot provide us with knowledge of intransitive reality, and if science is not to be exclusively self-referential as in postmodernism, how does science involve socially mediated transitive transactions with the "common referent", an intransitive reality? These problems seem to create a new set of options. The first option is for critical realists to invoke the possibility of privileged knowledge, through some epistemological back door, albeit no longer grounded in a neutral observational language but in some contemplative or intuitive act of metaphysical revelation reproductively accomplished by critical realists.

Bhaskar argues that this inability implies that theory cannot be used in a predictive manner and can only play an explanatory role in social investigations since:

*"...in the absence of spontaneously occurring, and given the impossibility of artificially creating, closed systems, the human sciences must confront the problem of the direct scientific study of phenomena that only manifest themselves in open systems – for which orthodox philosophy of science, with its tacit presupposition of closure, is literally useless. In particular it follows from this condition that criteria for the rational appraisal and development of theories in the social sciences, which are denied (in principle) decisive test situations, cannot be predictive and so must be exclusively explanatory" (Bhaskar, 1978, p. 27).*

Bhaskar argues that the primary measure of the "goodness" of a theory is in its explanatory power. From Bhaskar's perspective, predictive use of theory is not possible in open social systems and therefore cannot be a measure of goodness. From this point of view theory can only be used as an explanatory tool – explaining events in hindsight.

Critical realism questions the usefulness of deductive or inductive reasoning in open systems of the social arena and proposes retroductive reasoning as more appropriate. This perspective is consistent with an indepth realism where explanation is not about prediction but about the steady unearthing of deeper levels of structures and mechanisms. The philosophical argument provided by critical realism largely defines the type of questions a researcher can ask and the way a research may progress.

**Conclusion.** Clearly this article is realistic in focus. It suggest that critical theory, interpretive theory and modern realism approaches can provide useful insights into a research situation but the conclusions generated largely depend on a particular approach selected. As Archer (1995) suggests:

*"The nature of what exists cannot be unrelated to how it is studied . . . the social ontology endorsed does play a powerful regulatory role vis-à-vis the explanatory methodology for the basic reason that it conceptualizes social reality in certain terms, thus identifying what there is to be explained and also ruling out explanations in terms of entities or properties which are deemed non-existent" (p. 16-17).*

Moreover, critical realism articulated as an overt recognition of an active and projective role of the epistemic subject whose engagements are bounded by the tolerance of reality. Any knowledge is thus evaluated in the context of how successfully it may guide action towards the realization of particular objectives which express particular interests: that is in terms of what it does for, and to various groups of human actors. This led to an explicit consideration of how different bodies of socially constructed knowledge are practically adequate in terms of varying ethical, moral, ideological and political purposes. Research and discourse embracing such a position must entail epistemic reflexivity on the part of participants. This behoved the subject to reflect upon, address and reshape their conceptual choice in terms of the values, mores and goals which they are projected on to the phenomenon of interest by engaging with it. Accordingly there must be developed a political debate that eschews epistemic privilege and examines the justifications of existing views, the relevance of their approaches to different audiences, and the sources and forms of support they receive. Here, as in critical theory, an important project would be the development of modes of engagement that articulate interests currently excluded or neglected by extant accounting management knowledge and its theoretical categories. In preparing for such a political dialogue the pragmatic-critical realism perspective raises a variety of questions regarding management knowledge: Who are the carrier groups of management knowledge? How do those carrier groups gain and maintain a that enables them to authoritatively present to practitioner significant others their particular interpretations of, and solutions to, their problems? What are those problems and what are the motivations of those practitioner significant others? What are the outcomes of these social processes? How is management knowledge developing as it both caters for and constructs the concerns of practitioner significant others?

Wilson (1999) comments on the remarkable resilience and resourcefulness of realistic argument in the face of the "rise of relativism" and suggests that it may be too soon to say that realistic argument "lies in ruins" (p. 163). This paper supports this proposal by suggesting that a suitable subjectively aware realism approach still has much to offer.

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