

The Progress and Limitations of Simplifying Managerial Complexity in Accounting Practices

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Abstract

By tracing and explaining the historical detail of accounting in the Jesuit Order, this study illustrates how Jesuit accounting started from a rationality and its evolution and development in the present stage. This paper analyzes the four elements in early accounting originating from the Jesuit order, that still plays a role in the administrative practice nowadays, in responding for the requirement that organizations need to solve complex management issues. Furthermore, there are certain limitations of accounting means coming from its own discipline characteristics, and the managers and key stakeholders in organization should have a more profound understanding and make proposals in advance.

Keywords: rhetoric, administration, complexity, accounting, Jesuits, organization

1. The Four Elements in Early Accounting

In tracing the origins of accounting to the Jesuits, Quattrone describes that the four elements of medieval rhetoric into the theoretical framework lay the foundations for the continuous unfolding of beliefs: the spiritual exercises as an analytic method of knowledge ordering, known as methodological and illustrated procedural knowledge; the spiritual exercises as composition of imageries, expressed in terms of moral inventory of the self; the spiritual exercises as a means of moral scrutiny, with which the exercitant examined his own nature in order to construct his self through the search for an absent God; the spiritual exercises as motivating ritual, which could help the exercitant to construct and reinforce a belief in the possibility of moral improvement and salvation.

In early modern accounting, identically, the four elements were powerful, working via spiritual self-accountability, administrative accounting, record-keeping, and the intertwined procedures of them.

1.1 Accounting as Means of Moral Scrutiny in Early Phase

Paolo Quattrone's paper shows that to make accounting practical, meant providing a method flexible enough to be adapted to all types of circumstances, "thanks to the infinite combinatory possibilities given by the segmentation and recomposition of accounts". The Jesuits counted what they could (through the invention of T accounts) but created a means to order and scrutinise what they could not (in their case, how best to support society). Invention occurred by placing the intentions of the procurator and rector (in our case, organizational, environment, societal etc intentions) literally 'in-tension' with each other. "Without this intentio (the end), there is no inventio (the means) and thus no rationes, no inventory, no invention, and no divine truth: "craft rules, unlike Divine Law, are variable, and must be adapted to different situations" (Carruthers, 1998: 33)". And again, as the etymology of the word reveals, these intentiones were always "in-tension," thus serving as the precondition for new inventories.

1.2 Accounting as Composition of Imageries in Early Phase

Note how medieval and early modern rhetoric was practiced as primarily a craft of composition rather than as

one of persuading others. Visuals, and visual spaces (for example, between lost cost vs hybrid, automated vs in-person support) are a pragmatic means of communication to question transcendental truths. Fabbri 1998 described how they ‘have an agency in making users do things with them’. They can be deployed to seek incremental new knowledge (e.g., aligning the organisation’s core competencies and threshold resources to support the value chain of organisations pursuing rational or emergent strategies), and/or radical break-through innovation (e.g., the creation of new markets and industries, by scrutinising understandings of phenomena – light-bulbs into the internet of things; watches into the health sector, and mobile phones as the Union of an unlimited range of markets and industries).

1.3 Accounting as a Platform of Mediation in Early Phase

Quoted by Quattrone’s paper: “This model of rhetoric was an essential part of monastic meditation, in which what constituted good principles and moral beliefs to inform social and collective action was constantly questioned, re-thought, and re-defined”. Meditation in medieval and early modern rhetoric was practiced through a physical chest, containing two keys; one owned by the Procurator, who oversaw economic affairs, and one by the Rector, who had overall responsibility for the missionary and its economic activities.

Two keys ensured that every cash movement, and its record in the accounting books, could happen only after a continuous mediation and discussion of the potential uses of the funds for which the Procurator and the Rector acted as spokespersons.

1.4 Accounting as Means of Moral Scrutiny in Early Phase

Motivating rituals are the fourth rhetorical element of unfolding Jesuit rationality. Quattrone describes the system of knowledge classification and invention that medieval rhetoric designed “was architectural, such as palaces and churches” (O’Rourke Boyle, 1997: 8), for it required figurative, and at times also concrete, constructions. Pay attention to Figure 1 which is an example of how this model also served meditation through a very specific meditation machine, a medieval church, which helped construct visions of truth, and why motivating rituals were recursively practiced. These rituals are not a mere sequence of routines but a ritual to engage participants by making them continuously search for, but never find truths.

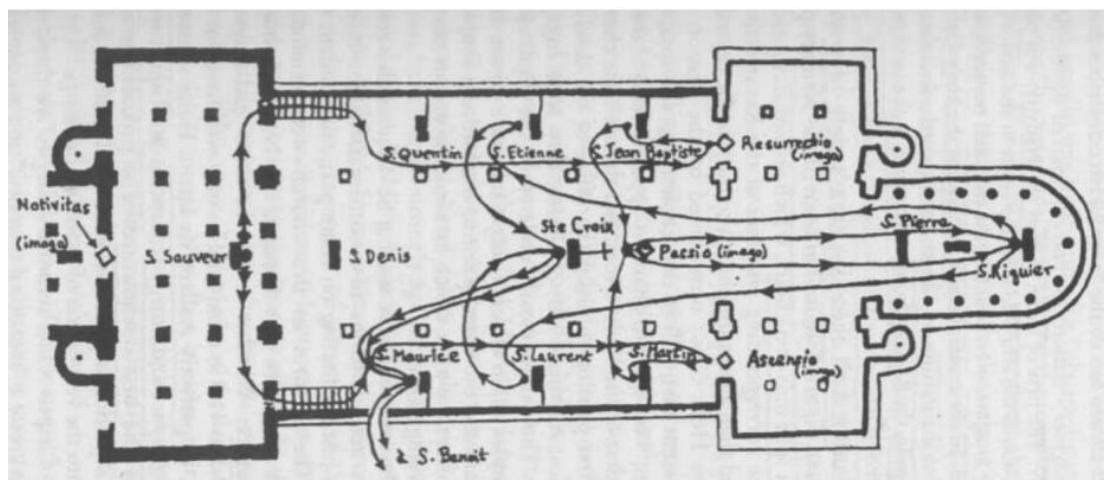


Figure 1. Route of the liturgical procession in the Abbey of Centula-St-Riquier

Source: Carruthers, 1998: 267

2. The Progress and Evolution in a New Phase

Rather than representing the facts, the economy, and the state of the order, the modern accounting has to respond to the business performance and cope with institutional complexity in organizations.

2.1 Accounting as Composition of Imageries in Modern Times

2.1.1 Culture

The cultural web model by Johnson & Scholes attempts to provide a framework to model and audit cultural paradigms. However, a single view of culture, no matter how effectively it is communicated and defined by organisational practices will be understood by all within the organisation. Indeed, sub-cultures exist and can be beneficial in creating tensions to create new knowledge. Rather than seeking to persuade one sub-culture of a

given message (e.g., routines or control structures), this second principle encourages decision-makers to pragmatically communicate and question transcendental truths (this is the way we do things around here'). A further example exists within a particular sub-culture, who may also benefit by placing each of the six themes of the cultural web-model in-tension (the principle of scrutiny) and create the space to communicate between each of the themes.

2.1.2 Business Level Strategy

The value chain: Without adequate communication, enabled by visualisations and visual spaces, a value chain for a light-bulb manufacturer would be defined by transcendental truths – that the product's value is only to be found through lighting properties. Having scrutinised, decision-makers may then pull people into conversations about the viability of moving to the internet of things by for example (but not limited to), creating the space between dimensions to pull people into conversations. Such dimensions may include but are by no means limited to the following - such as cost and quality, core competencies and threshold resources, new vs existing markets, consolidate and diversity. Keep in mind, we are not searching for truths, but creating the conditions to engage with uncertainty.

2.1.3 And in the Context of Accounting

The budget should provide a means to pull stakeholders into discussions, rather than pushing transcendental truths (e.g., we do what we do plus 5% delta p/annum)

A dashboard should pull stakeholders into uncertainty rather than push transcendental truths to be delivered against without question. Use them to order knowledge (as per the above principles), for example, by putting cost in-tension with delivery, and profit in-tension with environmental and societal intensions.

A forecast should be constructed to pull stakeholders into communications since no individual has a monopoly over smart ideas. Why do operations have a different view to marketing? Take a range, and the space in-between those ranges provide fertile ground to pull people into conversations. No forecast will be perfect, but the sum of all the viewpoints will enable better decision-making under conditions of uncertainty.

Activity based management, which follows an activity-based costing exercise is more concerned with pulling stakeholders together to better understand, connect and perceive to organisational challenges, than believing an activity will carry a precise £ or \$ amount. The space in-between different ranges (e.g., loss to break-even to profit, low-cost v hybrid, internal supply-led v external demand-led dynamics) give stakeholders a voice to challenge their recommendations.

2.2 Accounting as a Platform of Mediation in Modern Times

Force mediation between decision-makers with often conflicting objectives – cost, schedule, risk, quality, and the space between them create the conditions to generate visions and wise choices.

Challenge organisational silos (sales and marketing, operations, geographies) by pulling them collectively into discussions and constantly question, re-think, and re-define against different stakeholder groups.

2.3 Accounting as Means of Moral Scrutiny in Modern Times

Strategy, like accounting is not aimed at representation, but at generating a vision and a wise choice. Under conditions of uncertainty, decision-makers can profit from these by creating a governance framework to accommodate, not hide from them.

We should devise practices and models (e.g., business and corporate level strategies, and budgets, forecasts, performance measurement and control systems, activity-based costing systems) to put organisational intentions, in-tension with each other (for example, lost cost vs hybrid, bricks vs clicks, automated vs in-person support).

The objective is not to convey 'truths' (since the 'means' and 'ends' will always be unclear under conditions of uncertainty), but the conditions to fore dichotomies (e.g., focused vs hybrid, core competencies vs threshold resources) to scrutinise and create the conditions to construct new knowledge.

And bridging strategy with accounting, instead of taking vision statements as given and creating balanced scorecards around those, generate visions and support wise choices by organising knowledge, creating opportunities for debates and tensions and to scrutinise 'unknown unknowns'.

2.4 Accounting as Motivating Ritual in Modern Times

2.4.1 Business Level Strategy – The Value Chain

The principle of scrutiny will have you questioning (current) transcendental truths, but logic unfolds over time. A five-forces analysis may be relevant in depicting industry profitability today, but those forces continue to evolve. In the context of uncertainty, there are no truths. The model to engage with uncertainty must therefore encourage continual engagement with decision-making, and in the context of the value chain, encourage decision-makers to

question the execution of existing plans against the prevailing environmental headwinds.

2.4.2 And in the Context of Accounting

Budgetary systems should provide a means to pull stakeholders into discussions on a continuing basis once the broad confines of a budget have been agreed. If this were not the case, organisations are held hostage to a budget, which was constructed under a particular logic with available knowledge, in fluid and highly uncertain contexts. As that context evolves (e.g., from budget sign-off to execution), so should be budget, and accompanying managerial practices. In this way, truths get translated and reinvented each time.

Design dashboards to continually pull stakeholders into uncertainty as it projects, programmes, the environment (e.g., interest rates, inflation, new entrants) and intensions evolve. This ritual of engagement with your dashboard facilitates motivation for decision-makers to come back to the dashboard to re-order knowledge, communicate, and engage in unfolding rationality.

3. The Practice and Application Reflecting in Organization

Prof Collinson's research shows that pernicious complexity costs firms 10.2% of their profits. One of the essence of business management is the pursuit of administration simplified, and how to help reduce managerial complexity by accounting approach in organizations.

Nowadays, it is highly complicated to judge the organization's performance leading the organizations attempt to establish measurement systems, such as CVP, break-even, financial ratios and other indicators. Through these quantitative and numerical methods, multiple dimensions can be reduced to a single dimension of administration, reducing complexity and obtaining effective conclusions.

In contrast to the early accounting (Jesuit in the Middle Ages), the four elements have evolved with the constant change of era, playing a critical role in reducing the complexity of enterprise management and other operation issues.

3.1 Accounting as Composition of Imageries in Organization

The formulation of organization strategy is affected by many factors, accounting is one of the important factors, which provides effective information support for enterprise strategic management. Strategy formulating and accounting information influence each other and promote each other. An organization's strategic plan reflects its management ability and financial situation, and the accounting information will also affect the development of the enterprise's strategic plan.

3.2 Accounting as a Platform of Mediation in Organization

There are often conflicting objectives surrounding cost, schedule, risk, quality, and the space between them should be discussed, re-think and deeply insight by different stakeholder groups. As a mediational platform, modern accounting could together stakeholders to better understand and perceive the challenges the organization will encounter. Modern accounting serving as a channel for stakeholders to provide their recommendations as different voice to the board. Board and stockholders could be inspired by the uncertain possibilities (risks, challenges, even failures).

3.3 Accounting as Means of Moral Scrutiny in Organization

Decision-makers create a governance framework to scrutinize unknowns and support wise choices under the conditions of uncertainty. Accounting is an explanatory dimension of the organization's strategic objectives, bridging corporate level strategy with business, via budgets, forecasts, performance measurement and control system, activity-based costing systems, etc.; and also, a corrective measures tool for strategic goals, such as balanced scorecards.

3.4 Accounting as Motivating Ritual in Organization

As mentioned above, the organization has developed a lot of quantifiable and measurable indicators, and the logical relationship between these indicators is clear, and in terms of indicator system completed. Then, the organization needs to decompose the indicators to each subordinate unit layer by layer, and formulate corresponding rewards and punishment. The completion of indicators will be counted in different stages, and rewards and penalties will be given to each business unit and its responsible person accordingly.

4. Trigger Discussion: Limitations of Numerical Conclusions

Organizations realize the strength of numerical calculations, which can solve most of the complex issues and provide explanations for complex phenomena, however, an organization that puts too much emphasis on numbers or numerical calculations may lead to other issues, due to the limitations of quantitative analysis itself.

4.1 Dual Character of Numerical Calculations

When presented with the same number, different individuals can interpret it in very different ways. For example,

the numbers show that the market share of this category is small, then there are two interpretations: one, this category is not relevant to the company, should give up or reduce investment; another one, just because the market share of this category is small, it should be maintained or additional investment to enhance the competitiveness. This example is a simplification of a real business issue, different conclusions about the same number/calculations may be limited by an understanding of the relevant data to the business. In addition, due to the interest inconsistency, stakeholders interpret the conclusion on their own perspective unconsciously.

4.2 Hard to Decipher the Hidden Causes

When a number does not perform as expected, stakeholders are often having the confusing “Why?”, while the numerical calculation available is not enough to answer the question “Why”. It can be thought that the information available is no more than the users’ browsing, clicking, purchasing, commenting and other information on the Internet at present, none of which can directly point to “why”. If we really want to dig deeper, it seems that traditional research methods may be better. Settling for the second best, we don’t require to dig deeper, the numbers/numerical results by analyzing or modeling could play a part in answering the question such as “what behaviors prevent or contribute to user conversion?”

4.3 Ambiguous Conclusion Caused by Subjectivity

Due to the existence of accounting estimates in the accounting process, such as the depreciation life of fixed assets, depreciation rate and net salvage value rate, numerical calculations cannot be extremely accurate in explaining complex accounting; according to the Accounting Standards for Business Enterprises, enterprises can freely choose accounting policies and accounting treatment methods, fixed assets depreciation method, bad debt withdrawal method, income tax accounting method, etc., could have diverse approaches. Perhaps, even two same enterprises will get different numerical analysis results in the same accounting scenario.

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