

FINANCIAL ACCOUNTING: IN COMMUNICATING REALITY, WE CONSTRUCT REALITY*

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At first I saw Don Juan simply as a rather peculiar man who knew a great deal . . . but the people . . . believed that he had some sort of “secret knowledge”, that he was a “brujo”. The Spanish word brujo means, in English . . . sorcerer. It connotes essentially a person who has extraordinary . . . powers.

I had known Don Juan for a whole year before he took me into his confidence. One day he explained that he possessed a certain knowledge that he had learned from a teacher, a “benefactor” as he called him, who had directed him in a kind of apprenticeship. Don Juan had, in turn, chosen me to serve as his apprentice, but he warned me that I would have to make a very deep commitment and that the training was long and arduous . . .

My field notes disclose the subjective version of what I perceived while undergoing the experience. That version is presented here . . .

My field notes also reveal the content of Don Juan’s system of beliefs. I have condensed long pages of questions and answers between Don Juan and myself in order to avoid reproducing the repetitiveness of conversation . . . (*The Teachings of Don Juan: A Yaqui Way of Knowledge*, Carlos Castaneda, 1970, pp. 14, 24, 25).

We stood together, looking down into the valley below . . .¹

“What do you see before you?” said the Master.

“Well, in the valley, I see buildings of various kinds, spread over a large area, and surrounded by a fence. There are people inside the fence. A river runs through the valley, and through the area enclosed by the fence. And outside the fence there are trees, up the sides of the valley, all around, as far as the eye can see.”

“And do you know what it is, that you see?”

It seemed to me that I had accurately, though briefly, described what I saw. But I was used to such questions from the Master. It was his way of guiding me along the path of the special knowledge which he possessed, and which he had decided to impart to me, as his apprentice. I recalled our previous conversation:

“Is this an ‘organization’, perhaps?”

He smiled faintly, and looked at the far hills:

“That is good, you recall our last lesson. You are partially right. Part of what you see is an organization.”

“Well, I really only meant what lies within the fence.”

“Yes I know you did, but again, only part of that is the organization . . . And indeed, part of the other is also the organization.”

“Part of the other? You mean, what lies outside the fence — the hills and trees — they are also part of the organization?”²

“Not the hills and trees, as such, but . . . We must not get out of our depth before we can swim. The hills and trees must wait.”

“Well then, which parts, within the fence, are part of the organization? I suppose the buildings and land are part of it?”

“In all likelihood, they are. But not necessarily.”

“What about the river? It must be because I can see that the river water is being used by the organization. I can see . . .”

“Yes you are right. The river supplies water vital for the manufacturing processes of the organization, but nevertheless, the water of the river is not considered to be part of the organiza-

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tion . . . Unless of course the organization is sold. If it is sold, then whoever purchases the organization will pay for the water of the river, and, it being thus recognized, will become part of the organization. It will be named 'Goodwill'."

"The river — the water — will be called 'Goodwill'? Good Heavens. Is there anything else of this nature?"

"What do you mean 'of this nature'? One must be clear in one's own mind, as to what it is precisely that is being questioned."

"I mean, ugh, in a sense, the river does not exist . . ."

I hurriedly reflected on past conversations. I did not want to appear to be stupid before the Master. I tried to convey my question according to the language which communicated his special knowledge:

"The river — the water in it — only becomes an 'asset' of the organization, when the whole organization is sold. At that point, the point of sale, it becomes part of the organization's reality. Like a miracle. Is there anything else . . . of that nature?"

"Excellent, you see what clarity of mind can achieve? You are a fine apprentice. You will be a Master yourself someday. And in answer to your question, everything is of this nature.

Now, that point in time, when something becomes real, when we *recognize* the reality of something, what point in time might that be called, do you imagine?"

"Well, I would call it the point of *real-ization*, since that is the point at which things become real."

"And so we do. That is just what we do. Do you see, are you beginning to see, where our power lies?"

"Yes, I think I am beginning to see. I think I understand about the water. What other things are real-ized at certain points in time, which you decide?"

"Oh everything, everything! We decide everything. Remember we talked about revenue: revenue less expenses equals profit. Remember?"

"Yes."

"When do you think something becomes revenue?"

"When it is real-ized?"

"That's right. We recognize revenue when it is realized: that's what we say — 'we recognize revenue and gains when they are realized'. We create the impression that they do not exist, and that suddenly, they become real, and we recognize them as such. But of course, we make them real, by recognizing them as real.³ Until we recognize them, they are, for just about all intents and purposes, not real."

"But aren't they there? I mean, if they are there . . ."

"Again, clarity of mind. What do you mean exactly when you say, 'if they are there'?"

"I mean, if they exist, then, even without you recognizing them, they are real."

"Oh yes, that is our everyday concept of reality alright. But everyday concepts are a cover-up. Did 'black holes' and 'subatomic particles' exist, before physicists created the idea of them?⁴ Of course they did not!"

"But . . ."

"Oh yes, I know, you're a literal sort of chap; you will be a fine master. But even with your literal mind, do you believe everything you read and hear? What about the newspaper? Are all those stories real?"

"Well, I suppose it depends what you mean by 'real'. I mean, I think, some of them are true."

"Unbiased, neutral, do you mean?"

"Well, yes."

"Do you seriously think that anything in this world can be 'neutral'?"

"Yes, well, ugh, I'm not sure . . ."

"Do you think there ever was a news story that took everything into account; left out nothing; gave the full picture?"

"It depends what you mean by 'the full picture'."

"What do you mean by it?"

"Agh, I don't really know. Ha. Ha."

"Yes, good, now we are getting somewhere. You 'don't know'! Who knows what 'the full picture' is? Who knows? How do you know when you have the full picture?"

Having the full picture — a true, a fair view of something — depends on people deciding that they have the full picture. Sometimes, they later

decide they did not have the full picture, and then there are recriminations: why didn't we get the rest of the picture; or a different picture? It can go on and on. People feel entitled to reality.

Did you study history at school?"

"Yes, I did."

"History creates past reality for us. The past is always being reinterpreted. They are always re-writing the history books. They don't tell you that at school though, do they? What about history in your own time: Vietnam, for example? You must admit, accounts have changed over the years.⁵ Or what about the Bible, is that 'real'?"

"I do see what you are saying, but science is different. It describes real things, physical things."

"No, my boy, you are quite wrong. A black hole — my dear fellow, what is it exactly that the physicists say is a "black hole"? Certain areas in the Heavens produce certain bewildering experimental results . . . That is all. And these areas are called 'black holes'. By naming them, we suggest that we have named, 'discovered', something: something real. But my boy, 'black holes'? Even you must see.

Black holes are an idea, a metaphor, a concept. Like atoms. Like electrons. Like organizations! These things help structure our lives. Ideas.⁶ Where would we be, without ideas? But I am going much too fast. Where were we?"

"We were talking about revenue and gains, and their point of recognition . . . and realization."

Oh yes, that's right. 'We recognize revenue when it is realized'. By *naming* it 'revenue', it *becomes* revenue . . . just like the black holes."

"How do you know when to recognize revenue? Or should I say, how do you know when to 'realize' revenue?"

"Now you're getting it . . . Revenue is generally recognized — considered to be realized — at the point of sale, but not always."

"Why at the point of sale?"

"This is when goods are considered to leave the organization, and to become the property of someone else."

"When the goods are taken away, you mean?"

"No. The goods do not have to actually leave

the organization. They merely have to be thought of as having done so. See those big containers down there, beside the square building over on the right? Those goods may well be sold."

"So, you are saying, goods are 'sold', when they are conceived of, as having left, the idea of 'the organization'?"

"Very good."

"How do you determine when to think of them as having left the organization?"

"Oh it varies. We have a lot of discretion here. It is all arbitrary of course, but we take into account various factors. You cannot just arbitrarily define these things: they have to be seen to be the product of experience, judgement."

"Why?"

"Well, otherwise, anyone could do the job."

"Oh yes . . . But, agh, I mean, surely . . .?"

"Yes I know, it's confusing. Let me try and explain: there is no such thing as the truth, but there is such a thing as stretching the truth too far. There is a reality: there's something there alright. Do not think for a minute that I am saying we imagine the world! Oh no, not at all! The bricks are there, and the people, and those containers — no doubt about it. But the organization, and the most minute particles in the bricks, and revenue, well, we create them!

Now, back to where we were: 'point of recognition', being, point of realization, being, sometimes, but not necessarily, point of sale. There are numerous possibilities. Sometimes we recognize revenue when the goods are completed; sometimes when they are partly completed; sometimes when the customer is invoiced; or even when he telephones and places an order; or sometimes when he is billed; or when he pays. And even these are not clear-cut. When is a building 'finished', for example? What percentage of a building — or a sheep — is 'completed'? When does a customer 'pay': when his cheque is received; when it is honoured?"

I felt overwhelmed. There was more here to learn than I had imagined. The Master read my thoughts:

"It is all a bit confusing now, but do not be concerned, you will understand."

"Could we talk about what lies outside the organization, but is part of it?"

"Lad, you are not making sense."

"I mean, you said there were things outside the fence, which were part of the organization."

"Oh yes. Now, do not confuse the boundary of the organization, with the fence — that is just to keep people out. You must not think of the organization as ending at the fence — that is common sense. That is the way lay people think of the organization. Remember, we are professionals.

Now, you see all these trees? The land on which they stand, belongs to the government, but the organization is able to take trees from this forest for its paper manufacturing. That's a curly one, isn't it? How would you account for that?"

"Well, I suppose the land is not an asset of the organization, not part of it, so as to speak, but the trees are, for as long as the organization is allowed to take them . . .

But it doesn't make sense to exclude the land and include the trees — the trees are part of the land . . .?"

"In reality', you were about to say?"

I felt stupid.

"Remember, we are creating reality. We do not have to be constrained by the everyday way of thinking — it is just a way of thinking, can't you see? As ordinary people, we arbitrarily combine, and define, and add, and subtract things from our picture of reality. As professional people, we arbitrarily combine, and define, and add, and subtract things, in a different way to the everyday way: that is what differentiates us.

The fence does not designate the organization. We do that. We designate it, by deciding what things will be part of the organization, and by deciding how big or small these things will be: 'recognition' and 'measurement' . . . Come over here . . . You see that murky brown in the river, downstream of the plant? What would you say of that?"

"It's pollution."

"Yes, but do you think it is part of the organization? Now try to forget about the fence."

"Well, ordinary people would say it is . . . So,

ughm, perhaps an accountant would say it is not."

"It is not quite as simple as that. We do not always define reality differently to the common conception. Quite the contrary. In fact we play such a large part in creating the common conception, and we have so largely absorbed the common conceptions into our own thinking, that one cannot, by any means, assume that our definitions are always the contrary of lay definitions. In this case, you are right in saying that most people would see the pollution as being, in some way or another, part of the organization. They used not to. They used to be quite unaware of it. But since they have become aware of it, and because they are beginning to see it as being the responsibility of the organization, we inevitably must do so, in time. Once the organization becomes accountable for something, we must account for it, sooner or later."

"I'm still not sure I understand. Before, you said you don't have to be constrained by ordinary people's notions."

"That's the paradox. That's where we walk a very thin line. We communicate reality: that is the myth; that is what people believe. It is even what most of us believe. And, in a sense, we do communicate reality. There is something there: bricks and people and so on. And the organization can, say, be 'doing well', or 'doing badly', in whatever sense you take that to mean. And it is our job to convey it. But what is 'the full picture'? There is no full picture. We make the picture.⁷ That is what gives us our power: *people think and act on the basis of that picture!* Do you see? Are you beginning to see?"

"Yes . . . I think I am beginning to see. My word, there's a lot more to it than I realized . . . Real-ized . . . Ha, ha, yes I see, 'realized': we say it all the time, don't we? We think we have grasped reality, when we 'realize'; but really, ha, ha — there I go again, 'really' — but we have not so much grasped reality, as created it, by thinking of it in a certain way, and treating it in that way!"

"Good, good, well done! Now, most things, we are free to define, and shape, and mould, and measure, without interference. But when people have a preconceived notion of what reality is,

well, we can't afford to go against it!"

"Why not?"

"Because, we are supposed to communicate reality: if people have a certain conception of reality, then naturally, we must reflect that. Otherwise people will lose faith in us."

"What happens then?"

"Oh, it's terrible, terrible. Hearings, lobbying, investigations, criticisms, public intervention. We seem to get more and more of it these days . . . But, we were talking about the pollution."

"Yes, I was wondering, how could it be 'measured'?"

"We will come up with something. We always do. No different to the bricks really, or the people."

"How are the buildings measured?"

"At the amount that they cost the organization, generally, although there are other ways."

"And the people?"

"The same."

"Isn't that a bit strange?"

"Why so?"

"Well, bricks and people, measuring them the same way?"

"Oh, I see what you mean . . . Well, there are people — radical types — who say we devalue things, like people, by measuring them this way. They hate the whole system, I mean the whole thing: reality, as we perpetuate it. They say we are conservatives, defining and measuring things the way they always have been, and not trying to make it any better, not trying to make any changes. But where would we be if we tried to overthrow the system? We are part of the system . . .

You see, if we valued people any differently to the way that we do, say we thought this way: 'the more an organization produces, the more boring, injurious, and so on, it is for the workers'. And then, if we were to take this boredom, or injuriousness, into *account*, then people would expect to be compensated for these things; and if people were compensated for these, then the organization would have to charge a higher price for its products. And at a higher price, people would not want to buy so many of its pro-

ducts. They might buy other things instead. And that, would change everything. Everything! People buying less of this, more of that; investing less in this, more in that. Nothing would be the same: some people would be better off, some worse off; we would have less of some goods, more of others. It would change what we call the 'income distribution' and 'resource allocation' in our society. Changing that is major; that is social change.

That pollution, for example: what if that is included in the picture? It would not help that organization, would it? The more goods it produced, the more pollution. Not a pretty picture. It would have consequences."

"And you could do all that! It's incredible!"

"Well, we could not do something as big as that on our own. Social change . . . we could not change the picture as radically as that, and get away with it. But the day will come, when people so clearly 'see' pollution as part of the organization, that we will have to include it in the picture. And there will be consequences . . .

So you see, it's not we alone that create reality. Everyone does it. But as official Communicators of Reality, we have more power than most."

"Hmm . . . It's very interesting . . . So, ah, if that happens, I mean if people come to 'real-ize' pollution as part of 'the organization', and you have to 'measure' the pollution, I don't see how you can do it? It doesn't cost the organization anything. Other people pay."

"We will work something out. Getting consensus on it though, that's the problem."

"I suppose people don't think its real — the real measurement, the true one — unless they can see you all agree about it."

"That's right. That is right. It is very bad for people to see us quarrelling amongst ourselves. It lowers their confidence. It lowers our own confidence too."

"Yes, I suppose people wouldn't be happy to see that their world is so . . . tenuous. I feel unsettled by all this myself."

"Yes, they need us. Everything would be in a mess without us. Just a jumble. No-one would know where they were. How would that work, eh?"

"Is that why some people have called you the 'handmaidens of the status quo'?"

"Ha, ha . . . Where did you hear that?"

"Oh, I don't know."

"Well, it is not us, that they call the handmaidens of the status quo. We just do our job. It is the people who make up theories about us. They do not really question what we do. They take it all at face value. They adopt the same perspective we do. Our work is officially designated as Communicating Reality, and they just accept that is what we do. A communication perspective; measurement perspective; information perspective; that sort of thing. They never suspect we play a role in *constructing* the status quo."

"Oh, I see."

"They see our job as a technical one — measuring and communicating reality. Like ordinary people, they think that there is a pre-existing reality, which we reveal. They even say that some people can 'look behind'⁸ accounting numbers; that they can 'unravel'⁹ them. Imagine! People are not 'fooled', they say. Well, I don't know about that! Hmm, I don't know about that!

Some of our methods, according to these fellows, are 'trivial', 'cosmetic': these methods do not convey anything new about reality, and so sophisticated people do not react to them. People who react to these 'arbitrary', methods, they say, are stupid. They call them 'functionally fixated'. Imagine, 'functionally fixated'! Other methods, they say, are 'substantive': these methods carry additional information content about reality, and so people react to them.

This, my boy, is what can come of not being clear in your mind about what reality is, and what 'information' is. It never occurs to these chaps, that information plays a part in creating reality.¹⁰

Well, the theorists, poor chaps have had a dreadful time lately: some of the trivial methods seem to be real — they have consequences; some of the real ones do not seem to have any consequences,¹¹ people act as if they do not believe in their theories. Oh, a merry dance! Still, it suits us."

"Why?"

"It keeps them busy. They don't interfere.¹² Where would we be if the whole thing was unmasked? . . . Still, we could do with a bit of help at present . . ."¹³

"Does everyone think that way? I mean, the theorists, surely some of them suspect?"

"Oh yes, some of them do! But it is up-hill going for them. How do you get it across, that we play a part in creating reality, when everyone *knows*, with conviction, that reality exists unproblematically, out there! How do you start to say something like that? 'Yes, yes, of course, there *is* a reality, *but* . . .' People do not want to hear that sort of thing. You can't blame them."

"No . . . Gosh! To be honest, I didn't realize how fascinating this could be. It's really very interesting!"

"Oh yes. It doesn't have to be dull you know. It all just depends on the way you look at things."

"I've been wondering, do people ever decide that the accounts of an organization *don't* represent reality?"

"Oh yes, that does happen. Always embarrassing. People get very upset indeed."

"Could you give me an example?"

"Company failures. They, are our *bête noire*. The accounts sometimes present a picture of a healthy organization, and then, it fails. We never hear the end of it! People say: 'if this organization's accounts were so untrue, what about other organizations?' As I said, there is no truth as such, but there is such a thing as stretching it too far — that is when you get caught out.

You see, normally a healthy-looking set of accounts will get an organization through difficult times . . ."

"Save it? Save it, do you mean?"

"Yes. If the accounts look alright — so be it! Who is going to panic? An organization will generally get through rough waters as long as no-one rocks the boat.

But if the accounts suggest an organization is going to fail, so be it! Say, we lift what we call the 'going-concern' assumption, and prepare the accounts of an organization on the basis of liquidation values rather than costs. What do you think will happen?"

"People would panic, and the organization

would fail.”

“Self-fulfilling prophecy. And people would blame us! Mark my word. They would say we *made* it happen! Ironic, isn't it?”

“It certainly is.”

“So, no-one in our business likes to prepare accounts which make an organization look bad.”

“Do you feel right about that? I mean, I see now that there is no truth, as such, but, uhm, as you said, stretching the truth . . .”

“Look, many tribes have witchdoctors. They can will a man to death. Do you want us doing that?”

“No, of course not . . . Gosh, you have so much power . . . You know, now that I am beginning to see it, I don't understand how all this has not come out. I mean, I'm thinking about all sorts of things: what we consider to be 'objective', what we consider to be 'rational', the way we think, the way we act, our theories, the way our society is structured — it's not real in the way we think it is. It's all just an *idea*, isn't it?”

“That's right my boy. Just an idea. And by acting in accordance with it, we make it so! “If men define things as real, they are real in their consequences.”¹⁴

We create a picture of an organization, or the

'economy',¹⁵ whatever you like, and on the basis of that picture (not some underlying 'real' reality of which no-one is aware), people think and act. And by responding to that picture of reality, they make it so: it becomes 'real in its consequences'.¹⁶ And, what is more, when people respond to that picture, and the consequences occur, they see it as proof of our having correctly conveyed reality. Clever, isn't it? That is how society works.”

“So, you're saying that anyone charged with the responsibility of providing these pictures, has a lot of power, because people will respond to what they draw-up?”

“That is so.”

“It seems to me, that your power is a hidden power, because people only think of you as *communicating* reality, but in communicating reality, you *construct* reality.”

“That's right. A hidden power. And all the more potent for it. This may sound silly to you, but most of us are only just beginning to realize ourselves that we have this power. We always thought of ourselves as being technical people. But it has been becoming clear lately, that there is much more to our work. Much more . . .”

NOTES

¹ The process by which society is created is subtle. If individuals were to be self-consciously aware of the constructed nature of society, and the part they play in creating and sustaining it, society would not function effectively.

Every word, gesture and deed on the part of an individual or group is either, in conformity with social mores and thus contributes to the maintenance of society as it is, or is deviant and will be tolerated only in small degree, unless the individual or group can change society — the latter is the story of minority voices and groups.

Contrary to commonsense intuitions, reality does not concretely exist independently of the concepts, norms, language and behaviour of people. People create society, but at the same time, their concepts, norms, language and behaviour, become institutionalized. By becoming thus objectified, society acquires a semblance of concreteness. Indeed it is more than a semblance, as anyone who breaks the rules of social convention quickly learns.

Many readers of this paper will have already lost patience with it, because it does not accord with the norms of academic reality. Every properly socialized person responds to deviance in this way. Thus, society is stabilized, and protected from change — but, in this way also, many interesting things slip past our notice . . . By taking for granted those things which others take for granted, we fail to understand how those things arise, and how they are sustained, through being taken for granted and thereby forming the basis for thought and action. By taking for granted, and rigorously studying, things as they are, one merely builds on lay conceptions, becoming an expert of description, and a collector of “facts”. But too close an attention to the “facts” leaves unquestioned how the facts arise — it leaves us bereft of deep explanation.

Academic discourse frequently functions as a stabilizer of society. Conferred with authority and legitimacy by a social ideology which holds that academics engage in expert and free thought, research of social “facts” plays the important role in society of objectifying, normalizing, and so perpetuating those “facts” and the interests and power relations which give rise to them.

The “facts” of society such as “crime”, “profit”, “madness”, “marriage”, “organizations”, “sexuality” and “assets” are generally taken for granted, but authors such as Berger & Luckmann (1966), Berger & Kellner (1964), Bittner (1965), Foucault (1967, 1977, 1981), Garfinkel (1967), and Giddens (1976, 1984), whilst viewing social reality from different theoretical and methodological perspectives, all recognize that the facts of society do not pre-exist social practices, but are created and sustained by social action.

Crime, profit, madness, and so on, are socially constructed categories — they are definitions of reality or “ways of seeing”. Social power accrues to those who can influence conceptions of reality, since by influencing conceptions of reality — what is considered to be “rational”, “moral”, “true”, “efficient” — one influences social action.

Hines (1986a, 1987) shows how mainstream financial accounting research is based on taken-for-granted commonsense conceptions and assumptions, which mitigate against the questioning of how social reality arises and is maintained and legitimized, and which therefore obscure the roles that financial accounting plays in the creation and maintenance of society. Mainstream financial accounting research represents a “way of seeing” similar to the commonsense “way of seeing”, but in the words of Poggi (1965), a way of seeing is also “a way of not seeing”.

It is necessary to *breach* a way of seeing or worldview, in order to create a new way of seeing (see especially Handel [1982, pp. 55–77] and Mehan & Wood [1975, pp. 3–33]). Castaneda’s master, the sorcerer Don Juan, refers to breaching a worldview as “stopping the world”. “Stopping the world”, or dissolving our taken-for-granted conception of reality, and thereby seeing that it is essentially arbitrary and constructed rather than “true”, is the first step to gaining a new reality or a new way of “seeing” (Castaneda, 1971, 1974). It was some years before Castaneda began to be able to stop his world, and to see how that world which he had taken for granted and had seen as pre-existing his own and others’ action, was socially constructed by the thought and action of himself and others. He was then empowered to experience a new reality, that of Don Juan.

A touching aspect of Castaneda’s early apprenticeship to Don Juan, is his dedication to pursuing what he sees as rigorous research procedures. Eventually Castaneda comes to recognize that these procedures merely serve to sustain his taken-for-granted world, and to prevent him from discovering an alternative world.

Whilst it is recognized in some management accounting research and organization behaviour research, that accounting practices, as well as communicating reality, also play a part in creating, sustaining and changing social reality, this view of accounting is not “seen” in mainstream financial accounting research. The present paper represents an attempt to momentarily breach or “stop the world” of mainstream financial accounting research.

² Reality does not exist independently of accounts of it. As Meyer (1983, p.236) states, an organization, “is in fact a sprawling, complex institution, with multiple purposes and disconnected programs (technologies), of unknown production functions, of competing and autonomous subordinate units”. But accounting imposes a conceptual boundary on it: “the accountants settle the matter by definition, and acquiring boundaries means, for an organization, acquiring reality” (p. 236).

Hines (1986b) shows how the financial accounts of an organization do not merely describe, or communicate information about, an organization, but how they also play a part in the construction of the organization, by defining its boundaries. An organization is not a concrete thing, but a set of interrelationships, and if it is to exist, then it must somehow be bounded or defined. Financial accounting controversies are controversies about how to define the organization. For example, what should “assets” and “liabilities” include/exclude: at what point does an asset/liability become so intangible/uncertain/unenforceable/unidentifiable/non-severable, etc., that it ceases to be considered to be a “part” of an organization? The answers to questions such as these, define the “size”, “health”, “structure” and “performance”, in other words, the reality of an organization.

³ When the constructed nature of social reality is recognized, it becomes readily understandable why, for example, the Financial Accounting Standards Board (FASB, 1984) was unable, in its Conceptual Framework, to divorce measurement from recognition. It is difficult to “measure” something, before it has been made real, that is, “realized”!

⁴ Gribbin (1985) elaborates how subatomic particles, and other conceptions of physical reality, are the artefact of observation and measurement procedures:

The only things we know about the quantum world are the result of experiments . . . The electron is created by our process of experimental probing. The story stresses the fundamental axioms of quantum theory, that no elementary phenomenon is a phenomenon until it is a recorded phenomenon. And the process of recording can play strange tricks with our everyday concept of reality (pp. 209–210).

In the 1930s physicists were intrigued by the prediction of another new particle, the neutrino, required in order to explain the subtleties of the spin interactions of some radioactive decays. “I am not much impressed by the neutrino theory” said Eddington, “I do not believe in neutrinos”. But “dare I say that experimental physicists will not have sufficient ingenuity to make neutrinos?”

Since then, neutrinos have indeed been “discovered” in three different varieties . . . Can Eddington’s doubts really be taken at face value? Is it possible that the nucleus, the positron and the neutrino did not exist until experimenters discovered the right sort of chisel with which to reveal their form? Such speculations strike at the roots of sanity, let alone our concept of reality. But they are quite sensible questions to ask in the quantum world. If we follow the quantum recipe book cor-

rectly, we can perform an experiment that produces a set of pointer readings that we interpret as indicating the existence of a certain kind of particle. Almost every time we follow the same recipe, we get the same set of pointer readings. But the interpretation in terms of particles is all in the mind, and may be no more than a consistent delusion (p. 162).

⁵ See, for example, Tucker (1981). For different accepted versions of the Cuban Missile Crisis, see Allison (1969).

⁶ It is now acknowledged by philosophers of science that predictive success of a theory does not necessarily infer the “truth” of a theory. Many theories in the history of science which were (are) empirically successful, have been established to be non-referential, that is, not descriptively valid, with respect to their central explanatory concepts. These include the humoral theory of medicine, the effluvial theory of static electricity, the caloric theory of heat, the vibratory theory of heat, the theory of circular inertia, and theories of spontaneous generation (see Laudan, 1981 and 1984, for many others).

Conversely, many theories which are presently considered to be genuinely referential theories, were previously rejected, because of their apparent empirical failure. For example, the chemical atomic theory in the eighteenth century was so unsuccessful, that most chemists abandoned it. Wegener’s theory of plate tectonics, published at the beginning of this century, was ridiculed on the basis of its empirical support, until the 1960s, when it became geological orthodoxy.

Furthermore, according to the formal rules of logic, the predictive success of a theory does not logically infer the descriptive validity of a theory (Hesse, 1975). For example, alternative theories can predict equally well. Laudan (1977) discusses many cases of scientific theories which successfully predicted, but were eventually determined not to be descriptively valid.

Feyerabend (1978), Kuhn (1962) and Laudan (1981, 1984) illustrate by reference to many episodes in science, that scientific observations and theories, are a product of a researcher’s expectations, sensory impressions, cognitive processes, research methods, ideological prejudices, epistemological assumptions, categories and assumptions embedded in their language, and auxiliary theories such as measurement theories. Gribbin (1985) and Pickering (1984) illustrate this in relation to atoms and quarks respectively.

A growing literature describes the processes by which theories and knowledge are socially constructed and negotiated, for example, [Gilbert (1976), Latour & Woolgar (1979), Myers (1985) and Schuster (1984)].

Foucault (1967, 1977, 1980) goes even further, to show how socially constructed “truth” and “knowledge”, are the product of interests and power relations [see also Dreyfus & Rabinow (1982) and Racevskis (1983)].

From the perspective of Foucault’s writings, it may be suggested that it is not merely chance that has determined the pre-eminence of positivist financial accounting research, such as capital market research and agency theory. Since this type of research uncritically and unreflectively investigates “what is”, without questioning how the status quo arose, and is ongoingly sustained and legitimated, such research legitimizes, rather than threatens, the social, political and economic interests vested in the status quo. It is thus the type of research that will be encouraged, admired and funded by those interests.

⁷ The themes in this paper emphasize the constructionist view of society, because it has not generally been acknowledged in mainstream financial accounting research, that social reality, whilst tangibly pre-existing the individual, arises interactively with social action. It is therefore in an effort to partially redress this imbalance, that the constructed nature of social reality has been emphasized in this paper.

Various critiques have been made of the constructionist viewpoint for its neglect of social structure (for example Giddens, 1976). However, the present paper, whilst emphasizing that people construct social relations and social structure in an ongoing fashion, also recognizes that social structures, such as organizations, pre-exist the individual. As the title of this paper reflects, social reality exists tangibly, and accounting practices *communicate* that reality, but in so doing, such practices play a part in creating, shaping and changing, that is, in *constructing* reality. Thus the overall theoretical position of this paper corresponds more to the position of Berger & Luckmann (1966) or Giddens (1984) [although these are not unproblematic perspectives — see, for example, Smith & Turner (1986)].

⁸ Beaver (1973, p. 51).

⁹ Holthausen & Leftwich (1983, p. 81).

¹⁰ When accounting is seen as merely reflecting or communicating or monitoring the characteristics of organizations, then many accounting methods are seen as “cosmetic” or “arbitrary” and it is supposed that investors can “see through” these methods to the “real” company. Indeed early efficient markets research tested for those methods and standards which were “cosmetic”. Moreover, certain accounting changes and standards were held as being “cosmetic”, and market efficiency was tested on the basis of this maintained assumption. However, no clear or consistent picture emerged from this research as to which methods, issues or standards are indeed “cosmetic” i.e. do not have “information content” about reality (Lev & Ohlson (1982), Hines (1984)). This state of affairs ceases to be surprising or to seem anomalous, when it is acknowledged that reality does not pre-exist financial accounting practice, but rather arises reflexively and interactively with *inter alia* financial accounting practices.

Such a recognition also throws light on why companies have so strongly opposed apparently “cosmetic” accounting standards, and why their managements have gone to such lengths in order to mitigate the effects of them. It is not necessarily that

managements do not believe or do not understand the Efficient Market Hypothesis, it is rather that they do not think of their company's "size", "performance", "stability", etc. as existing concretely and independently of financial accounting practices, so that sophisticated investors can "see through" accounting numbers to it. For this reason managements often go to expensive lengths, in order to manage their company's appearance [see Wyatt (1983) for some of these costly circumventions of accounting standards].

¹¹ For example, the stock market does not appear to react to replacement cost disclosures, but it appears that it may react to depreciation changes (see Lev & Ohlson, 1982).

¹² "A frequent topic of debate in the literature is the impact of accounting research on the accounting profession; the general conclusion is that the direct impact has been minimal" (Ball & Foster, 1982, p. 166).

¹³ The accounting profession in Europe, the United States and Australia, is increasingly attracting investigation and governmental intervention. The following statement was made by Arthur M. Wood, chairman of the Public Oversight Board of the Securities and Exchange Commission practice section of the AICPA division for CPA firms:

This is a critical time in the history of the accounting profession. To believe that the crisis exists because of the hearings being held by the House Subcommittee on Oversight and Investigations is in my estimation a serious error. Congressman Dingell's hearings are a symptom, not a cause. The cause of this crisis is in fact that investors and depositors are losing faith in the ability of the accounting profession to perform the job that has historically been its unique function: assuring the integrity of the financial information on which our capitalistic society depends (From "Statements in Quotes", *Journal of Accountancy* (August, 1985, p. 142)).

¹⁴ Handel (1982, p. 36), first stated by W. I. Thomas in the 1930s. Handel (1982) and Mehan & Wood (1975) elaborate how assumptions about reality predispose one to interpreting events in harmony with those assumptions. When acted upon, these assumptions perpetuate or create the conditions that one already assumed to have existed.

¹⁵ See Miller (1986) for a review of Fourquet's *La Comptes de la Puissance* (Encres, Editions Recherches, 1980), which shows how national accounts are instrumental in shaping economic behaviour.

¹⁶ See Zeff (1978) for discussion of the power struggles which have surrounded a number of U.S. accounting standards, as various groups have sought to impose their definition of reality, and the consequences of it, upon society.

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