

**The application of neo-Durkheimian institutional theory in
accounting research**

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Abstract

The seven publications comprising this PhD by publication employ neo-Durkheimian institutional theory (NDIT) to examine the relationship between the concept of culture and accounting practice. The primary focus of all the publications is on the dynamics of cultural dialogues (as defined in NDIT) and cultural change, and the publications contribute to accounting research in the areas of: audit failure, the financial crisis, developments in management accounting post-1980, financialization, risk disclosure, and accounting regulation.

The contributions of three of the publications derive from identifying the impact that a shift to a dominant individualistic solidarity has upon the (in)effectiveness of Arthur Andersen as the Enron auditor, the behaviours of key actors in the 2007-8 financial crisis, and the development of strategic management accounting post-1980. The fourth publication contributes by employing NDIT to explain cross-country variations in experiences of financialization. The fifth publication contributes to a new understanding of risk disclosures by demonstrating it is possible to trace through from patterns of social relations to risk management strategies and risk disclosures. The final two publications contribute to debates regarding the development of regulation by evidencing that accounting regulation is not subject to regulatory capture but rather to regulatory *self*-capture.

Prior accounting-culture studies have depended heavily upon Hofstede's cultural dimensions as the theory base and this is problematic as his work has been subject to important criticisms. NDIT, unlike Hofstede, does not assume nations are culturally homogenous and static.

There has been little use made of NDIT in prior accounting research and, in addition to the aforementioned contributions, the publications also demonstrate the efficacy of the theory for undertaking nuanced analyses of the four solidarities by reference to patterns of social relations and for explaining the dynamics of cultural change via the notion of cultural dialogues.

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Declaration

I declare that:

1. The work submitted for the degree of PhD by publication in Appendix 3 of the thesis already appears in print.
2. The integrative chapter is a presentation of original work and I am the sole author of this integrative chapter. This integrative chapter has not previously been presented for an award at this, or any other, university. All sources are acknowledged as references.

1. Introduction

My research employs neo-Durkheimian institutional theory (NDIT) to address the complex problem of understanding the relationship between the concept of culture and accounting practice. Academics initially recognised accounting needed to be studied as a social and institutional practice at the end of the 1970s; however, a primary concern in respect of accounting-culture studies undertaken to date is the enormous dependence upon Hofstede's cultural dimensions¹ as the theory base. The domination of Hofstede's cultural dimensions in accounting research is highly problematic as his work has been subject to important criticisms. Hofstede assumes nations are culturally homogenous which is restrictive and oversimplifies the idea of culture. As a consequence accounting research dependent upon Hofstede's dimensions is prone to disregard the intricacies of culture (Harrison and McKinnon, 1999). Further, Hofstede assumes culture is static and this presents an additional issue for accounting research utilising his cultural dimensions as it ignores the possibility of cultural change.

My motivation for employing neo-Durkheimian institutional theory (NDIT) in culturally-related accounting research is it can provide nuanced culturally-based analyses and the criticisms of Hofstede do not apply to the theory. NDIT asserts that in any group four solidarities (the individualistic, hierarchical, isolate and enclaved solidarities) will be present and in constant opposition, and this gives rise to cultural dialogues as the 'supporters' of each solidarity articulate their worldviews in a bid to convince others of the rightness of their claims (see for example, Douglas, 1997, 2004). The dynamics and complexities of cultural change are explained in NDIT via the notion of cultural dialogues and it neither assumes a direct relationship between nations and cultures or that cultures are static. My decision to adopt NDIT is based upon my recognising I could significantly contribute to the development of culturally-based accounting research by undertaking studies that have a primary focus on the dynamics of cultural dialogues.

The seven publications comprising the thesis examine a broad range of topics in accounting and finance within different institutional and societal settings; for

¹ These are the (now) six dimensions: power distance, individualism (versus collectivism), masculinity (versus femininity), uncertainty avoidance, long term orientation (versus short term orientation), and indulgence (versus restraint). See, for example, Hofstede (2011).

example, the publications study, inter alia, the financial crisis of 2007-8, the Burmah Oil Company tanker fleet crisis of 1974 and comparative experiences of financialization in the UK and Germany². An overarching contribution of the publications is they corroborate the existence of cultural dialogues and extend understanding of the significant impacts these cultural dialogues have for accounting and finance practice. In doing so they substantiate NDIT can provide nuanced and dynamic analyses of culturally-related aspects of accounting and finance. The specific contributions of the publications are that they add to knowledge of: causes of audit failure and financial failure, reasons for the development of Strategic Management Accounting and strategy as craft, how the different aspects of financialization can be brought together, the connection between thought styles, risk strategies and risk disclosures, and the development of accounting regulation as a function of regulatory self-capture.

The next section of this integrative chapter discusses the problem my research addresses and sets out why this problem is important. Section three critiques extant culturally-related accounting research and discusses the issues arising from Hofstede's hegemony in accounting-culture research. This section also explains why Hofstede has been adopted to such an extent in prior accounting research. Section four summarises the fundamentals of NDIT, explains how NDIT is a dynamic theory not susceptible to the same criticisms as Hofstede and addresses criticisms commonly directed at NDIT. This section also explains my motivations for adopting NDIT in culturally-related accounting research. The fifth section of the chapter evaluates the original contribution to knowledge that has been made by the submitted work. Finally, the conclusion reviews the discussions presented in the chapter and discusses the multiplicity of future directions for NDIT-based research in the field of accounting and finance.

2. The problem addressed by my research

The research comprising this thesis employs NDIT to address the significant problem of how to understand the relationship between culture and accounting

² Details of the seven publications are provided in Table 3 in appendix 1 and the full publications are provided in appendix 3.

practice. Accounting researchers began to fully recognise the importance and significance of examining accounting as a social and institutional practice only relatively recently at the end of the 1970's (Miller, 1994; Hopwood, 1985; Hopwood, 2005). Walker (2016) discusses how, at this time, 'pioneering' accounting academics "embarked on difficult journeys in search of the interconnections between accounting and the social" (p. 41). These accounting academics include, for example, Burchell et al. (1980) who discuss accounting as an institution and note how the field is undergoing a reappraisal with "(f)inancial accounting and reporting ... coming to be seen as outgrowths of institutional processes of enormous and still uncharted complexity" (p. 12).

This important adjustment in the focus from accounting being perceived as a 'neutral' activity reporting economic truths to it being understood as a collection of practices "(t)he emergence, distribution, location and intensity of which ... are thus research issues that promise to tell us something about the type of social relations that obtain in different ... settings, and at different points in time" (Miller, 1994, p. 2) led to researchers such as Violet (1983) identifying culture and accounting as inextricably connected:

Accounting is a social institution established ... to report and explain certain social phenomena occurring in economic transactions ... As a social institution ... (a)ccounting cannot be isolated and analyzed as an independent component of culture. It is ... a product of culture. (Violet, 1983, p. 8)

The importance of studying the complex effects culture has on accounting praxis is now fully acknowledged by accounting academics and extant accounting research has examined these effects across a wide array of areas within accounting. These include, inter alia, studies of culture and: the development of national accounting systems (see, for example, Salter and Niswander, 1995), the application of accounting standards (see, for example, Tsakumis, 2007; Cieslewicz, 2014), accounting classifications (see, for example, d'Arcy, 2004), accountability styles (Ahrens, 1996), tax ethics and tax reform programmes (Shafer and Simmons, 2011; Xu and Xu, 2016), the design of management accounting control systems (see, for example, Williams and Seaman, 2001), modes of budgetary participation (see, for

example, O’Conner, 1995), how performance measurement systems are employed (Henri, 2006), annual report disclosures (see, for example, Haniffa and Cooke, 2002), audit firms and auditors’ judgements of materiality (see, for example, Carpenter et al., 1994; Sikka, 2008), approaches to risk management (see, for example, Mikes, 2011), accounting fraud (see, for example, Cooper et al., 2013), accountability systems and ethnicity (see, for example, Greer and Patel, 2000), and gender and the accounting profession (see, for example, Kamla, 2012; Davie, 2017). However, as explained in the next section there is a major problem with this prior research.

3. Extant culturally-related accounting research

3.1 The hegemony of Hofstede

Although a significant number of culturally-related accounting studies have been published, a primary concern is there has been an overwhelming dependence upon Hofstede’s cultural dimensions as the theory base. Baskerville (2003) identifies this prior dependence and raises significant issues regarding the employment of Hofstede for studying culture (Baskerville 2003). Other accounting researchers who have also recognised this reliance upon Hofstede include Greer and Patel (2000) who argue that the “majority of cross-cultural accounting studies have applied only one conception of culture ... originat(ing) from the research by Hofstede” (p. 309) and Harrison and McKinnon (1999) who identify prior culturally-focused management control systems studies as “restricted and narrowed in focus through an almost total adoption of the ... work of Geert Hofstede” (p. 484).

The enormous influence of Hofstede following the original publication of *Culture’s Consequences: International Differences in Work-Related Values* in 1980 has also been noted more widely across the field of management (see, for example, McSweeney, 2002; Ailon, 2008; Patel, 2016). In the accounting domain it is important to recognise that the employment of Hofstede has been particularly marked as it is common for researchers looking to compare accounting across countries to either employ Hofstede’s dimensions directly or to employ Gray’s (1988) accounting values framework which is directly derived from Hofstede’s dimensions. In this respect, Heidhues and Patel (2011) evidence an “unquestioning

acceptance and application of (Gray's) methodology" (p. 273) in international accounting literature and in accounting textbooks and, further, assert that the "narrowly focused dimensional approaches (of Hofstede and Gray) have ... dominated cross-cultural accounting research" (p. 274).

3.2 Why Hofstede's hegemony is problematic

The adoption of Hofstede in accounting research is most likely to have arisen because it allows culture to be quantified via the numerical cultural dimensions. This ability to 'score' culture permits researchers to develop and test hypotheses for statistically significant relationships which can potentially "lend ... scientific legitimacy and respectability within accounting research" (Baskerville, 2003, p. 11). The potential for legitimating accounting research in the way described by Baskerville (2003) is also raised by Heidhues and Patel (2011) who contend positivistic research has had a favoured status in accounting and might be a primary cause of an over-reliance on Hofstede's - and Gray's - numeric values.

This form of positivistic-quantitative research approach is, of course, valid if the theory on which the hypotheses rest is robust; however, it is common for researchers to justify adopting Hofstede (or Gray) on the grounds it has been previously employed in similar studies. Consequently, researchers have not questioned whether the theory underlying Hofstede's dimensions and Gray's accounting values is satisfactory.

The uncritical acceptance, and hegemony, of Hofstede's cultural dimensions in accounting research, whether employed directly or indirectly via Gray's accounting values framework, presents significant difficulties as his work has been subject to significant criticisms. McSweeney (2002) judges "Hofstede's model of national culture ... profoundly problematic" (p. 113) and Baskerville (2003) argues that four fundamental criticisms can be raised against Hofstede and relate to: the advancement of a direct relationship between countries and cultures, Hofstede not studying cultures 'from within', the numerical orientation of the Hofstedian dimensions, and an assumption cultures are constant.

The Hofstedian view that countries and cultures are directly related is highly problematic. McSweeney (2002) critiques Hofstede's analysis of the IBM

questionnaire responses and concludes that the “depiction of the reported response differences as caused by national cultures is merely the product of his supposition that such causality exists” (p. 102) and Ailon-Souday and Kunda (2003) discuss how Hofstede is conceiving of “national identity as merely the passive embodiment of a predetermined cultural template, and thus fails to take into account the freedom that members have in defining what national belonging means, in shaping this identity” (p. 1074).

The uncritical employment of Hofstede’s theory has fundamental implications for prior accounting research. The presumption of cultural homogeneity and cultural stability within national boundaries is constraining and leads to a simplification of the notion of culture (Gould and Grein, 2009). The result is accounting research which “neglect(s) the greater depth, richness and complexity of culture and cultural diversity” (Harrison and McKinnon, 1999, p. 492). For example, the array of different behaviours of ethnic groups within nations is ignored (Baskerville, 2003) and this leads, inter alia, to accounting research disenfranchising indigenous peoples and failing to understand cultural dynamics with regards to accounting, accountability and societal values (Greer and Patel, 2000). Hence, there is a lack of recognition that “cultural borders are porous, so cultures may be shared by people from different geographical regions, and contested by people from the same region” (Patel, 2017, p. 91).

The use of numerical indices is an issue as it results in an ‘averaging’ of cultural differences and, hence, the nuances of culture are lost. A simplistic approach to culture in accounting research has also led to the neglect of the “importance of political, legal, historical, social and economic factors and their interdependencies in evaluating national accounting models” (Heidhues and Patel, 2011, p. 274).

Accounting research employing Hofstede’s cultural dimensions does not just neglect these nuances at the level of nations; nuances are also lost when organisations and their accounting systems are examined by reference to Hofstede’s framework. In this regard, organisationally-based accounting research overlooks that organisations operating across national boundaries (and who employ staff from different countries across different functions) do not simply take on the characteristics of the national cultures where the different parts of the business operate. Furthermore, culturally-related accounting research focusing on organisations that operate solely within the

boundary of one nation are ignoring that the organisation might comprise more than one culture and that the disagreements or conflicts between these cultures can be significant in determining how accounting practices are operationalised.

Harrison and McKinnon (1999) note that for many of the prior cultural-accounting studies that form the basis of their review the researchers omit to select all of Hofstede's cultural dimensions in their hypothesis testing and these omissions are neither explained nor justified. Thus, these prior studies do not provide a "theory-driven evaluation of the irrelevance of the dimension to the dependent variable or relation at issue" (Harrison and McKinnon, 1999, p.488). In essence, this implies they are not examining culture in its 'totality'. Central to Harrison and McKinnon's (1999) critique of the use of these indices is they are too simplistic for measuring culture, and that there is a need for research that engages with the complexities of culture and:

... breaks off the shackles of its hitherto reliance on ... (a Hofstede-based) perspective ... to move beyond its existing static nature, which constrain it to establishing (or not establishing) point-in-time statistical associations between values as independent variables and affective and/or behavioural responses as dependent ones. (Harrison and McKinnon, 1999, p. 499)

It is also important to emphasise that the presumption that culture is static is another significant issue for accounting research utilising Hofstede. When researchers ignore studying changes in culture they are unable to explain, for example, the causes of changes in accounting practices whether at the national level or the organisational level. Consequently, omitting examining the dynamics and mechanics of cultural modifications is to fail to understand that "culture constitutes an ongoing interpretation process rather than a stable structure of values that can be measured at a point in time" (Patel, 2017, p.91).

4. Motivations for employing neo-Durkheimian institutional theory

4.1 The requirements for an alternative theory base

My motivation for employing NDIT in culturally-related accounting research is that it is not subject to the same criticisms as Hofstede and can, in addition, “capture the complexity and dynamics of cultures” (Heidhues and Patel 2011, p. 283). NDIT was developed by the anthropologist Mary Douglas over a considerable period (see, for example, Douglas, 1970, 1978, 1986, 1986, 1989, 1990, 1994, 1995, 2003, 2004) and with significant contributions to its development being made by Michael Thompson. It is noteworthy that Harrison and McKinnon (1999) and Baskerville (2003) both advocate accounting researchers look to draw on ideas of culture from anthropology and sociology. They suggest accounting academics should look towards these disciplines as they may provide a means for overcoming the criticisms directed at Hofstede and can address the concern regarding the “dissonance between anthropological research and Hofstede’s cultural dimensions” (Baskerville, 2003, pp. 8-9).

NDIT originates out of Douglas’s ethnographic studies of the Lele people in the Kasai region of the Democratic Republic of Congo (see, for example, Douglas, 1963) which resulted in Douglas publishing *Purity and Danger* in 1966. Hence, the theory is ultimately rooted in studies of social organisation ‘from within’ rather than ‘from without’ (see, for example, Linsley and Shrivess, 2014). NDIT presumes we are social beings who form our notions of selfhood by reference to other people and the theory specifies how social relations connect through to preferences and ways of life. Central to the theory is the proposition that patterns of social relations are of fundamental importance, determining how we frame problems and choose solutions. Thus, as Thompson et al. (1990) note, “adherence to a certain pattern of social relationships generates a distinctive way of looking at the world” (Thompson et al., 1990, p. 2) and in NDIT this generation of distinctive ways of observing the world is often explained by referring to social relations as influencing thought styles.

4.2 The fundamentals of neo-Durkheimian institutional theory

NDIT contends the number of basic patterns of social relations is systematic and limited in its diversity to four elementary forms that are the only sustainable forms of

institution, with any group or organisation being predisposed to revert to one of the four forms (see, for example, Douglas, 2003; Thompson and Ellis, 1997). The framework describing these four forms (or solidarities) is constructed by reference to two dimensions of grid (social regulation) and group (social integration).

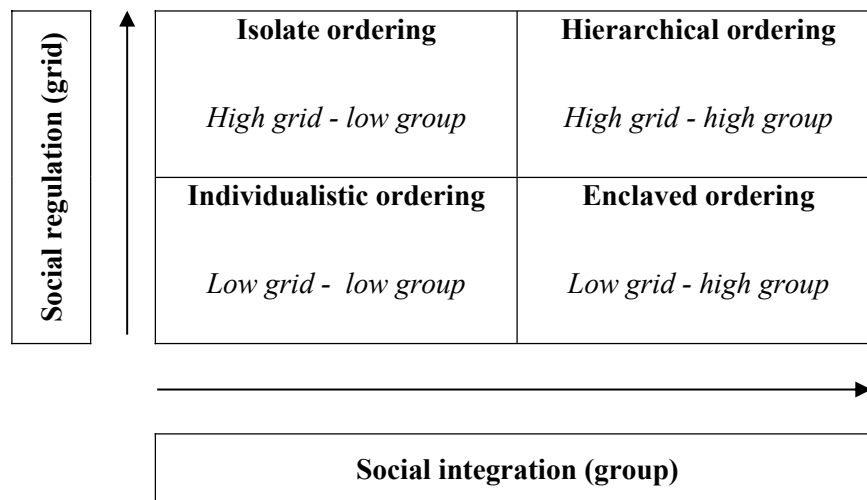
Social regulation concerns the extent to which an individual is free to self-select their social roles. In a low grid setting there is, relatively, greater freedom to select social roles by comparison to a high grid setting where there is strong social regulation which circumscribes the social roles an individual can choose. Therefore, the grid dimension is concerned with issues of autonomy in respect of roles (Douglas, 1989, p.173).

Social integration describes the degree to which an individual has a commitment to other individuals within the organisation or group. If there is high social integration (high group) this denotes the individual is strongly committed to others within the group. In respect of low (or weak) social integration an individual feels little loyalty or commitment to others within the community. Thus, in a low group setting an individual places their own aims above those of the group and the reverse is the case in a high group setting (Douglas, 1978). Consequently, social integration concerns whether “practices, positions, and relations are specified by strong or weak accountability to bonds and memberships” and social regulation concerns whether there is “strong or weak accountability to constraint, imperative, prescription, (and) roles” (6, 2014a, p. 89).

The grid-group matrix (figure 1) that results from combining the two dimensions in weak (or low) and strong (or high) states displays four forms of social relationships: enclaved (or egalitarian), hierarchical, isolate (or fatalist) and individualistic.

Douglas divides the two dimensions into weak and strong (or high and low) states as these four solidarities have been observed as the four sustainable forms of institution. Douglas fully acknowledges she is “reducing social variation to a few grand types” (Douglas, 1982, p. 2) when, in fact, there is enormous variety; however, “an explicit and parsimonious typology is necessary for meaningful analyses of cultural dialogues” (Linsley and Shrives, 2014, p. 760).

Figure 1: Grid-group framework



Source: adapted from Douglas (1986, 2004)

The enclaved ordering comprises strong social integration and weak social regulation. Thus, this solidarity is defined by the strong group boundary. Commitment to the group is of the utmost importance and penalties for disloyalty will be severe. To reinforce the group boundary enclaved solidarities will commonly define themselves in opposition to the ‘world’ outside the group. This can be achieved by conceiving the outside world as wicked or unjust or immoral. The hierarchical ordering also has a strong group boundary but this is combined with strong social regulation. Thus, this solidarity seeks to ensure that both inner and outer boundaries are not breached. Consequently, respect for those in authority is expected with roles being clearly delineated and expressing status. This runs in tandem with a lack of tolerance for deviant behaviour that threatens the boundaries. The individualistic solidarity is diagonally opposite the hierarchical solidarity and, hence, both social regulation and social integration are weak. The outcome is that individuals have considerable freedom to co-operate with any other individual. Douglas judges this form of ordering as challenging in that it “sanctions individual competition” (Douglas, 2004, p. 291) and if failure occurs then there is little purpose in approaching others for help. Consequently, what determines status is the ability to marshal resources (6, 2011). The isolate ordering combines strong social regulation with weak social integration. This has led to this solidarity being described as prone

to fatalism on the grounds that individuals in this setting feel they are not part of any group but are subject to strong prescriptions in respect of social roles.

4.3 Cultural dialogues and the dynamics of the theory

In her later work Douglas emphasises that any group or organisation or society will comprise all four solidarities and that the four will interact with one another by engaging in cultural dialogues. One of the four solidarities may be dominant, but it is not expected that any group will solely display the characteristics associated with one solidarity. The solidarities co-exist, although it is not necessarily a passive co-existence, and will ‘debate’ which way of life is most appropriate as they look to win over individuals to their solidarity. These cultural dialogues serve an important function acting as a means by which each solidarity can affirm their pattern of social relationships. In addition, the cultural dialogues can assist the solidarities from becoming parodies of themselves.

This idea of cultural dialogues is, fundamentally, concerned with recognising that the four solidarities must necessarily be in continual conflict with one another. This is because each of the four solidarities has “developed its own ‘cosmological values’, its own claims of justice, its own conception of how to think about the past and the future, and the duties that each ... places upon people” (6 and Richards, 2017, p. 93). Hence, Douglas comments that there will inevitably be never-ending clashes between the four solidarities as “(i)ntercultural dialogue is inherently agonistic . . . the contest is about the form of life to be held in common” (Douglas, 1997, pp. 128–129).

Thus, in later versions, NDIT is developed as a dynamic theory³ and, unlike Hofstede, neither assumes a direct relationship between nations and cultures or that cultures remain static⁴. The dynamic version of the theory recognises individuals will move across the solidarities either because their current solidarity fails to fulfil on its intrinsic promises or because they are ejected from the solidarity. Thompson et al. (1990) describe how an individual may elect to transfer allegiance when “successive

³ This is particularly due to the incorporation of Michael Thompson’s ideas (see, for example, Thompson and Ellis, 1997).

⁴ For more extensive discussions explaining why NDIT is not subject to the same criticisms as Hofstede see Linsley and Shrivies (2009) and Linsley et al. (2016).

events intervene in such a way as to prevent a solidarity from delivering on the expectations⁵ it has generated, thereby prompting (that) individual to seek more promising alternatives” (p. 4). For example, an inherent expectation of members of the enclaved solidarity is that loyalty to the group will be reciprocated should they fall on hard times. Such transfers of allegiance across the solidarities provide the explanation for how in any group or organisation or society the dominant solidarity may be replaced, over time, by another solidarity.

Therefore, cultural dialogues are a fundamental feature of the theory and essential for explaining how, and why, one solidarity may dominate for a period and then be usurped as another solidarity rises to dominance. That is, cultural dialogues represent the causal mechanism that enable us to understand why changes in solidarity dominance occur. In addition to explaining ‘cultural’ change, cultural dialogues also provide the means for understanding why a particular set of impacts are brought about by a change in solidarity dominance within any group, community, organisation or society.

NDIT has been used extensively in political science, public policy and public administration⁶; however, notwithstanding the extent to which the theory has been previously employed it is still being developed and refined. For this reason there have been calls for further NDIT-based research to be undertaken to extend the existing literature (see, for example, 6, 2014b). The calls for further research are understandable given it is such an ‘ambitious’ theory and one aspect of these calls is in respect of addressing the need to assess whether neo-Durkheimian institutional theory can be successfully extended into new domains as this provides additional tests of the universal applicability of the theory (see, for example, 6 and Mars, 2008). Excluding the publications in this thesis, the theory has not been employed to any extent in accounting and finance with only one previous NDIT-based paper having been published by Moerman and van der Laan (2012) in *Critical Perspectives on Accounting* journal. Unlike the publications in this thesis, there is no reference by Moerman and van der Laan (2012) to the underlying patterns of social relations

⁵ Thompson uses the term ‘surprises’ to describe when this “discrepancy between the expected and the actual” becomes so significant that people are “tip(ped) ... out of one form of social solidarity and into another” (Thompson, 2008, p. 98).

⁶ For example, Grendstad (2003) uses the theory to analyse political preferences across Nordic countries whilst Song et al. (2014) examine child vaccination programmes.

(which are the foundation of the theory) or to cultural dialogues or the dynamics of the theory. The particular focus of Moerman and van der Laan (2012) is a function of their article only drawing on two of Douglas's earlier works (Douglas and Wildavsky, 1982; Douglas, 1986) and this has the significant drawback that Douglas's ideas progress over time with the dynamic aspects of the theory being developed in her later work.

4.4 Motivations for adopting neo-Durkheimian institutional theory

The seven publications comprising the thesis utilise NDIT to examine a broad range of aspects of accounting and finance within very different institutional and societal settings as summarised in table 1.

Table 1: Aspects of accounting and finance investigated within the publications comprising the thesis

Publication	Aspect investigated	Setting (location)	Context
Linsley and Shrivs (2009)	Auditing	Individual company and professional services firm	Enron audit failure
Linsley and Linsley (2010)	Financial crisis	Banks, underwriters and ratings agencies	Credit crisis of 2007
Linsley and Linsley (2014)	Management accounting	UK and USA corporates	Strategic management accounting and strategy thinking
Linsley and Shrivs (2014)	Accounting regulation	Regulatory body	FRC regulatory consultation on complexity project
Linsley, Linsley, Beck and Mollan (2016)	Financialization	UK and German society	Experiences of financialization post-war to present
Linsley, McMurray and Shrivs (2016)	Accounting regulation	Regulatory body	FRC regulatory consultations on complexity, auditor scepticism and company stewardship projects
Abdelrehim, Linsley and Verma (2017)	Financial reporting	Individual company	BOC risk management strategies pre- and post- 1974 crisis

An outcome of employing NDIT in accounting and finance research is that I address the calls of 6 (2014b) to extend NDIT into new domains; however, this was not central to my motivation when electing to adopt the theory. My initial interest in NDIT was prompted through engaging with Douglas's risk-focused NDIT writings (see, for example, Douglas, 1966, 1986, 1994; Douglas and Wildavsky, 1982). NDIT asserts that groups, organisations and societies have "selective attention to risk, and preferences among different types of risk taking (or avoiding)" (Wildavsky and Dake, 1990, p. 43) with each solidarity emphasising different risks as they seek to defend their different patterns of social relations.

In the first of the publications in the thesis (Linsley and Shrides, 2009) the original conception was the paper would principally focus on analysing the risk perceptions of the Enron auditor, Arthur Andersen, to explain how these caused a major audit failure. As the paper progressed it became evident NDIT can do far more than provide an understanding of risk perceptions of the four solidarities in the context of accounting and audit failure.

Thus, central to my motivation for employing NDIT was the recognition, through researching and writing the Enron-based paper, that NDIT is not prone to the difficulties associated with Hofstede and, very importantly, can:

- i. Provide nuanced analyses of the preferences and biases of the four solidarities by reference to the underlying patterns of social relations. These include, but also go significantly beyond, risk-related preferences of the solidarities⁷.
- ii. Be used for studying groups and communities and of all forms. Thus, for example, it can be employed in societal level or organisational level studies.
- iii. Contribute to understanding the strategies and actions solidarities decide upon when under threat and the subsequent reactions of the other solidarities.
- iv. Explain the dynamics and complexities of cultural change as the different solidarities interact with one another via cultural dialogues.

⁷ For example, NDIT can, inter alia, explain why the solidarities: frame and solve problems in such distinct ways, adopt different views of resilience, and plan ahead over different time horizons.

Hence, my decision to adopt NDIT was rooted in my recognising I could significantly contribute to the development of cultural-accounting research by undertaking studies that have a primary focus on the dynamics of cultural dialogues.

4.5 Addressing criticisms of neo-Durkheimian institutional theory

The three principal criticisms commonly directed at NDIT are with regards to whether the theory: is merely a typology, can account for the complexities and varieties of groups, organisations and other institutions that exist, and is deterministic.

The criticism that NDIT is merely a typology is incorrect but it is possible to see why this charge has arisen. As Giddens and Mars (2008) indicate there are many NDIT-based publications that go no further than drawing on the fourfold typology to allot the data under examination to one of the four possible positions in the grid-group matrix. Such research ignores the underlying theory regarding social relations, conflictual cultural dialogues and the possibility of change. However, there is an underlying theory as outlined earlier in the chapter, and this theory should be utilised by researchers employing NDIT not least because the theory provides an understanding of the causal mechanisms whereby patterns of social relations lead through to thought styles which lead through to particular actions.

In addition, simply using the typology without reference to understanding the underlying theory can be a factor in making NDIT appear too simplistic and unable to account for complexities. It has already been stated in discussing cultural dialogues that the theory does not assume any group or organisation or other form of institution will correspond with a single solidarity. The theory assumes all four solidarities will be present to different extents in different settings and that hybrids might be evident too.

The criticism that the theory does not permit individuals free will can be refuted as follows. It is individuals who consent to the formation of institutions. These institutions may be constraining and are able to lay claims against us, but we consent to the formation of institutions because we are, innately, social beings and because they provide benefits in return. These claims and benefits will differ dependent upon the form of the institution. For example, an advantage of a hierarchically-dominated

institution is that it will provide an individual with a safety net of some type should they run into difficulties and this might be one reason we would be willing to accept the boundaries this form of solidarity places upon us. Further, it is important to recognise that no individual is bound by any specific worldview and we can never fully predict how any person will behave. Thus, in a hierarchically-dominated institution any individual is free to elect to behave as they wish and, hence, they may decide not to show respect for authority. It is also important to re-emphasise that NDIT is a dynamic theory that can account for a change in the dominant solidarity by reference to cultural dialogues. As Douglas (2004) states:

(c)ulture is not a mechanical control on the individual members of a community. If enough individuals want to be free to compete, they will abolish the rules that check competition ... If the consensus prefers a society that will honour the old, and care for the infirm ... or maintain a monarchy, they will set up regulations to restrain free enterprise. (p. 290)

Thus, individual agency is underpinning changes in solidarity dominance with individuals free to change allegiance from one solidarity to another with “(t)he way of life ... that is dominant at any particular time ... (being) the product of all the separate cultural dialogues that have been taking place and ... an outcome of individuals’ verdicts on what form of life they would prefer” (Linsley and Shrives, 2014, p. 761).

5. My contribution to culturally-related accounting research

5.1 How NDIT has been employed in the publications

The seven publications all have a principal focus on the dynamics of cultural dialogues in accounting and finance as summarised in table 2. Five of the publications investigate sites where cultural dialogues have resulted in a change in the dominant solidarity; these studies analyse how the cultural dialogues lead to the observed change alongside analysing the impacts the change in the dominant solidarity has upon the worldviews and behaviours of the different groups or organisations or countries under investigation. The five publications are: Linsley and

Shrives (2009), Linsley and Linsley (2010), Linsley and Shrives (2014), Linsley, Linsley, Beck and Mollan (2016), and Abdelrehim, Linsley and Verma (2017).

The other two publications (Linsley and Shrives, 2014; Linsley, McMurray and Shrives, 2016) also investigate cultural dialogues, albeit from a different perspective. A shared aspect of the behaviour of the four solidarities is that, although they engage in continually ongoing cultural dialogues, they have an innate inability to listen to the worldviews of the other solidarities. These two publications investigate the significant implications this has for the development of accounting regulation.

Table 2: Foci of cultural dialogue analyses for the publications comprising the thesis

Publication	Cultural dialogues investigated	Solidarity interactions analysed
Linsley and Shrives (2009)	Cultural dialogues within Arthur Andersen and the impact on audit effectiveness. Wider societal responses in the wake of Enron failure.	Hierarchical and individualistic Hierarchical, individualistic and enclaved
Linsley and Linsley (2010)	Cultural dialogues in UK and USA during the 1970s and the impact on banks, underwriters and ratings agencies.	Hierarchical and individualistic
Linsley and Linsley (2014)	Cultural dialogues in UK and USA during the 1970s and the impact on companies' strategy making and management accounting.	Hierarchical and individualistic
Linsley and Shrives (2014)	Cultural dialogues between respondents to regulatory consultation and the impact on policy making.	Hierarchical, individualistic, and enclaved
Linsley, Linsley, Beck and Mollan (2016)	Cultural dialogues in UK and Germany from WW2 to present and the impacts on companies and finance.	Hierarchical, individualistic and enclaved
Linsley, McMurray and Shrives (2016)	Cultural dialogues between respondents to regulatory consultations and the impact on regulatory reform.	Hierarchical, individualistic, enclaved and isolate
Abdelrehim, Linsley and Verma (2017)	Cultural dialogues within Burmah Oil Company and the impact on risk and risk management strategies.	Hierarchical and isolate

5.2 Contributions

The thesis publications, in totality, provide strong support for employing NDIT to examine culturally-related aspects of accounting. The evidence for this statement is that the publications demonstrate NDIT can (as per the motivations set out in section 4.4 above): (i) provide nuanced analyses of the preferences of the four solidarities, (ii) be used to study groups of all forms, (iii) provide understandings of the strategies and counter-strategies of solidarities when under threat, and (iv) explain the dynamics and complexities of cultural change. This verification of the utility of the theory for undertaking accounting research is an over-arching contribution that has been made by the publications.

More importantly, the publications have made specific contributions in respect of the different culturally-related aspects of accounting they examine. These specific contributions are the focus of the discussions in this section; in addition, the discussions set out the ways in which the publications connect with, and build on, one another.

The first two publications are both concerned with analysing cases of failure in different accounting and finance contexts. The objective of Linsley and Shrivess (2009) is to explain the failure of audit practices in the context of the 2001 Enron debacle by reference to a change in the dominant solidarity of Enron's auditor, Arthur Andersen. Therefore, this paper studies dominant solidarity change at the organisational level, whereas Linsley and Linsley (2010) examine solidarity changes at a societal level to explain failures relating to the financial system that lead to the 2007-8 financial crisis.

In the first of the two publications, the implications of the individualistically-oriented nature of Enron is initially discussed, and this is followed by the core argument that Arthur Andersen's modification from a hierarchically-oriented solidarity to an individualistically-oriented solidarity adversely affected its ability to audit Enron's financial statements. Previously, partners in the firm had been prepared to contest a client's accounting treatments; however, the ability to remain independent of the client diminished and the change in the dominant solidarity negatively impacted on the disposition of Arthur Andersen to act as a gatekeeper. Relatedly, when this form of solidarity is dominant less attention is paid to following

audit processes as “the auditor adopts the role of strategist rather than steward” (Linsley and Shrives, 2009, p. 503) and the inherent myopia of the individualistic solidarity results in it being difficult for a firm to conceive of future risks to reputation should an audit not be performed to an appropriate professional standard.

Linsley and Shrives (2009) trace this change in dominant solidarity to the expansion of the consulting division of Arthur Andersen commencing in the 1960s. Essentially, the contest between the hierarchically-oriented audit division and individualistically-oriented consulting division is won by the latter with the outcome that demonstrating the ability to meet financial targets becomes the prime measure of an individual’s success in the firm as opposed to technical accounting ability. By comparison, Linsley and Linsley (2010) assert the change from a dominant hierarchical solidarity to a dominant individualistic solidarity in UK and USA society is a consequence of an intensification of cultural dialogues associated with the significant economic and political upheavals of the 1970s. These upheavals resulted in vigorous debates including those which focused on the extent to which governments should intervene in, and regulate, markets.

The prime objective in the 2010 paper is to demonstrate society’s vulnerability to the financial crisis is a direct result of the post-1970 dominance of the individualistic solidarity. As noted in the first publication, the individualistic solidarity has an innate short sightedness and a central argument in the second paper is this characteristic encourages short-term risk taking which, alongside an individualistically-oriented optimism that the financial system will naturally achieve a state of equilibrium, created the conditions for the 2007-2008 credit crisis. Two other characteristics associated with the individualistic solidarity are also analysed to explain their respective roles in creating the conditions for the financial crisis; namely, a preoccupation with wealth acquisition as a prime determinant of success and that this solidarity alludes, *ostensibly*, to a vision of opportunity for all.

Enron and the 2007-8 financial crisis have been key events in the accounting and finance sphere during the last twenty years with the consequence that they have been the subject of numerous academic studies. These two papers contribute an alternative understanding of how failure in these important and complex cases is associated with the characteristics pertaining to the patterns of social relations of the NDIT-rooted solidarities. The papers also contribute to an understanding of the societal reactions

to the failures by reference to the debates (cultural dialogues) between the solidarities. The papers reveal a prime linkage between the two cases is both failures arise from the change to a dominant individualistic solidarity with its faith in the ability of markets to self-regulate, innate myopia, short-term planning horizons, and focus on individual entrepreneurialism.

Linsley and Linsley (2014) build on Linsley and Linsley's (2010) examination of the repercussions of the shift from a dominant hierarchical solidarity to a dominant individualistic solidarity as caused by the vigorous cultural dialogues of the 1970s. However, whereas Linsley and Linsley (2010) are concerned with the actions of banks, ratings agencies and individual mortgage holders, the 2014 publication is focused on how this impacts on management accounting practices and the role of management accountants working in companies. Specifically, Linsley and Linsley (2014) examine the notion of Strategic Management Accounting (SMA) which arises at the outset of the 1980s and describes the proposition that management accountants must move away from being technically expert accountants and move towards becoming proactive, strategic decision-makers.

The publication maintains the rise to dominance of the individualistic solidarity brings about the emergence of the notion of SMA in the early 1980s as well as changes in strategy thinking. Strategy as 'craft' replaces the rationalistic strategy approach as the market for corporate control impacts and a focus upon shareholder value develops. Staff across the different business functions are now expected to engage in strategic decision-making, including management accountants. There is greater fluidity in roles as internal boundaries weaken and management accounting expertise counts less than the ability to assist the company in adding shareholder value.

This contrasts with when the dominant solidarity is hierarchical. Management accounting is conceived of as a functional discipline and supports a stewardship approach to the management of finance. A procedural and rationalistic approach to strategy prevails, and a top-down methodology is the norm with senior managers expecting junior managers comply with their strategic edicts.

Linsley and Linsley (2014) not only contribute to understanding why SMA arose and how it connects to changes in strategy thinking. Through employing NDIT they are

also able to propose reasons why, contrary to what one would expect, innovative SMA techniques have not been embedded within companies to a greater extent.

Whilst Linsley and Linsley (2014) is focused upon UK-USA societal change and its impact on the corporate sector, Linsley, Linsley, Beck and Mollan (2016) examine comparative experiences of financialization in the UK and Germany. This 2016 publication extends the examination of societal level cultural dialogues in Linsley and Linsley (2010) and Linsley and Linsley (2014) in two respects. First, there is a geographical extension as it examines Germany in addition to the UK. Second, the examination of the UK (and Germany) is much more detailed and the paper provides a comprehensive examination of the cultural dialogues in the two countries from the end of the Second World War to the present.

Financialization debates are concerned with the observation that in the last two to three decades there have been such dramatic changes in finance (see, for example, Epstein, 2005) that financialization is a phenomenon that demands explanation. Accordingly, alternative definitions of financialization have developed principally allied to ideas of shareholder value or the growing span of finance, and the three most important financialization schools relate to critical social accounting, regulation theory, and socio-cultural approaches. The array of financialization definitions and schools highlight how wide a spectrum of effects financialization is judged to have had across the economic (macro), corporate (meso) and social (micro) spheres.

Financialization has been lacking an underlying theory that might draw together the different elements. This publication contributes to the financialization literature by explaining, and drawing together, the very disparate facets of financialization by reference to the four solidarities of NDIT and cultural dialogues.

Different countries have experienced financialization to different degrees and their experiences of financialization have not been simultaneous. Through employing NDIT the paper explains variations in financialization across the UK and Germany. The publication establishes that the differences in the form and timings of the modifications away from the dominant hierarchical solidarity in the two countries explain why the UK experienced financialization to a greater degree than Germany and at an earlier point in time.

Core to the publication is the argument that, whereas for the UK there is a shift from a dominant hierarchical solidarity to a dominant individualistic solidarity post-the 1970s, in Germany the shift is from a dominant hierarchical solidarity to a hybrid hierarchical-enclaved-individualistic arrangement and this hybrid evolves in a later period during the mid-1990s. An important aspect of the cultural dialogues in Germany is that the debates are very much influenced by the strong desire of the German nation to avoid any repetition of past mistakes given its experience of Nazism and this provides the scope for enclaved groups to have influence.

Whilst Linsley, Linsley, Beck and Mollan (2016) provide a novel understanding of financialization, Abdelrehim, Linsley and Verma (2017) make a significant contribution to accounting research through providing a wholly new way of understanding risk disclosures. Disclosure studies are of great importance in accounting as researchers wish to understand what motivates managers when writing the narrative sections of the company's annual report. Prior risk disclosure research has been very restricted. Content analysis has been the principal research methodology and the focus of the prior research has either been to identify the main characteristics of the risk disclosures or to test for statistically significant associations between the volume of risk disclosures (typically measured by the number of risk sentences) and corporate governance attributes.

Abdelrehim, Linsley and Verma (2017) examine a single case company, the Burmah Oil Company (BOC), during a period of crisis, 1971-76. Archival research is undertaken to analyse BOC's patterns of social organisation over the period by drawing on a wide range of company documents (for example, internal minutes of company meetings, statements of HR policy, and management memorandums). This is wholly unlike prior risk disclosure research which examines only the risk disclosures in the annual report based on content analysis of risk sentences.

The analysis identifies the dominant hierarchical solidarity is replaced by a dominant isolate solidarity in the wake of the BOC tanker fleet crisis in 1974. Pre-crisis the risk management strategy of the BOC board is to carefully balance risk and reward via risk diversification and to believe it is possible to manage future risk over the long-term, and this corresponds with the hierarchical thought style regarding risk management. The publication explains how, during the 1974 crisis, group bonds became weakened as the hierarchical solidarity ceased to deliver on its inherent

promises; however, whilst social integration diminished, social regulation remained high with the consequence that an isolate form of social organisation came to dominate. The post-crisis risk management strategy of the BOC board, which accords with the thought style of the isolate solidarity, is to absorb losses and to hope to survive with short-term management approaches becoming the norm.

The analysis of the risk disclosures in the BOC annual reports for the period 1971-76 finds they are consistent with the dominant forms of solidarity in the pre-crisis and post-crisis periods. Thus, the publication can trace through from social organisation (patterns of social relations) to thought styles (of the dominant solidarity) to risk management strategies to risk disclosures. An important omission in prior risk disclosure research is that it does not seek to understand the worldviews of the people in the organisation responsible for managing risk and for preparing the risk disclosures⁸. Therefore, a fundamental limitation in the prior research is overcome and the publication contributes by providing a completely new understanding of risk disclosures by demonstrating a causal connection between the different forms of solidarity, risk strategies and risk disclosure narratives.

The two remaining publications (Linsley and Shrive, 2014; Linsley, McMurray and Shrive, 2016) are concerned with examining the implications of the four solidarities not being able to hear one another in the context of accounting regulation consultations. Linsley and Shrive (2014) identify the different voices of each solidarity located within the comment letters sent in response to a discussion paper issued by the Financial Reporting Council (FRC)⁹. They then analyse the arguments supplied by each respondent in their comments letter and evidence how each respondent's arguments are, in effect, attempts to persuade others of the validity of the way of life associated with the respondent's dominant solidarity. Thus, Linsley and Shrive (2014) confirm the arguments match with the thought style of the dominant solidarity identified for that respondent.

Linsley, McMurray and Shrive (2016) explain that the wider regulation-based literature has observed that regulatory reform across different policy domains - not

⁸ Nor indeed have any other non-risk focused disclosure studies (for example, corporate social responsibility disclosure studies) sought to identify a causal link of this type.

⁹ The FRC is the independent regulator responsible for regulating accounting, auditing and corporate governance in the UK.

just accounting - has failed in recent times to result in any significant policy or regulatory changes. Thus, the principal objective of the paper is to examine why consultation processes intended to bring about change are failing to do so. Linsley, McMurray and Shrives (2016) do this by examining two further FRC consultations and testing a number of NDIT-derived propositions.

The 2016 study confirms the 2014 findings and, by examining three consultations, also verifies there is consistency in respect of the themes of the arguments presented by each of the four solidarities across all three consultations. Further, through examining hybrid responses (where two or more solidarities share dominance) the 2016 study explores the possibility that respondents are being strategic and seek to win at least some arguments by being willing to compromise.

Most importantly, Linsley, McMurray and Shrives (2016) identify the three pre-consultation proposals remain largely unchanged after the consultation has taken place. This confirms the regulator is focused on perpetuating their own worldview and has difficulty 'hearing' responses that do not accord with their worldview. Therefore, the result supports the NDIT-derived proposition: "(t)he worldview of the regulator will influence the outcome of the three consultations" (Linsley, McMurray and Shrives, 2016, p. 993).

Linsley and Shrives (2014) and Linsley, McMurray and Shrives (2016) contribute to debates in the field of regulatory studies in the following manner. The dominant concept pertaining to how regulation is developed is that of regulatory capture, which describes the situation whereby powerful interest groups can influence the regulator sufficiently to ensure new regulation fits their agenda. However, recently it has been argued that this account of regulatory capture by interest group is ineffective in explaining policy-making in the domain of financial regulation and alternative understandings of policy-making are needed (Young, 2012; Kwak 2014). Linsley, McMurray and Shrives' (2016) finding that "consultation processes emerge as a mechanism for the maintenance of prevailing policies rather than the starting point for their substantive re-negotiation" (p. 989) leads to the important insight that regulatory *self*-capture is occurring as opposed to regulatory capture. The notion of regulatory self-capture is constructed in the paper to designate that the innate response of the regulator is to act to maintain its existing pattern of social relations and to, unavoidably, perpetuate their own worldview.

Linsley and Shrives (2014) conclude by arguing there is a need for the FRC to listen to the voices of *all* four solidarities when consulting on regulation. One reason this is necessary is it is sub-optimal to enact solutions that only accord with one's own worldview, for as each solidarity frames problems and selects solutions dependent upon its social organisation the result is that no one solidarity can offer a flawless answer to any problem. Further, if the solutions of one solidarity are enacted they will, inevitably, be opposed by the other solidarities. Consequently, Linsley and Shrives (2014) advocate a clumsy solutions approach. This requires accepting there is no one best solution and displaying an ability to listen to all four solidarities to fashion a solution that has at least some appeal for each solidarity. This clumsy solutions approach has not been advocated either in prior accounting research or prior financial regulation research.

6. Conclusion

My work has contributed to accounting research in respect of adding to understanding in the following areas: causes of audit failure and financial failure, post-1980 developments in strategy and management accounting, the phenomenon of financialization, the study of risk disclosures, and the development of accounting regulation.

The contributions of the first three publications arise from identifying the impact the shift to a dominant individualistic solidarity has upon the effectiveness of Arthur Andersen as an auditor, the behaviour of key actors in the financial system, and the development of the notion of strategic management accounting. The fourth publication contributes by setting out how NDIT connects disparate aspects of financialization and explaining cross-country variations in financialization. The fifth publication contributes to a new understanding of risk disclosures as a function of patterns of social relations. The sixth and seventh publications contribute to understanding by identifying that the development of accounting regulation is being hampered because of regulatory self-capture.

The thesis publications all adopt NDIT as an alternative theory base for culturally-related accounting research across a wide array of topics. This demonstrates the efficacy of NDIT for undertaking nuanced culturally-based accounting research

which can explain the dynamics of cultural change via the notion of cultural dialogues.

It is also of significance that NDIT does not rely upon the assumptions of Hofstede and can be employed for studying groups of all kinds. This is important as there appears to be a growing dissatisfaction with the reliance upon Hofstede in accounting and finance research. For example, a Special Issue of *Accounting, Auditing and Accountability* journal was published in 2016 following a call for alternative theories to Hofstede to be adopted for investigating ethnicity and culture in accounting research¹⁰.

A key challenge for NDIT is that it is still being developed. Linsley and Shrives (2009) note in the conclusion to the first thesis publication that “(g)rand theories need refining and developing if they are to fully account for the complexities inherent in organisational and institutional life” (p. 506). This remains the case and, consequently, there is enormous scope for further research in accounting that employs NDIT as the theory base. Three broad categories of future research that could be especially valuable are: (i) studies that critique and build upon the publications in the thesis, (ii) studies that employ NDIT to investigate aspects of accounting beyond those areas investigated in the thesis publications and (iii) studies that investigate particular aspects of NDIT in the context of accounting.

In respect of the first category, future studies that evaluate the robustness of the findings of the thesis publications would be valuable. For example, further research tracing through from thought styles to annual report disclosures can establish whether the findings of the BOC study also hold in other cases. Such studies need not be confined to solely examining risk disclosures and could usefully be extended to examine other types of disclosures provided by management in the annual report. Another example of an extension study would be an NDIT-based investigation of financialization in a country, or countries, other than the UK and Germany.

¹⁰ Linsley, Linsley, Beck and Mollan (2016) was one of the papers published in this Special Issue. The editors of the Special Issue state: “The contribution by Linsley et al. (2016) is a powerful demonstration of the ability of the Grid and Group model to theoretically frame cross-cultural and cross-country research. Unlike the approach of Hofstede, which directly and statically links culture to nation, Linsley et al. (2016) highlight dynamic relations between four solidarities (i.e. hierarchy, enclave, individualist and isolate) within nations” (Baskerville et al., 2016, p. 1263).

The second category of future studies that would be beneficial are those that employ NDIT to investigate aspects of accounting beyond the thesis publications. The second section of this chapter noted that prior culturally-based accounting research has examined a wide array of topics within accounting including, for example: national accounting systems, accounting standards, and performance measurement systems. Employing NDIT to re-examine these disparate areas would be potentially valuable for appraising what new insights the theory can add to our understanding in the different areas. Such studies would also begin to redress the imbalance in respect of the dominance of the employment of Hofstede in cultural-accounting research. This second category of study need not be confined solely to those accounting areas noted in section two. For example, two additional aspects of accounting that would particularly benefit from investigation using NDIT concern the notions of risk culture and calculative culture. There has been limited exploration in accounting as to how either of these concepts should be understood and NDIT could be a means for analysing both concepts.

The third category of future research is with regards to studies that examine specific aspects of NDIT in an accounting context with the primary objective of aiding in the further development of the theory. The thesis publications examine cultural dialogues and associated change processes, and this has been an aspect of NDIT where there have been recent prior calls by NIDT researchers for further study (see, for example, 6 and Swedlow, 2016). Two other aspects of NDIT that would benefit from further research are hybrids and clumsy solutions. Hybrids occur when two or more solidarities form some type of coalition and there is a need for further research to better understand why and when hybrids occur. Clumsy solutions concern the idea that to resolve the debates between the four solidarities and to address wicked problems requires enacting solutions that all four solidarities will deem legitimate. These two aspects of NDIT are examined within the thesis publications but only to a limited extent.

In conclusion, there is still further work needed to overcome the hegemony of Hofstede and to introduce alternative perspectives into accounting-culture research. NDIT provides an approach that can offer nuanced understandings of the connect between culture and accounting, and can cope with change and complexity through from the micro-level of the individual to the macro-level of nations. There is scope

for significant further research not only in respect of studies that corroborate or contradict the findings of the thesis publications, but also with regards to studies in other areas of accounting. Finally, there are still challenges as to how NDIT is verified and theorized and, therefore, future studies can also enhance and develop understanding of NDIT.

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Young, K. (2012). Transnational regulatory capture. *Review of International Political Economy*, 19(4), 663–688.

Appendices

Appendix 1: List of publications comprising the thesis

Table 3: Publications included in the thesis

Reference	Contribution¹¹
Linsley, P. M. and Shrives, P. J. (2009). Mary Douglas, risk and accounting failures, <i>Critical Perspectives on Accounting</i> , 20(4), 492-508.	60%
Linsley, P. M. and Linsley, A. P. (2010). Cultural theory of risk and the credit crisis, <i>Journal of Risk and Governance</i> , 1(3), 193-206.	55%
Linsley, P. M. and Shrives, P. J. (2014). Douglasian cultural dialogues and the Financial Reporting Council complexity project, <i>Critical Perspectives on Accounting</i> , 25(8), 757-770.	60%
Linsley, P. M. and Linsley, A. P. (2014). Cultural theory of risk and the notion of management accountants as strategists. In D. Otley and K. Soin (Eds). <i>Management control and uncertainty</i> . Basingstoke: Palgrave MacMillan, pp. 224-238.	65%
Linsley, P. M., Linsley, A. P., Beck, M. and Mollan, S. (2016). Employing neo-Durkheimian institutional theory in cross-cultural accounting research. <i>Accounting, Auditing and Accountability Journal</i> , 29(8), 1270-1293.	55%
Linsley, P. M., McMurray, R. and Shrives, P. J. (2016). Consultation in the policy process: Douglasian cultural theory and the development of accounting regulation in the face of crisis. <i>Public Administration</i> , 94(4), 988-1004.	55%
Abdelrehim, N. T. H., Linsley, P. M. and Verma, S. (2017). Understanding risk disclosures as a function of social organisation: a neo-Durkheimian institutional theory-based study of Burmah Oil Company 1971-1976. <i>British Accounting Review</i> , 49(1), 103-116	50%

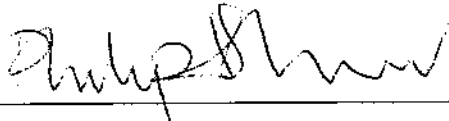
¹¹ These contributions have been certified by the authors concerned. Copies of the certifications are included in appendix 2.

Appendix 2: Certification of individual contribution to co-authored work

Certification

In respect of the publication(s) listed below I confirm that the extent to which the work is Philip Linsley's is as below:

Reference	Contribution
Linsley, P. M. and Shrives, P. J. (2009). Mary Douglas, risk and accounting failures, <i>Critical Perspectives on Accounting</i> , Vol. 20, No. 4, pp. 492-508.	60%

Signed: 


Professor P. J. Shrives

Certification

In respect of the publication(s) listed below I confirm that the extent to which the work is Philip Linsley's is as below:

Reference	Contribution
Linsley, P. M. and Linsley, A. P. (2010). Cultural theory of risk and the credit crisis, <i>Journal of Risk and Governance</i> , Vol. 1, No. 3, pp. 193-206.	55%

Signed:




A. P. Linsley

Certification

In respect of the publication(s) listed below I confirm that the extent to which the work is Philip Linsley's is as below:

Reference	Contribution
Linsley, P. M. and Shrives, P. J. (2014). Douglasian cultural dialogues and the Financial Reporting Council complexity project, <i>Critical Perspectives on Accounting</i> , Vol. 25, No. 8, pp. 757-770.	60%

Signed:



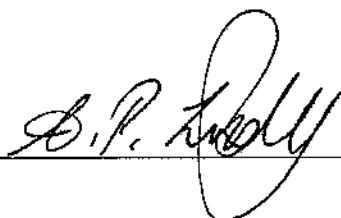
Professor P. J. Shrives

Certification

In respect of the publication(s) listed below I confirm that the extent to which the work is Philip Linsley's is as below:

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Linsley, P. M. and Linsley, A. P. (2014) Cultural theory of risk and the notion of management accountants as strategists, in Otley, D. and Soin, K. (eds.) <i>Management control and uncertainty</i> , Palgrave MacMillan: Basingstoke.	65%

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A. P. Linsley

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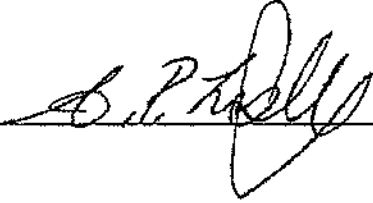
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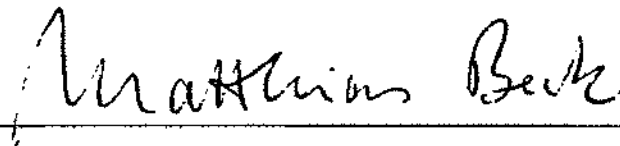
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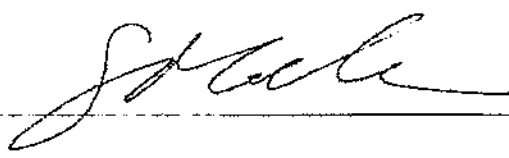
A. P. Linsley

Signed:



Professor M. Beck

Signed:



Dr. S. Mollan

Certification

In respect of the publication(s) listed below I confirm that the extent to which the work is Philip Linsley's is as below:

Reference

Linsley, P. M., McMurray, R. and Shrives, P. J. (2016). Consultation in the policy process: Douglasian cultural theory and the development of accounting regulation in the face of crisis, *Public Administration*. Vol. 94, No. 4, pp. 988-1004.

Contribution

55%

Signed:

Dr. R. McMurray

Signed:

Professor P. J. Shrives

Certification

In respect of the publication(s) listed below I confirm that the extent to which the work is Philip Linsley's is as below:

Reference

Abdelrehim, N. T. H., Linsley, P. M. and Verma, S. (2017). Understanding risk disclosures as a function of social organisation: a neo-Durkheimian institutional theory-based study of Burmah Oil Company 1971-1976, *British Accounting Review*. Vol. 49, No. 1, pp. 103-116.

Contribution

50%

Signed:



Dr. N. Abdelrehim

Signed:



Dr S. Verma

Appendix 3: Publications



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Mary Douglas, risk and accounting failures

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ABSTRACT

Sociology and anthropology are especially valuable in providing a critical understanding of the risk-related implications of modernity. There has, however, been relatively little discussion of the work of Mary Douglas within accounting although her pioneering writings in the area of risk have been highly influential. This paper uses Douglas' cultural theory of risk to provide an alternative perspective on the demise of Enron and Andersen. The failure at Enron is interpreted through the grid-group model and analysed as a series of events that threaten to destabilize established cultures. Accounting is thus construed as an activity that exists on the margins of boundaries. There are two important conclusions drawn from the analysis. First, as the worldviews of both the individualist and hierarchical cultures became threatened by the ensuing crisis they collaborated to ensure their perpetuation. This also averted individuals from becoming susceptible to recruitment by subversive egalitarian groups. Second, the individualistic culture of Andersen shaped practices within the firm weakening its ability to act as a gatekeeper and therefore public accounting firms need to modify their cultures if they are to police the margins effectively.

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Accounting researchers have found it beneficial to draw on other disciplines to analyse and evaluate accounting issues. For example, Macintosh and Baker (2002), McGoun et al. (2003) and Lewis and Unerman (1999) utilize perspectives derived from linguistics, theatre and philosophy in accounting-related papers. The two related fields of sociology and anthropology have made significant contributions to the study of risk (Freudenburg and Pastor, 1992) and provide valuable perspectives

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on a topic that has received much attention lately (Power, 2004). Consequently accounting academics have been influenced by “the work of people such as Beck and Giddens” (Hanlon et al., 2006, p. 270) and have used their ideas within different accounting contexts. For example, Green (1999), Jones and Dugdale (2002), and Froud (2003) employ the ideas of Beck and Giddens to examine audit practices, activity-based costing and health accounting, respectively.

It is unsurprising that outside the field of sociology formulations of risk by Beck and Giddens have dominated risk discussions. Beck’s *Risk Society* (1986) is regarded as a seminal work and there is a strong commonality with Giddens’ writings on risk in, inter alia, *The Consequences of Modernity* (1990) and *Reflexive Modernization* (Beck et al., 1994). There are, however, other risk theorists whose work is of equal importance. In particular, Mary Douglas is considered to have produced “path-breaking analyses of risk . . . (that are) . . . highly relevant to the critique of contemporary ideologies of risk” (Elliott, 2002, p. 301). Further, the writings of both Douglas and Beck are considered the two key reference points for sociologists and anthropologists studying risk (see for example Zinn, 2004).

This paper seeks to bring Douglas’s risk thinking into the accounting domain and re-dress the imbalance brought about by accounting researchers having too great a focus on the risk ideas of Beck and Giddens. The authors draw on Douglas’s work to explore current accounting and auditing failures; a subject that was studied in a recent paper by Unerman and O’Dwyer (2004) and central to which are Giddens’ theories on risk and trust that stem from his reflections upon the nature of modernity. Through re-examining the same topic the authors are able to provide an alternative analysis of the Enron accounting failure.

The structure of the paper is as follows. Initially Giddens’ account of modernity, risk and trust in expert systems is critiqued and problems inherent in the risk society perspective are discussed. In their paper Unerman and O’Dwyer (2004) explicitly state that the “purpose . . . is not to critique Giddens’ theoretical propositions” (p. 972). However, it is important to examine these criticisms as they provide a foundation for justifying using Douglas’s ideas to examine accounting and audit issues. Douglas’s cultural approach to risk is then reviewed and criticisms of her conception of cultural theory are addressed. The accounting and auditing failures at Enron are then re-analysed using Douglas’s theoretical grid-group framework. Finally, the implications of the analysis of the case using Douglas’s cultural theory of risk are discussed within the conclusion.

1. Criticisms of Giddens

Unerman and O’Dwyer (2004) base their analysis of the implications of Enron and Andersen accounting and audit failures upon Giddens’ (1990) proposal that the reorganization of social relations on a global, rather than a local, basis is progressed through two types of disembedding mechanisms; symbolic tokens and expert systems of technical and professional expertise. Whilst non-experts trust that experts have created systems incorporating tolerable risk levels, they begin to contest expert knowledge when events occur that undermine those systems. This re-evaluation of expert status and knowledge is a product of reflexivity. Reflexivity in modern society is concerned with our propensity for analysing knowledge and modifying our perceptions of social systems and social activities as new information arises.

Unerman and O’Dwyer (2004) contend that the events that unfolded at Enron and Andersen caused employees, and other external lay persons, to question the reliability of accounting and audit systems with non-expert actors reflexively modifying their opinions about the trustworthiness of these abstract expert systems. Consequently, through the process of reflexivity, non-experts developed increased sensitivity to levels of risk in stock market investment and stocks, which are symbolic tokens, also became vulnerable to a withdrawal of trust. They conclude by positing that this loss of confidence and trust in the two disembedding mechanisms may have potential ramifications not just for the status of experts and the capital markets but also for the continuation of the capitalist system on which modernity is based.

In his conception of reflexivity and risk Giddens assumes that scientific knowledge consists solely of propositional truths with the outcome that his distinction between expert and lay knowledge is unconditional (Wynne, 1996). That is, in the context of reflexivity, there is the implication that the risk meanings created by experts have primacy and lay individuals merely react reflexively to the

experts' view of risk rather than creating their own risk meanings (Lupton, 1999; Taylor-Gooby and Zinn, 2006). Thus if there is disagreement amongst those possessing expert knowledge then lay actors need to decide which expert to trust; but if the experts concur upon an issue then the lay actors can accept this expert view without needing to make any decision (Wynne, 1996).

Consequently, Giddens idea of reflexivity implies not only that expert knowledge has pre-eminence, but also that lay individuals adopt a rationalist and calculative stance in their interactions with expert systems (Alexander, 1996; Elliott, 2002; Lupton and Tulloch, 2002). Wynne (1996) explains how this simplistic approach can be seen to be deficient "once one introduces the idea that scientific expert knowledge itself embodies a particular culture" and consequently embodies "hermeneutic (and formulaic) and not only propositional truths" (Wynne, 1996, p. 75). Wynne demonstrates that individuals create their own risk knowledges through localised experiences and observations (and by means of individual or collective risk encounters) and therefore lay actors are continually making assessments concerning the credibility of experts' risk knowledges (Lupton, 1999). This is not to argue that the lay person's risk knowledge should necessarily be deemed superior to the expert's risk knowledge; rather that individuals do not simply compare the risk assessments of experts when determining their reaction to a risk (Wynne, 1996). The relationship between the lay public and experts (who will have a more generalised and idealised risk view) is therefore more complicated than Giddens suggests.

Unerman and O'Dwyer (2004) do not explore this lay-expert issue in the context of expert accounting and audit systems. Therefore no account is taken of the possibility of lay actors having created their own localised risk knowledges prior to Enron's bankruptcy and, therefore, having different conceptions of trust in expert accounting and audit systems. For example, Enron employees were able to observe the company firsthand and therefore their evaluation of the credibility of the accounting and audit systems might have differed substantially from investors; or within the community of investors it is possible that assessments of the reliability of accounting and audit systems differed dependent upon factors such as prior experiences in investing in stocks or prior levels of accounting and audit knowledge.

It is also asserted by Wynne (1996) that individuals have *always* constructed their own risk knowledges. Giddens may therefore be mistaken in assuming that 'reflexive' modernity (under which conditions lay actors rationally decide whether to invest trust in any particular expert system) was preceded by a period of 'simple' modernity where unconditional acceptance of, and trust in, experts existed. One consequence of Wynne's assertion is that even if there *appears* to be no visible distrust in an expert system it cannot be assumed that trust is present. Unerman and O'Dwyer (2004) do not consider the possibility that distrust in expert accounting and audit systems may have already been present, and that actors in the Enron drama may have been accepting of their distrust of the system during the 1990s as it provided opportunities to accrue gains (financial or otherwise).

A further difficulty concerning Giddens' notion of reflexivity is that the notion that modern actors have been liberated from "traditional deference to . . . the authority of experts" and "self-confident . . . citizens seek to interpret the views of different risk experts with varying claims to authority" (Taylor-Gooby and Zinn, 2006, pp. 404–5) cannot be applied to all individuals. For example, membership of a particular social class or a lack of economic wealth may exclude some individuals from the process of reflexivity (Lupton, 1999). As different actors have varying degrees of agency then it is an omission on the part of Giddens not to consider the significance of social contexts and power dynamics (Elliott, 2002; Lupton, 1999; Taylor-Gooby and Zinn, 2006). For example, many USA citizens do not have the financial wherewithal to invest in stocks and this may have excluded them from engaging in a reflexive re-consideration of trust in expert accounting and audit systems following Enron's demise.

Giddens' perspectives on risk are closely allied to the risk society themes developed by Beck (1986, 1999). The theories propounded by Beck and Giddens have undoubtedly become central to risk debates both inside and outside sociology (Taylor-Gooby and Zinn, 2006) but neither Beck nor Giddens have endeavoured to test their theories (Lupton and Tulloch, 2002). Additionally, they neglect to engage with the culturally based and "more sophisticated and symbolically mediated discussion of risks undertaken by thinkers like Mary Douglas" (Taylor-Gooby and Zinn, 2006, p. 404). Therefore Douglas's cultural-symbolic approach has been adopted in this paper as it can offer an alternative, more subtle, account of Enron's accounting and audit failures. The next section of the paper sets out Douglas' cultural theory of risk and addresses criticisms of cultural theory.

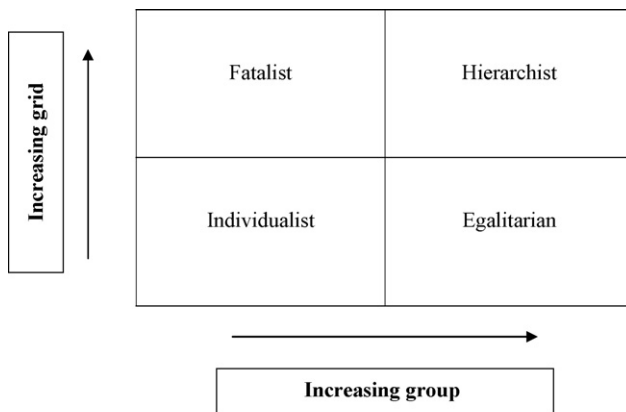
2. Douglas and risk

2.1. Douglas and the social construction of risk

Douglas's ideas concerning risk and danger (Douglas, 1966, 1970, 1982, 1986, 1994) form the basis of her cultural theory of risk with its central proposition that “selective attention to risk, and preferences among different types of risk taking (or avoiding), correspond to *cultural biases*—that is, to worldviews or ideologies entailing deeply held values and beliefs defending different patterns of social relations” (Wildavsky and Dake, 1990, p. 43). Therefore Douglas's position is that danger and risk are social constructions with different social structures causing different risk perceptions (Dake, 1992).

To explain how different types of social structure impact on risk perceptions Douglas (1970, 1982, 1986, 1994) and Douglas and Wildavsky (1982) develop a grid-group model. The grid element of the model relates to the degree of autonomy an individual has over the selection of their role(s) in society. For example, gender, race or age may confine an individual to undertaking a restricted set of social roles (Rayner, 1992). A high-grid state indicates that there are significant social constraints on the members of a society and interactions are regulated; a low-grid state designates a society where all actors are free to choose social roles without prejudice. The group dimension is associated with an individual's commitment to their community. Thus there may be solidarity between actors in the society and the existence of shared aims (high-group state) or there may be little cohesion between the actors and a limited sense of inter-dependence (low-group state). Overall, therefore, the grid-group model differentiates four cultural groups; individualists, egalitarians, hierarchists and fatalists (see Fig. 1).

If the social structure of the group to which a person belongs is categorized as individualist then this denotes a low grid-low group culture. In this type of society individuals are free to transact with any other individual, but there will be a propensity to collaborate with other individuals when gains can be made from such alliances. Individualists are pro-competition and consider a free market environment the most appropriate configuration (Douglas, 1982). Self-regulation is espoused (Lupton, 1999) and American entrepreneurs would be a typical example of this cultural type (Rayner, 1992). This society demands people perform to a high level and, consequently, is a stressful society. It would be unrealistic to expect support from another individual if failure occurs and ill-health, for example, would be seen as a weakness. Consequently, Wilkinson (2001) perceives this culture as supporting “social institutions which enshrine the goal of personal acquisition as their supreme value” (Wilkinson, 2001, p. 5). The individualist worldview of risk is that it is not to be regarded as exclusively negative as there is also an



Adapted from Douglas (1982)

Fig. 1. Grid-group model.

upside to risk that resides in the market opportunities it can present. This entrepreneurial acceptance of risk-taking is also present in the individualist view that self-regulation of risk is preferable to external regulation.

In the egalitarian (low grid-high group) culture the external boundary of the group is very clearly demarcated, with a strong division existing between group members and outsiders (Douglas, 1982). The wellbeing of the group is of greater importance than the interests of the individual resulting in individual behaviour being constrained. Disloyalty to the group is viewed as a perfidious act with expulsion from the group being the most probable outcome. The low-grid nature of this type of society implies that, alongside this group commonality, individual social roles are unrestricted. The egalitarian society is therefore pre-disposed towards idealism, and equality and justice are seen as central concepts. Inequality and injustice within wider society are thus seen as significant ills. Risks are therefore perceived as emanating from untrustworthy outsiders. Furthermore the egalitarian culture questions the expert status of the professions.

The third cultural type is the hierarchical organization or institution (high grid-high group) that combines clearly defined group boundaries with limitations upon the social roles that a group member may opt for (Douglas, 1982). Outsiders are viewed as potential transgressors of boundaries and are therefore a threat, and because social roles are well-defined there are also strict internal boundaries that must be respected. Consequently authority is respected, and traditions and customs an important part of organizational or institutional life (Wilkinson, 2001). Delinquency and unconventional behaviour are, however, unacceptable and systems of justice will have established clear rules for responding firmly to any such cases. There will also be greater regulation imposed upon group members. Within the hierarchical society trust is placed in professional experts who can advise how best to manage risk. This may necessitate the implementation of even tighter controls to protect the boundaries (Douglas, 1994).

The final cultural classification is the fatalist society (high grid-low group). In this type of society the individual actor is highly constrained in respect of the social roles they are permitted to undertake and there is little scope for self-determination. Additionally, the group boundary is very weak and no sense of community exists. This results in the individual having no sense of belonging to their own group and yet also being an outsider in respect of other social groups (Douglas, 1982). The individual is alienated and isolated, events occur arbitrarily, and it is impossible to influence the outcomes of these events (Wilkinson, 2001). The response to risk and danger is, therefore, submissive resignation as a victim of fate (Douglas, 1994).

Douglas and Wildavsky (1982) suggest that at the level of public policy four principal risks can be identified: (i) foreign disputes and conflicts, (ii) crime and civil disorder, (iii) concerns for the environment and the misuse of technology, and (iv) economic problems affecting levels of affluence. The hierarchical culture, with its emphasis on the maintenance of internal and external boundaries, is focused upon dangers associated with foreign conflicts and crime. Examples of institutions and organizations whose social patterns form this type of culture include “churches, industrial corporations, and political hierarchies” (Douglas and Wildavsky, 1982, p. 90). An individualist culture has a greater focus on economic risks, stemming from the entrepreneurial free market perspective that characterizes this type of society. Douglas and Wildavsky consider these two cultures as being at the ‘Center’ because of the power and influence they hold with regard to wider society. This power is especially strong when the interests of the two cultures intersect (Douglas and Wildavsky, 1982).

By contrast egalitarian groups are considered to be on the ‘Border’. They are not close to the centres of power or influence and, to maintain stability within the group, they identify the outside world as a threat. An egalitarian culture perceives nature as vulnerable, and therefore deems environmental and technological risks most important. Groups that have been identified as culturally egalitarian in modern society include environmental organizations and some religious groups (Rayner, 1992).

Because Douglas’ cultural theory seeks to explain why certain risks become politicised there is a moral aspect to the theory. As Ericson and Doyle (2003, p. 5) explain, “(Risk) is used . . . to mobilize moral communities for dealing with danger in particular ways, and to force accountability.” In the past the moral dimension of risk would be invoked through the language of religion with potential wrongdoers being reminded that transgressing society’s boundaries was ‘sinful’ or ‘taboo’. Douglas perceives the word ‘risk’ a secular substitute for ‘sin’ in modern Western society but performing the same funda-

mental function of imbuing individual actors with the sense that they have a moral responsibility not to disturb the societal order. As a consequence risk is also interlinked with notions of blame in Douglas' cultural theory. For example, in hierarchical societies blame will be ascribed to those who transgress internal or external boundaries and appropriately harsh penalties will be applied as punishment for endangering the group.

2.2. Criticisms of Douglas' cultural theory of risk

The use of grid-group as a framework for analysing the behaviour of social groups or organizations has been subject to a number of criticisms. It is claimed that Douglas' cultural theory is deterministic and does not account for individual free will (Tansey and O'Riordan, 1999). Rayner (1992) clarifies that although Douglas' cultural theory does presuppose that cultural bias exists this does not bind an individual to a specific cosmology and whilst there will be behavioural dispositions arising from the social structures that characterize a society this does not imply that it will be possible to anticipate how every individual will behave in respect of a particular issue. Consequently, nor is it the case that Douglas' cultural theory is attempting to stereotype individuals (Rayner, 1992).

Boholm (1996) emphasizes the problem that Douglas' cultural theory has in explaining the dynamic dimension of an individual's life. As Hendry (1999) observes modern society requires individuals to function within a variety of group or organizational settings that may not share the same cultural typology. For example, we may work for a company that has an individualist culture, whilst in our social life we are a member of a religious or political group that has a hierarchical culture. There are different stances adopted by cultural theorists in this respect. An individual could attempt to manage this dichotomous existence by changing personality according to the cultural setting that they are operating within. For example, an individual may assume the persona of an individualist in the workplace and take on the cultural norms of a traditionalist when engaging in religion or politics, but this is unlikely because of "the psychological need of the individual for cognitive consistency" (Hendry, 1999, p. 566). Douglas asserts that individuals will therefore endeavour to confine their group membership to a single cultural typology compatible with their world view. Hendry's (1999) alternative suggestion is that it is likely that an individual who has to maintain membership of a group where the worldview of the individual and the group do not coincide is able to resolve this difficulty by withholding full commitment. Hendry's view therefore has an affinity with Rayner's (1992) mobility hypothesis which acknowledges that individuals do move across differing contexts, and appears a more realistic and flexible position to adopt than Douglas's stability hypothesis (Tansey and O'Riordan, 1999).

A further criticism of Douglas' cultural theory is that "a typology of a limited number of stereotypes will run into difficulties should it attempt to account for complex social reality that is inhabited not by artificial constructs but by real people" (Boholm, 1996, p. 73). This assumes, erroneously, that an organization or society must fully conform to one of the four typologies. The grid-group dimensions are not meant to be interpreted simply as possessing either a low or high state; rather they allow for gradations as both dimensions are scalar. The use of four principal typologies is a device for understanding why within a particular social group certain risks become prominent and others are ignored. Consequently cultural theory is helpful "because it is a neutral tool (that) does not seek to classify the actions of different groups in terms of rationality and irrationality as the expert-lay distinction often implies" (Tansey and O'Riordan, 1999, p. 77).

Boholm's (1996) criticism that Douglas' cultural theory cannot account for the complexities of modern society can also be contested. Hendry (1999) is able to use cultural theory to explain changes in social structures that have occurred within the business and management arena in the USA and UK since the 1980s, and his discussions are significant in the context of this paper. Fundamental to Hendry's paper is his commentary upon the relationship between the hierarchical and individualist cultures. He discusses how, particularly in the US, the traditional hierarchical society is being usurped by an individualistic culture, although the hierarchical culture continues to persist. For example, political structures still retain hierarchical features and hierarchically related notions such as "authority, fairness, duty (and) care are still . . . important" (Hendry, 1999, p. 567).

Interconnections that have developed between these two cultures are particularly conspicuous in the business and management field. Business owners and managers traditionally ordered firms hierar-

chically as a means of managing and controlling employees. Concurrently these firms were, however, supporting a market-based culture as they pursued profits and hence the potential for the hierarchical and individualist belief systems to conflict arose. Hendry contends that this issue remained relatively suppressed whilst employees lived in a predominantly hierarchical environment and believed that the firm would look after them via, for example, long-term employment agreements. However since the 1980s the market for corporate control has caused managers to implement practices such as downsizing, short-term employment contracts and flatter organizational structures and this has brought the two cultures into direct conflict. Concurrently, senior managers' employment packages have become more obviously market-based and they are no longer perceived as 'servant-stewards' of firms.

Hendry's assertion that modern companies exhibit a synthesis of the hierarchical and individualist cultures then leads him to query whether this position is sustainable. His principal conclusion is that in the short-term managers may make use of hierarchical structures to co-ordinate activities in pursuit of opportunities that the market culture presents. However, as the managers of 'hybrid' hierarchical-individualist firms seek to take advantage of a residual group allegiance associated with the hierarchical culture they find this difficult to sustain as employees now perceive their loyalty as being manipulated. Therefore firms reach a stage where employee co-operation has to be obtained via an alternative route. As US society has moved towards an individualistic culture then a vision which appeals sufficiently to the self-interest of employees needs to be promoted and extolled by firms.

The next section examines accounting and audit failures at Enron using Douglas' cultural theory. The analysis uses Douglas's grid-group framework to consider how cultural typologies affected the worldview of the actors involved in key events and utilises Hendry's ideas concerning the inter-relationships between the hierarchical and individualist cultures.

3. Analysis of accounting and audit failures

3.1. *Enron as an individualist concern*

If the grid-group model is applied to Enron then there is strong evidence that the company should be classified as an individualist culture. The whole emphasis of the organization was to seek to grow earnings and the stock price (Healy and Palepu, 2003). This occurred via Enron's operations in the USA's energy markets (Reinstein and McMillan, 2004) with the company later expanding into overseas energy-related transactions and other ventures such as broadband, pulp and paper (see for example, Chabrak and Daidj, 2007; Chatterjee, 2003). Thus the company was focused upon making money (Clarke, 2005) and had an underlying philosophy that those who generated profits for the firm should be compensated generously. McLean and Elkind (2004) detail how internally this led to conflicts, manipulation, dysfunctional behaviour and bitter rivalries. For example, trading operations would deliberately mis-quote gas prices to appropriate profits for themselves (and away from the originators of the deals) thus turning Enron into a "free-for-all culture that infected the entire company" (McLean and Elkind, 2004, p. 56).

The appraisal system was brutal such that whilst high performing employees received generous bonuses, under performing employees would be dismissed or worked under threat of dismissal (Benston and Hartgraves, 2002; Tonge et al., 2003). Consequently, this was a highly demanding environment (Chatterjee, 2003) and those who remained at the company "were the most ruthless in cutting deals and looking out for themselves" (McLean and Elkind, 2004, p. 121).

Human resource strategies were deliberately conceived to recruit individuals who were supportive of Enron's individualist culture. The selection process involved sifting through the pool of potential employees looking for arrogant and forceful individuals who would buy into Enron's vision. The recruiters pursued these 'loyals' and screened out individuals likely to be subversive (Trinka and Giacalone, 2005). If the screening process had inadvertently let through an individual whose commitment was doubtful, then the six monthly appraisal system was available to expel that 'incompatible' employee.

These descriptions of Enron accord with Douglas's depiction of the worldview of the individualist society as "an accommodation to the harsh experience of competitive society. The individual . . . (is) under continual threat of withdrawal of support . . . Society is an unremitting source of worry as well

as rich prizes. . . . continual selectivity in the social environment . . . demand(s) the highest standards" (Douglas, 1982, pp. 211–212).

Prior analyses of the Enron debacle have also highlighted the importance of the notion of the 'market' within the firm. For example, Craig and Amernic (2004) discuss how the company revered the idea of the 'market' and senior managers persistently reiterated their belief in free market ideas (Chabrak and Daidj, 2007). This *seeming* espousal of the sanctity of the free market was actually, however, a championing of the belief that it was appropriate to act in self-interest and to transact deals on the best terms possible both as an individual within the company and in respect of external transactions.

Thus, externally for example, Enron managers cultivated political relationships to influence government decision-making and (de)regulation (Bakan, 2004; Froud et al., 2004; Hardin, 2007), and there was gaming of the system (market manipulation) by Enron to profit from the California energy crisis in 2000–2001 (Bakan, 2004; Krugman, 2004). As governments in developing nations became more disposed to consider privatisation as an option for fulfilling energy needs Enron saw opportunities for building power stations. For example, in India Enron was awarded the Dabhol power contracts without any competitive bidding process in a deal that led to accusations of dishonesty in addition to considerable anger at the inequity of the contract structure (McLean and Elkind, 2004).

Internally, managers and employees also considered Enron a 'market' to be gamed with, for example, manipulation of the appraisal system occurring and staff manoeuvring to be awarded greater bonuses and incentives. The scale of stock options awarded to directors as part of their compensation packages has also been well documented (see for example Gordon, 2004) as has the Chief Financial Officer's use of special purpose entities to amass private profits (see for example Froud et al., 2004). These all serve as examples of Enron managers and employees following self-interest to accrue personal wealth.

Therefore the manner in which Enron's executives and employees interacted with external and internal 'markets' further signifies the individualist culture within the company. For, as Douglas (1982) observes, the individualist culture may have the appearance of a free market but, inexorably, advantages will be pursued through monopolies, cartels, lobbying or other practices that might be personally beneficial when transacting with other participants in the market.

3.2. *Marketing a vision*

It has already been discussed how Hendry (1999) contends that a move towards an individualistic culture in US firms has necessitated marketing a vision to employees predicated upon self-interest. Enron offered substantial salary packages to employees (Tonge et al., 2003) supporting the notion that employees were strongly drawn to the company because of the materialistically based rewards system. Promoting a vision founded upon the acquisition of material wealth at Enron, and at other companies such as WorldCom (see for example Breeden, 2003), was facilitated by the bull market of the 1990s that created prosperity for a growing investor class and who adopted a positive view of the market economy (BusinessWeek, 2002).

The vision marketed to Enron recruits had another, more subtle, element too. Douglas (1970, 1982) explains how, in the individualist environment, to become a 'Big Man' (that is, to become one of the individuals who leads that society or group) then there is a need to muster support. At Enron Skilling and Lay appear to have acquired support through an ostensible linkage between individualistic cultures and democracy.

The low grid-low group culture of an individualistic society *suggests*, although it does not actually create, a democratic arrangement that has an inherent appeal because of the message it communicates. Moriceau (2005) notes this equivalence between democracy and markets in the context of Enron, and the significance of this is that the individualistic society *implies* an equality of opportunity exists for anyone wanting to pursue success in an individualistic society or organization. For in an individualistic society the opportunity to acquire wealth and 'get on' is seemingly available to *anyone* willing to commit themselves to pursuing success.²

² There is, of course, not a true equality of opportunity that can be attached to the individualist culture. For example, at Enron the majority of new recruits were drawn from the highest ranked universities only (Trinka and Giacalone, 2005) and once hired these recruits then had to deal with all the behaviours created by the extreme competitiveness inherent in the firm.

The coupling of Enron to notions of democracy occurred, for example, through the newspaper and magazine reports of the very modest family upbringings of senior managers such as Lay, Skilling, Wing and Mark (Froud et al., 2004; McLean and Elkind, 2004). Similar stories provided further verification that prior background was not a barrier to becoming successful at Enron (for example, see the account of the high school dropout who became head of paper trading at Enron published in *Fortune* magazine; O'Reilly, 2000). Skilling's belief that prior business experience was less important than resourcefulness and intellect added to this representation of a democratic organization. The image of democracy was also enhanced through the "co-branding of Enron and Houston through good works in the community" (Froud et al., 2004, p. 901) with generous donations being made to a wide range of charitable causes such as the University of Texas M.D. Anderson Cancer Center (Benston and Hartgraves, 2002).

Chabrak and Daidj (2007) have suggested that a supplementary strategy developed by Enron's managers to influence opinion and market a vision was to construct a rhetoric infused with religious language. They find support for a connection between economic life and religious conviction in the USA within the writings of, for example, de Tocqueville and argue that this legitimises the use of religious language in a US corporate context. Former employees also use language infused with religious imagery to describe their experiences at the company although Chabrak and Daidj (2007) do not discuss this. For example, quotations from former employees cited by McLean and Elkind (2004) include, inter alia:

"There is one meeting in particular that everyone remembers . . . In the Enron mythology, it came to be known as the Come to Jesus meeting." (p. 25)

". . . we were proselytizing. We were the apostles." (p. 38)

"We (were) brought together with a certain amount of missionary zeal." (p. 71)

".. practically like a revival meeting." (p. 242)

The significance of these quotations is that the intensity of emotion apparent in the former employees' use of religious phraseology implies that a highly compelling vision had been created with Lay attaining a "Great Man persona" (McLean and Elkind, 2004, p. 96) and Skilling "sound(ing) like a visionary" (McLean and Elkind, 2004, p. 233). Jobs at Enron became highly coveted (Watkins, 2006) and it successfully differentiated itself from other firms in a number of respects including: the nature of its business model, the manner in which human capital was employed and the many business accolades it had received such as six times winner of the *Fortune* 'Most Innovative Company in America' award from 1996 to 2001 (Kaminski and Martin, 2001). Thus Enron's managers were successful in convincing employees, potential employees, and others external to the organization, that it provided a unparalleled opportunity for self-advancement that was not available to the same extent elsewhere and hence Enron was identified by recruits as a "once in a lifetime opportunity . . . to be part of a mighty mission (. . . an intoxicating "in" group)" (Trinkaus and Giacalone, 2005, p. 239).

3.3. *Enron, risk and Douglas' cultural theory*

Within an individualist culture economic threats are a central concern. There is a heightened sense of the significance of personal possessions and the risk focus is upon issues such as sustainability of economic growth, albeit with an acceptance that it is not possible to have a completely risk-free society (Dake, 1992). Therefore Enron's senior executives would have been attentive to the size and historical pattern of the earnings figures disclosed in the financial statements. This is because the earnings figures provide fundamentally important information about the company's current and future economic prospects (Coffee, 2004) and, in the context of an individualist culture, any vulnerability in earnings would be construed as a sign of a possible risk or danger to the wealth of stockholders, employees and other stakeholders.

Manipulation of the financial statements by senior executives resulted in the firm's earnings being disclosed as growing until a third quarter loss of \$618m was announced in October 2001. Once it had been announced that Enron's earnings were negative, a risk to personal wealth was exposed and this commenced the process of the disintegration of Enron as the severity of underlying issues became

apparent (Gordon, 2004). Accordingly, the declaration of the third quarter loss was interpreted as a warning sign and in due course led to Enron filing for bankruptcy on December 2, 2001.

The senior executives of Enron would have been aware that a disclosure of negative earnings posed a risk to their own wealth as well as to the wealth of others. Possession of insider information did, however, provide senior executives with the opportunity to act in self-interest and safeguard personal wealth through judicious timing of stock sales with a total value in excess of \$1 billion (Beetham, 2005). For example, the Securities and Exchange Commission First Amended Complaint (against Skilling and Causey) alleged that:

“Between 1998 and 2001, Skilling received approximately \$200 million from the sale of Enron stock netting over \$89 million in profit . . . and . . . Causey received more than \$14 million from the sale of Enron stock, netting over \$5 million in profit . . . Enron’s other executives and senior managers also sold hundreds of millions of dollars worth of Enron stock at artificially inflated prices.” (SEC Complaint Civil Action No. H-04-0284).

In addition to the Enron executives the other members of this individualistic organisation were the employees and they, too, would have been alert to any sign that the firm’s earnings might be vulnerable as this could signal that *their* personal wealth was at risk. As levels of wealth rose in the 1990s there was an overwhelming feeling of euphoria in the financial markets and stock prices rose dramatically (Krugman, 2004). Enron’s stock price mirrored this trend during the late 1990s and even in the year 2000 rose by 87% (Healy and Palepu, 2003). In December 2000 Enron was still held in esteem when Skilling was appointed Chief Executive Officer and he received praise from magazines such as *BusinessWeek* and *Worth* (McLean and Elkind, 2004). Consequently, through to December 2000, Enron employees would have seen the value of their 401(k) pension plans (which comprised Enron stock that could not be sold prior to being fifty; Gordon, 2004) increasing and warning signs of earnings-related issues were not evident.

In early 2001 indicators of potential earnings problems did emerge. In March 2001 (6 months prior to the announcement of the third quarter loss) a journalist, Beth McLean, raised questions about Enron’s accounts, querying if the company was overpriced and discussing how the business was difficult to understand (McLean, 2001), and in early 2001 Enron Broadband Services division commenced a programme of staff reductions as that part of the business struggled (McLean and Elkind, 2004). Therefore with hindsight it may seem surprising that in early- and mid-2001 Enron’s employees did not appear to be forewarned of the economic risks present in the organization.

Why these economic risks did not appear to become visible to employees may be attributable to the core individualistic culture where the “market . . . (is) . . . focused on individual profits, (and) is myopic to larger effects . . . (thus) it foresees danger only from the individual perspective . . .” (Douglas, 1994, p. 66). That is, Enron’s employees would have paid most attention to risks that might *directly* impinge upon their personal wealth. As fear of loss of personal wealth is especially strong in an individualist culture where there is a lack of provision then, when Enron’s stock price fluctuated but with a generally downward movement during 2001, this caused individuals to re-direct their attention from wishing to amass further wealth to seeking to preserve existing wealth. Hence, during 2001 the greatest concern of employees would have been to maintain their salaried Enron earnings and their 401(k) pension plans. The result being that the prime danger many employees were likely to have focused on was the possibility of dismissal.

One employee who did become aware of the earnings manipulations in 2001 was the ‘whistle blower’ Sherron Watkins. She had some awareness of the accounting problems but was reluctant to voice her concerns outside the company for fear of losing her job at Enron (Watkins, 2006). This is to be expected for overt dissent would have been unlikely because of the strength of this desire to remain an employee of Enron (Froud et al., 2004). Consequently, it is unsurprising that her memos have not always been perceived as true whistle blowing, but rather have been portrayed as “opportunistic . . . (reading) partly as her pitch for a new job as the vice-president” (Froud et al., 2004, p. 903). Further evidence of her behaviour seeming to conform primarily to an individualistic worldview that is inherently short-sighted, largely self-interested and has limited support for those who fail is her having sold \$47,000 of stock after sending the memos. When questioned about this action during a BBC Radio Programme she explained that, whilst in retrospect she was not terribly proud of the action, her family were

dependent upon her income and “after 9/11 and stock market jitters I was just trying to get as much cash as possible” (Watkins, 2006).

3.4. *Accounting, auditing and the issue of margins*

There is, of course, an expectation that the external auditor (Arthur Andersen in the case of Enron) will forewarn the wider investment community of any accounting and earnings-related risks as their principal function is to act as a gatekeeper³ verifying, and vouching for financial reports (Coffee, 2004). This notion of ‘gatekeeping’ is also significant in the context of cultural theory having a correspondence with Douglas’s ideas concerning ‘margins’. The crux of Douglas’ cultural theory is that social structure shapes a society’s perception of risks and dangers. Douglas (1966) explains that margins are those points in a society that are particularly vulnerable to risks and dangers. Consequently margins “mark and straddle boundaries, . . . are . . . dangerous, (and) require high levels of policing and control” (Lupton, 1999, p. 41).

Previous papers discussing Enron have emphasized the great significance of agency-related problems at the firm (see for example; Arnold and de Lange, 2004; Cullinan, 2004; Gavius, 2007; Reinstein and McMillan, 2004). In an individualistic culture, where managers have a greater propensity to act in their own interests rather than in the best interest of investors, this agency issue is amplified. Therefore the financial statements represent a vulnerable point in individualistic societies where there is an increased risk of managers engaging in earnings management and, consequently, the gatekeeping role of the external auditor assumes an especial importance. Additionally, because it is not possible to create a classification system that can prescribe accounting treatments for all potential transactions (McSweeney, 1997; Mouck, 2004) this ‘danger at the margin’ is further exaggerated as it provides managers with the option of adopting accounting treatments that suit their purposes and yet technically still remain within the rules. The boundary between adopting an accounting treatment that is within the spirit of an accounting standard and adopting an accounting treatment that is technically within the rules but has been chosen to achieve a desired outcome is ill defined as evidenced by Enron’s manipulation of earnings using mark to market accounting and Special Purpose Entities (Baker and Hayes, 2004). Accounting standards can be revised as new and unforeseen situations arise, but these re-classifications will inevitably still leave anomalies that can be exploited (Evans, 2002).⁴ It is for this reason that accounting requires the use of professional judgement (McMillan, 2004).

If the preparation of the financial statements is an activity located on the ‘margin’ and hence has especial risks, why was Arthur Andersen not assiduous in patrolling the border? To answer this question it is necessary to return to culture. The implications of the move toward an individualistic culture, and away from a hierarchical culture, in the corporate arena in the USA during the 1980s and 1990s have already been discussed. If such a shift in culture had also occurred in respect of US public accounting firms this will have had important implications for the practices they follow.

When the dominant culture is hierarchical then the strong grid-group dimensions imply an organizational structure with clear internal divisions resulting in a demarcation between different branches of the public accounting firm such as audit, tax and consultancy. The conventions of a hierarchical society suggest that the CPA qualification will be an important symbol of status denoting professionalism and trust, and the expertise and specialist knowledge of a CPA will be respected. There will be a preference for standardised audit procedures as systems will err towards the bureaucratic and in such a society it will be deemed important that these procedures are adhered to. Auditors within such firms will have a traditional perspective upon the role of the auditor and, because of the risk-averse nature of hierarchical societies, will therefore perceive their primary role as safeguarding investments

³ Other professionals also undertake gatekeeping roles including analysts, credit rating agencies and investment banks (Coffee, 2004). The gatekeeping role of the auditor is considered central to the verification process (see for example, Lee, 2006) and therefore this section focuses solely upon the auditing aspect. However a similar analysis is possible in respect of the other gatekeepers.

⁴ For example, six years after Beth McLean published her original article discussing Enron’s accounting practices she published an article questioning whether an Enron-type repetition was possible. This new article discussed accounting practices in respect of structured investment vehicles (McLean, 2007).

made by stockholders. This will also result in concepts such as prudence being deemed important. The strong group boundary will tend to result in delineation between the firm and its clients and, therefore, firm–client relationships will tend towards the formal. To ensure that the strong group aspect is not threatened (this form of society does not want to set group members in opposition to one another) the firm's goals will be less clearly defined than in an individualistic organization. Consequently the goals are likely to be more modest as this assists group members in attaining targets but without needing to resort to undue competition between group members.

Conversely, if the culture in the public accounting firm is individualistic the boundaries between divisions will be less obvious and overlap will be possible. Status will not be derived from having gained a CPA qualification; status will be determined by how successful an individual has been in achieving high levels of income. Technical accounting knowledge will be more open to question and, consequently, the accounting profession will not be held in the same regard. The firm's goals are likely to be well-defined and financially based, and individuals will be judged upon how they have performed against these pre-set targets. Incentives predicated upon self-interest will be offered to encourage individuals to attain these goals. Auditors and consultants within the firm are likely to view their role in a non-traditional manner. They are more likely to perceive their role as strategic and will also be inclined to be more innovative. Consequently the approach to the audit process will be less cautious and, unlike the hierarchical firm, will not be as inclined towards conformity and compliance.

If Arthur Andersen is considered then prior to the 1980s the firm was noted for being independent of clients, following internal processes diligently and upholding professional standards in client audits (Clarke and Dean, 2007; Sridharan et al., 2002). Substantial resources were devoted to instilling a very strong group ethos through training sessions for new recruits in St. Charles (Andersen's dedicated training venue) that not only embedded the importance of adhering to firm policies but also addressed much broader issues such as how to dress and behave as an Andersen employee (Hechter, 2008). Systems existed for employees to inform management of any colleague deviating from firm procedures (Wyatt, 2004). All employees had to pass the CPA examination and promotion to manager was impossible without CPA status (Wyatt, 2004). Technical accounting skills were also an important determinant of further advancement in the firm (Wyatt, 2004) and Andersen was considered a model of a public accounting firm (Clarke and Dean, 2007). Partners were willing to disagree with a client's interpretation of an accounting standard and central to its ethos was the notion of professionalism and trust (Wyatt, 2004). Therefore, prior to the 1980s the culture at Andersen was strongly hierarchical (Hechter, 2008).

Andersen commenced offering consulting services in the early 1960s and this part of the firm grew rapidly. The high revenue earning capacity of the consultants, who were largely non-CPAs, gave them power in the firm and they demanded greater levels of remuneration (Wyatt, 2004). This eventually resulted in profitability becoming the central measure of success (Wyatt, 2004) with each office having clear financial goals and operating as independent "profit center(s) and . . . a significant portion of partner compensation (was tied) to own-billings or office-billings" (Gordon, 2004, p. 325). Promotion became predicated upon the ability to produce increased revenues rather than technical ability, and self-interest became more prominent (Wyatt, 2004). Demarcations between audit and consultancy were removed as services were cross-sold and this altered the nature of client relationships causing a loss of independence (Coffee, 2004; Sridharan et al., 2002). The existing culture was also weakened as consultants were not obliged to attend initial training in St. Charles (Hechter, 2008) and many were recruited from other consulting firms rather than as new hires. Therefore, during the 1980s and 1990s Andersen was gradually changing to an individualistic culture with a more entrepreneurial focus.

The importance of this change in culture should be re-emphasised as the form of culture will directly affect the practices adopted at a public accounting firm and when the individualistic culture becomes dominant then, ultimately, the ability of a firm to act as a gatekeeper is weakened. There is an unwillingness to confront clients because of the desire to cross-sell services in pursuit of additional revenues which may in turn lead to higher personal earnings. There is reduced emphasis on conforming to procedures as the auditor adopts the role of strategist rather than steward. The pursuit of earnings growth as the dominant firm goal has an attendant short-sightedness that makes it difficult to conceive of the possibility of reputational damage impacting future earnings.

These issues associated with an individualistic culture can be observed in respect of Andersen's interactions with Enron. For example, at Andersen's Houston office a client services team focused upon developing innovative products they could sell to Enron and hence enhance firm earnings (Weber et al., 2002). There was no boundary delineating Andersen from Enron with staff assigned to the Enron audit being provided with permanent offices at Enron, wearing Enron branded shirts and having social lives centred on Enron events (Sridharan et al., 2002). Andersen was partly engaged on some of Enron's internal audit work and it was common for Andersen employees to become Enron employees (Weber et al., 2002; Gordon, 2004). Procedures for internally reviewing decisions on accounting treatments could be over-ridden (Gordon, 2004). When Carl Bass, the Houston member of Andersen's Professional Standards Group, questioned the accounting treatment of Special Purpose Entities at Enron he was reassigned and had no further oversight brief in respect of Enron (Fuerman, 2004; Sridharan et al., 2002). Consequently, Andersen was ineffectual in its scrutiny of Enron's disclosures (Chaney and Philipich, 2002).

Critically, however, the case of Andersen and Enron is only one instance of how this individualistic culture at a public accounting firm can affect their gatekeeping abilities. Andersen was involved in other audit failures during the 1990s (Chaney and Philipich, 2002) and the cultural change at Andersen during the 1980s and 1990s was mirrored at other public accounting firms (O'Connell, 2004; Wyatt, 2004). For example, when Coffee (2004) discusses the very significant increase in the number of earnings restatements in the 1990s and notes that the "overall experiences of the Big Five accounting firms suggests that Andersen was not significantly different from its peers and experienced the same, or even a lesser, rate of earnings restatements" (Coffee, 2004, p. 338) this is to demonstrate that there were gatekeeping issues in respect of all the Big Five firms and not just Andersen. Thus the rise of the individualistic culture at the public accounting firms appears to have had the effect of diminishing their effectiveness as auditors.

3.5. Responses to the accounting and audit failures

In an individualist culture where risk-taking is acceptable then failure is also seen as possible. Consequently, had the accounting and audit failures at Enron been of a lesser magnitude it may have been possible that the demise of Enron would not have been deemed a risk to the perpetuation of the individualist culture. However, as Douglas notes, the individualist has a great "fear (of) any threat to the exchange system" (Douglas, 1982, p. 96) and the scale of the accounting manipulations and associated audit failures that led to Enron being the largest bankruptcy in US history (Benston and Hartgraves, 2002) were sufficient to bring about a crisis of confidence in the effectiveness of the gatekeeping mechanisms that are expected to protect investors and other stakeholders. This threat to the individualist culture was further compounded as accounting irregularities were uncovered at other companies.

As this threat to the 'exchange system' arose from, and relates to, the individualist culture then the expectation might be that the response would also be typical of that culture. The most significant response was, however, legislative, with the 2002 Sarbanes–Oxley Act establishing rules to strengthen financial controls and auditor independence. This response is more usually associated with a hierarchical restoration of trust in experts.

That this hierarchical response to an individualistic risk event appears to be paradoxical can be explained through reference to Douglas and Wildavsky's (1982) discussions relating to the 'Center' and the 'Border'. The power and influence that is held by the hierarchical and individualistic cultures places them at the 'Center' and there is a mutual dependency between these two cultures that is succinctly described by Douglas in the following terms: "... competitive market individualism needs a political base to assure its basic security (and) ... the hierarchical culture needs an economic base"⁵ (Douglas, 1990, p. 12). These two cultures must collaborate

⁵ That is, when the economy contracts or fails this can cause potential problems for a hierarchical culture as it is more difficult to support members of society because of higher unemployment, diminishing tax revenues and the like. This then has undesirable consequences for the group dimension of the hierarchical culture.

to some degree if they are to support and sustain their differing worldviews. Thus, although the individualist culture has a preference for self-regulation and would normally consider additional regulation an impediment to the efficiency of market operations, the business interests that comprise the individualist culture understood that following Enron self-preservation entailed cooperating with the state if public confidence in the market was to be restored. The state also had a vested interest in ensuring the economy did not become harmed and, being hierarchically organized, was predisposed to implement additional legislation as the means of re-establishing confidence.

A further highly significant reason for the hierarchical and individualistic cultures working together was the potential threat from the 'Border'. The 'Border' comprises groups and organisations with an egalitarian culture. Groups of this type tend to 'recruit' members most successfully when individuals become critical of organizations at the 'Center'. For example, Douglas and Wildavsky (1982) argue that in the USA in the 1960s and 1970s the Vietnam War and Watergate scandal were largely responsible for a reaction against the institutions at the 'Center' at that time and resulted in wider acceptance of the egalitarian culture. The result is that the 'Center' considers egalitarian groups as undesirable because of the threat they pose to the hierarchical and individualistic cultures, and this creates an enmity between the 'Border' and the 'Center'.

As Enron's employees were made redundant and the value of their pension plans collapsed it was of great concern to the 'Center' that citizens would become cynical and distrustful particularly through comparing the precarious financial circumstances of Enron's ex-employees to the immense wealth accumulated illegally by Enron executives. As Frank (2007) notes when discussing how incomes of the middle-class have, in real terms, fallen since the beginning of the 1970s:

"The difficulty is that working hard and abiding by the rules is no longer the reliable formula for success it once was . . . only those near the top . . . have experienced significant income and wealth growth" (Frank, 2007, p. 71).

The events at Enron, and other companies where accounting scandals occurred, caused many US citizens to query the inequity of the individualist culture. Consequently, the 'Center' was concerned that "a growing number of activists . . . would . . . eschew government solutions . . . believ(ing) that government has lost its capacity to contain corporate power (and) (p)eople should confront corporations directly" (Bakan, p. 150). For example, ex-Enron employees who had not considered themselves activists began to campaign in support of pension law reforms to increase workers' protection. This included speaking at the AFL-CIO (American Federation of Labor and Congress of Industrial Organizations) 'Business as Usual' campaign in Chicago in May 2002 (Roman, 2002). The AFL-CIO was lobbying to assist ex-Enron employees in recovering severance pay and monies lost in 401(k) accounts, but was also able to use this as an opportunity to promote the benefits of union membership and labor activism. The ex-Enron employees who spoke at the May meeting had initially been convinced of the need to campaign for reform after the Reverend Jesse Jackson visited Houston in early 2002 (Sanchez, 2002). The Reverend Jackson's Rainbow/PUSH Coalition is a pressure group for civil rights and social change justice, and was working in partnership with the AFL-CIO to support ex-Enron employees.

To avoid "a major populist backlash" (Nussbaum, 2002, p. 40) with individuals becoming susceptible to recruitment by 'Border' activist groups the 'Center' had to be seen to be responding vigorously and robustly to the Enron fallout. Consequently, the hierarchical legislative response of enacting the Sarbanes–Oxley Act was supplemented with a hierarchical form of blaming. The perpetrators of the corporate frauds were subjected to severe criminal sanctions, signalling that harsh punishments would be meted out to future transgressors. For example, Ebberts (WorldCom) and Skilling were sentenced to 25 years and 24 years in prison respectively (Teather, 2005; Clark, 2006). The language of news headlines was also hierarchical when discussing blame. For example, 'The Betrayed Investor' and 'Paying for the Sins of Enron' appeared as BusinessWeek headlines on 25 February 2002 and 11 February 2002 respectively, and emphasize the deviant nature of the behaviour of Enron's senior managers. It is unsurprising therefore that when Ken Lay died before he could serve his prison term there was widespread anger as it was felt he had escaped rightful punishment (see for example, McLean and Elkind, 2006).

4. Conclusions

This paper has interpreted the events at Enron using Douglas' cultural theory of risk and there are two important implications resulting from the analysis. The first relates to culture and the public accounting firms. It has been argued that the individualistic and hierarchical cultures in the US came under threat following the accounting and audit failures at Enron and other companies such as WorldCom. The root of the threat was identified as a severe decline in confidence in the ability of public accounting firms to act as gatekeepers. This gatekeeping role is of particular importance in an individualistic culture where there is enhanced risk of earnings management. Hence, financial statements can be construed as constituting a danger at the margin and careful policing of this vulnerable point by the external auditor is necessary. However, the culture present in the public accounting firm undertaking the external audit can have an important effect upon practices and attitudes adopted by staff working for the firm. For example, staff within firms with a hierarchical worldview will have a greater propensity to follow guidelines and policies more strictly, will place greater emphasis upon concepts such as professionalism and be more willing to confront and challenge clients. By contrast, where the cosmology is individualistic there is less independence in firm–client relationships and staff self-interestedly strive to achieve financially based targets that ultimately determine their current and future earnings. Post-Andersen and Enron many articles debated issues such as whether accounting standards were deficient or if auditor rotation was needed to address some of the problems. This cultural theory-based analysis would suggest that it is altering the cultural form of the public accounting firms that could be most constructive as it would fundamentally re-shape practices within the firms and enhance their role as gatekeepers.

The second important implication concerns the broader question of whether social structures that exist currently are likely to change. A central premise of Douglas' cultural theory is that societies will identify dangers that threaten to bring about instability and act to uphold order and defend the society from those dangers. Following the accounting and audit failures at Enron and other companies the individualistic and hierarchical cultures in the US collaborated to fend off the resulting threat to the exchange system. These cultures at the 'Center' acted to ensure their preservation and were fearful that individuals may become susceptible to recruitment by 'rival' egalitarian groups'. That the instinctive reaction of any culture is to defend the existing order creates an inherent resilience to crises.

This does not, however, entirely guarantee that extant worldviews will be preserved. It has already been suggested in this paper that the acute imbalances of wealth illuminated by the crisis caused many to reflect upon injustices present in society and these wealth differentials could become a critical issue. Douglas (1982) advises that the 'Center' can never be complacent and has to be vigilant in monitoring public confidence, and there are those at the 'Center' who have identified this topic as a concern. This includes Bill Gross (Chief Investment Officer, PIMCO fixed income management company) who has stated, "When the fruits of society's labor become maldistributed, when the rich get richer and the middle and lower classes struggle to keep their heads above water . . . then the system ultimately breaks down. the center cannot hold" (Gross, 2007).

This paper has been very broad in scope and additional research needs to be undertaken to examine Douglas' cultural theory in relation to accounting and auditing. It has been argued that an individualistic culture at Arthur Andersen had significant implications for its role as an external auditor. Studies of public accounting firms that display different cultures as suggested by the grid-group model may provide further insights into how culture may shape auditing practices. Similarly, it has been argued that Enron's status as an individualist firm had implications for, inter alia, its relationship with the external auditor and its propensity to manage earnings. Research examining corporate culture in other firms would help in enhancing understanding of how the worldview of a company impacts upon the use or misuse of accounting information.

Douglas, like Beck and Giddens, has developed a "grand theory" (Irwin et al., 1999, p. 1325) and this presents a challenge. Grand theories need refining and developing if they are to fully account for the complexities inherent in organisational and institutional life. Further empirical research, including comparative studies utilizing Douglas's, Beck's and Giddens' conceptions, provides an opportunity for potentially sophisticated risk-based understandings of accounting and auditing to be developed.

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CULTURAL THEORY OF RISK AND THE CREDIT CRISIS

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ABSTRACT

The credit crisis that commenced in 2007 has created significant economic uncertainty and prompted major debates about the future of capitalism. This paper utilises Mary Douglas's cultural theory of risk to examine the crisis. It is argued that since the 1980s the individualistic culture has been the dominant form and inherent within the individualistic culture is a persistent shortsightedness. This myopia created a vulnerability to the financial crisis. This may appear paradoxical given that an individualistic culture has a primary focus upon financially-related risks and this contradiction is also explained.

Further, it is suggested that the severity of the crisis has created such a significant threat to the individualistic culture that this has intensified debates as to the most appropriate societal form. The eventual result of these highly vociferous cultural dialogues will potentially have major impacts upon key issues such as risk and regulation.

INTRODUCTION

'Over the ten years that I have had the privilege of addressing you as Chancellor, I have been able year by year to record how the City of London has risen by your efforts, ingenuity and creativity to become a new world leader. So I congratulate you Lord Mayor and the City of London on these remarkable achievements, an era that history will record as the beginning of a new golden age for the City of London.

And I believe the lesson we learn from the success of the City has ramifications far beyond the City itself - that we are leading because we are first in putting to work exactly that set of qualities that is needed for global success:

openness to the world and global reach,

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pioneers of free trade and its leading defenders,
 with a deep and abiding belief in open markets, ... and
 a basic faith that from wherever it comes and from whatever background, what matters is
 that the talent, ingenuity and potential of people is harnessed to drive performance.

And I believe it will be said of this age, the first decades of the 21st century, that out of the greatest restructuring of the global economy, perhaps even greater than the industrial revolution, a new world order was created.¹

Speech by the Chancellor of the Exchequer, the Rt. Hon. Gordon Brown, to Mansion House, June 2007

Two months after Gordon Brown paid the above tribute to the City of London the inter-bank lending markets ceased functioning, resulting in a funding crisis at the UK bank, Northern Rock. Disclosure of the Northern Rock funding difficulties by a television journalist employed by the BBC resulted in depositors queuing to withdraw cash and led to the Bank of England being compelled to supply emergency funding to Northern Rock in September 2007 to suppress this run on the bank (Bank of England, 2009). The press reports and television images of lines of Northern Rock customers waiting for branches to open to withdraw their cash mark the onset of the credit crisis.

Subsequently, other banks have received substantial support from governments with the Bank of England stating that if “all the facilities offered by central banks and governments were fully called upon, the scale of support to banking systems in the United Kingdom, the United States and euro area would exceed US\$14 trillion” (Bank of England, 2009, p. 20).

The ensuing crisis has been characterized by uncertainty as economies have gone into recession (Stewart, 2009a), unemployment has increased sharply (see for example Bureau of Labor Statistics, 2009), and comparisons have been drawn with the Great Depression (Arner, 2009). Additionally, the current form of capitalism has come under intense scrutiny resulting in fundamental debates as to how societies should be constructed and taking in issues such as trust, risk, regulation and financial liberalisation (see for example, Barber, 2009).

The banking community has been singled out as having a dominant role in causing the crisis and the actions of senior bankers such as Sir Fred Goodwin (ex-Chief Executive of RBS) have been severely criticised (McIntosh, 2009). However, there is a wider context to the financial crisis and it incorporated elements such as bankers’ bonus payments, securitisation of debt, credit default swaps, risk management practices, underwriting standards and the role of regulators (see for example, G20, 2008). These facets of the crisis initially appear relatively distinct as they relate to disparate topics of employee motivation, financial innovation, control systems and regulation. However, in this paper we contend that by drawing on cultural theory of risk¹ as developed by the anthropologist Mary Douglas the different elements of the crisis and the debates about the future of capitalism can be seen to be connected.

Douglas has developed a particular account of cultural theory which uses a grid-group framework to connect social structures and worldviews, and using Douglas’s typology of social structures we can understand the crisis as a phenomenon borne out of a prevailing

¹ Hereafter referred to as cultural theory.

individualistic² worldview. Importantly, it will be argued in this paper that inherent within the individualistic culture is a persistent shortsightedness that created a vulnerability to the financial crisis. This is notwithstanding the paradox that an individualistic culture has a primary focus upon financially-related risks. It is also suggested that the severity of the crisis has created such a significant threat to the individualistic culture that this has intensified debates as to the most appropriate societal form. The eventual result of these highly vociferous cultural dialogues will potentially have major impacts upon issues such as risk and regulation.

The paper is structured as follows. The next section discusses the key facets of Douglas's cultural theory and the grid-group model, and includes an explanation of the features of the four types of culture. An account of the shift from a hierarchical to an individualistic culture during the 1970s and early 1980s is then provided. The authors then argue that the individualistic culture and the financial crisis are connected through a myopia that is intrinsic to the individualistic culture. Finally, conclusions are drawn concerning the implications of the different types of culture and the possibility of future crises.

THE DEVELOPMENT OF CULTURAL THEORY AND THE GRID-GROUP MODEL

The Underpinnings of Cultural Theory

Douglas developed and refined her notion of cultural theory over a substantial period and commencing with ideas of pollution as expressed in the mid-1960s in *Purity and Danger* (1966). As an anthropologist researching 'primitive societies' she identifies the fundamental role of pollution rituals as devices for preserving the current societal structure and for reducing the likelihood that actors in that society will behave in ways that may destabilise the existing societal order. Pollution rituals associated with the body (for example, rituals concerning foods that may or may not be eaten) are considered especially important and, because the body is symbolic of society, these rituals and customs are symbolic expressions of more generalized anxieties about the tainting of the social group (Douglas, 1970). Importantly, these rituals are (unarticulated) fears concerning the potential breaching of societal boundaries. Thus they are associated with issues such as who may become a member of the society, how to guard the boundaries against those who are deemed unsuitable as members of the society and how to identify and eject existing members of the society who are threatening the current way of life.

Hence, these beliefs are fundamentally associated with the maintenance of the social order and demarcate behaviours that are acceptable from those that represent a threat or danger to that order. The establishment of moral conventions enables the society to set up 'punishment' systems that can warn off those actors who may potentially transgress and via their behaviours undermine the current pattern of social relations.

Therefore, a major contention of Douglas's cultural theory is that "danger and risk are social constructions with different social structures causing different risk perceptions"

² It is important to note that Douglas's conception of the term 'individualistic' differs from how it has been used by, for example, Oliver Williamson. Douglas's conception is explained further in the next section of the paper.

(Linsley and Shrives, 2009, p. 495). That is, the risks that any particular society will focus upon are those that potentially threaten the extant configuration of social relations. This idea of "selective attention to risk" (Wildavsky and Dake, 1990, p. 43) applies equally to 'modern' and 'primitive' societies. The only difference being that modern' societies such as the USA and the UK now use the term 'risk' as a secular substitute for the term 'sin'.

Grid-Group Model

Douglas subsequently develops these initial ideas by identifying and classifying social relations through the creation of a grid-group model (see for example, Douglas 1978, 1986, 1989, 1990, 1992, 1994, 1995, 2003, 2004; Douglas and Wildavsky, 1982). This two-dimensional matrix distinguishes four cultural typologies in the following manner.

The group aspect of the model concerns the strength of allegiance that an individual actor has to fellow members of that society. If the individual is highly committed to other group members and places the aims of the group above their own aims then this denotes a high group state. Conversely, if the individual feels little loyalty to other members of the society and considers their own goals and objectives to be of greater importance than the group's goals then this would be categorized as a low group state (Douglas, 1978). The grid dimension of the model concerns the degree of freedom that an individual has over their choice of social role. If the society allows for minimal selection of one's role in society then this represents a high grid state. For example, gender or race may be a constraint or impediment to self-selecting one's social role (Rayner, 1992). In a low grid society then there are few restrictions upon social roles and individuals can freely choose who they might wish to collaborate with. Consequently, this grid-group model results in four types of culture; hierarchical, egalitarian, individualist and fatalist (see figure 1).

Douglas's grid-group model has been criticized as lacking subtlety and oversimplifying how patterns of social relations really are. However, it is important to note that the two dimensions are continuous and do not simply comprise two states. Its value is as a device that can assist us in comprehending how alternative worldviews are the product of societal structures. Cultural theorists such as Douglas are very aware that any given society may not be *wholly* individualistic or *wholly* egalitarian, but to examine societies in a meaningful manner requires typologies to be established (Thompson and Ellis, 1997). The number of typologies that one should create is contentious but Douglas argues that societies have a proclivity to lapse into one of these four forms as they have a relative stability.

Further, within any given society there will be a tension as cultures vie with one another for dominance. In this way there are always ongoing cultural dialogues as to what form of social relations should be favoured albeit with the dominant worldview influencing the cultural bias displayed at any given time (Douglas, 2004). This notion of cultural dialogues is important in that it also indicates that free will is not absent under cultural theory. The presence of a particular pattern of social relations in a society does not imply that all individuals will behave alike in that society or that any given individual will confine their membership to groups of a particular cultural type. Hence, Douglas's earlier static view has been replaced by a dynamic view of how individuals might move across societies and cultures (Douglas, 2004; Rayner, 1992).

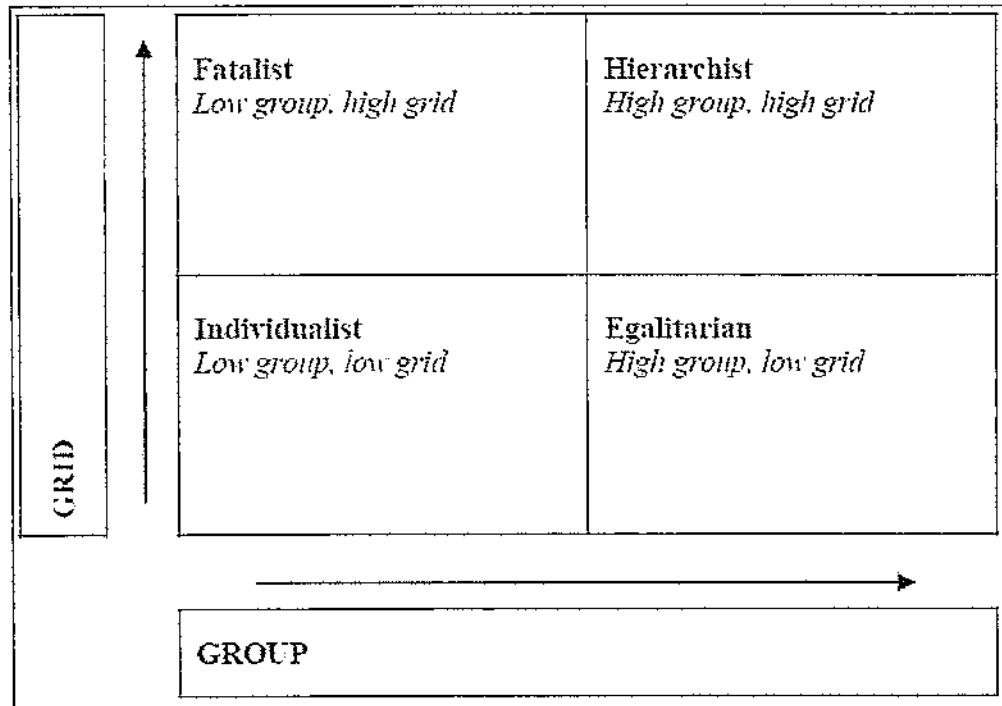


Figure 1. Grid-group model.

The Four Cultural Typologies

The hierarchical (high grid-high group) form of society comprises clearly delineated boundaries. The external (high group) boundary partitions societal actors from alien outsiders who potentially threaten the border. Limitations upon social roles are present in this type of society; hence the internal (high grid) boundary is also clearly distinguished. Tradition and respect for authority are features of a hierarchical society and abnormal or anomalous behaviour deemed unacceptable. Bureaucratic rules are important as they can regulate actions and maintain strong justice systems that will impose admonitory punishments upon insiders who violate boundaries (Heap and Ross, 1992). The verdicts of professional experts would not be questioned in such a society as this would threaten to undermine the high grid-high group form of social relations.

An individualistic (low grid-low group) culture is largely devoid of internal and external boundaries. There is no commitment to others in the society and the individuals may associate with whoever they choose. This is an entrepreneurial society where free-market ideas are espoused and individuals have "a propensity to collaborate with other individuals when gains can be made from such alliances" (Linsley and Shrides, 2009, p. 495). This materialistic type of society is highly competitive and individuals who fail to thrive cannot expect to find others will aid them. The individualist will allege there is parity of opportunity but, in reality, this does not hold and societal members will seek to establish advantages through whatever means they can.

The third cultural form is the (low grid-high group) egalitarian society. In common with the hierarchical society it shares a strong (high group) external boundary, but the low grid state indicates there is a freedom to self-select social roles. Loyalty to the group is of the utmost importance and individual goals must be subservient to the group's goals. Disloyalty is an odious 'sin' and will likely result in severe punishment or permanent ostracism from the group. The egalitarian society is disposed towards ideas of equality and justice, and often considers broader society as harbouring many ills. The social relations of religious sects and environmental groups have been identified as egalitarian (Rayner, 1992).

The (low group-high grid) fatalist cultural type consists of individuals who have highly restricted social mobility and no feeling of kinship with others. This is an unenviable position to be in as the fatalist is an outcast who has little scope to determine their own fate. They are affected by risk, but powerless to impose any control over their destinies.

Hierarchical and individualistic groups are considered to be at the 'Center' (Douglas and Wildavsky, 1982). This is because of the significant political and economic power they possess, and this power is intensified if they choose to collude and work together. The primary risks and dangers these cultures are focused upon differ dependent upon their grid-group configuration (Douglas and Wildavsky, 1982). The hierarchical society is concerned with crime and foreign confrontations or hostilities as these risks threaten the internal and external boundaries respectively. Status in an individualistic culture is derived from material success and it is therefore concerned about risks that adversely impact upon financial wealth. Additionally, as its foundations are rooted in the free-market system it is also concerned about risks to the exchange system (Douglas, 1978). Egalitarian groups lack the power of the hierarchical and individualistic cultures and are on the 'Border' (Douglas and Wildavsky, 1982). They may goad and antagonise hierarchical and individualistic organizations as this helps maintain group cohesion through identifying the 'Center' as malevolent, immoral, inequitable and the like. By contrast, the powerlessness of the fatalists often results in their being excluded from the typology (Tansey and O'Riordan, 1999).

The Move From Hierarchy to Individualism at the Outset of the 1980s

It has been emphasised that in any society the four types of culture can exist alongside each other. Cultural dialogues occur as the supporters of the different typologies endeavour to convince others of the superiority of their cosmology for "culture ... (is) ... an ongoing, never resolved argument about rightness of choice" (Douglas, 1994, p. 260). Thus in any society a particular culture may have greater influence but it may also be superseded over a period of time. Heap and Ross (1992) have proposed that in the UK and USA an individualistic culture has gained ascendancy over a hierarchically-based culture in recent times. The key point in this cultural shift can be traced to the period beginning at the outset of the 1980s and with causes of the shift traceable to events occurring in the 1970s.

Thus in the USA in the 1970s significant negative factors such as the 1973 oil price shock, the demise of the Bretton Woods Agreement, de-industrialization, rising unemployment and economic decline caused US citizens to question the efficacy and rightness of the current order (Fraser, 2005). In part this order was associated with Roosevelt's New Deal which as a response to the Great Depression had brought about, for example, The Glass-Steagall Banking Act and the alphabetical agencies (Brogan, 1999). In

the USA the economic difficulties of the 1970s came to be seen as following from increasing US government regulation of business (Gersemann, 2004). Political and social debates about the merits of a deregulated enterprise society relative to a welfare society therefore became prominent. In the UK severe economic difficulties were also an important feature of the 1970s culminating in 1978-1979 with the so-called 'Winter of Discontent' characterised by a series of workers strikes. Consequently in the UK similar deliberations about the merits and demerits of government interference in the marketplace came to the fore.

President Reagan (1981-1989) in the USA and Prime Minister Thatcher (1979-1990) in the UK were subsequently voted into power having espoused free market principles and following their respective elections these principles were enacted with measures including: reducing taxation, curbing social welfare, deregulating markets, privatizing public entities and lowering government spending (Gersemann, 2004; Heywood, 2003). This "capitalist version of liberation theology ... (that) gathered momentum throughout the dolorous 1970s ... (and) combined reverence for the free market with resentment of state interference" (Fraser, 2005, p. 477) is an exemplar for a pro-competition individualistic culture based upon material acquisition. Thus an individualistic culture came about because a sufficient number of individuals were convinced this was the right choice.

The modification of culture in wider society during the 1980s and 1990s had a substantial impact upon business organizations in the UK and USA. Hendry (1999) discusses how the previously well established hierarchical arrangement of firms promoted a situation where the strong sense of group facilitated the management and regulation of the workforce. As these firms pursued profits they were also engaged in sustaining a market (individualistic) culture and hence there was the potential for a destructive tension between individualistic and hierarchical value systems to arise. However, in the years prior to the economic difficulties of the 1970s a reciprocity existed as employees considered the firm a source of comparative job security and the provider of a defined role within the firm and society. Thus this tension was dissipated whilst employees felt looked after by the firm. As the economic problems of the 1970s escalated and firms' managers began downsizing and re-structuring in a more focused pursuit of profit then employees felt that their prior allegiance to the firm was no longer warranted. At this point employee commitment had to be obtained through individualistically-based appeals to self-interest largely predicated upon materialistic reward systems.

The central argument of this paper is that the current financial crisis can be attributed to the dominance of the individualistic culture following the cultural turmoil of the 1970s and this is discussed in the next section of the paper.

THE FINANCIAL CRISIS AND CULTURAL THEORY

The financial crisis has been attributed to the search for higher returns on the part of banks and related financial institutions leading to credit indiscipline particularly in respect of the US subprime mortgage market and leveraged buyout market (IMF 2007; IOSCO, 2008; G20, 2008). The factors that have been identified as the principal causes of the crisis are: weak underwriting standards, inadequate risk management practices, the innate complexity of financial transactions and structures, and incentive structures encouraging the pursuit of short-term gains (Amer, 2009; IMF, 2007; IOSCO, 2008; G20, 2008; Crouhy et al., 2008).

The Individualistic Culture, Wealth Acquisition and Democracy

Subprime lending to individuals with flawed credit histories and near-prime lending to individuals with less serious credit quality problems had been occurring pre-2000, but grew substantially during the period from the outset of the 2000s through to 2006 (Mayer et al., 2008). For example, there were approximately 1.45 million subprime mortgage loan originations and 0.92 million mortgage near-prime loan originations for near-prime loans in 2006, with growth rates of 33.6% and 203.1% respectively in originations over the period 2003 to 2006 (Mayer et al., 2008). The growth in nonprime lending, which carries greater risk due to the higher probability of default, resulted from financial institutions relaxing underwriting standards to gain increased shares of the market (IOSCO, 2008).

The individualistic culture has a central focus upon the acquisition of wealth as this is the primary measure of success. Therefore, it was inevitable that underwriters would seek new opportunities as this was a means of further enriching the firms they worked for and, ultimately, themselves. The individualistic culture embraces a belief in free markets that is wholly accepting of competition and motivated by the pursuit of profit. The sale of subprime and near-prime mortgage loans was just another business prospect that required risks to be taken. This is a natural progression as within an individualistic culture it is the upside of risk that is emphasised as it presents the possibility of improved returns.

A less obvious aspect of the move into selling greater numbers of subprime and near-prime mortgage loans is associated with the connection between the individualistic culture and democracy. Linsley and Shrives (2009) state that “the low grid-low group individualistic society *suggests*, although it does not actually create, a democratic arrangement that has an inherent appeal because of the message it communicates ... (and) ... implies an equality of opportunity exists for anyone wanting to pursue success” (p. 499). This particular notion of equality is what Gordon Brown is alluding to in his Mansion Speech when he states that, “a basic faith that from wherever it comes and from whatever background, what matters is that the talent, ingenuity and potential of people is harnessed to drive performance” (Brown, 2007). Consequently, selling a vision of home ownership to individuals who had previously not had the possibility becomes relatively easier when an underlying core tenet of a society is that all members of the group are able to participate in the acquisition of this primary symbol of wealth. Concomitantly, this tying together of democracy and the individualistic culture implies that if you are already a home owner then trading up to a larger, more expensive property is possible as well as desirable.

It has been suggested that the increase in default rates on mortgage loans occurred because of the complexity of the products that were being offered and hence there was a lack of consumer understanding (Mayer et al., 2008). An alternative interpretation, drawing upon cultural theory, is that the providers of mortgage loans were creating products (such as short-term hybrids or so-called ‘teaser’ rate mortgages) which played upon this idea of equality of opportunity and its intrinsic message that all members of the individualistic culture could participate in home ownership. This is not to suggest that the concern of the providers of mortgage loans was to democratize home ownership; rather this represented a market opportunity that was personally beneficial to the providers of mortgage loans. In retrospect the question has been asked, whether it was appropriate to sell such loans? However, within the individualistic culture the nature of transactions is that they occur for reasons of personal

gain and there is acceptance that any party to a transaction has to look after their own interests.

Financial Risk, Threats to the Exchange System and Myopia

A further aspect that assisted in selling this vision of home ownership to individuals who signed contracts on these subprime and near-prime mortgage loans concerns the idea of risk in individualistic societies. It has been explained that the key risk focus in this type of culture is economic or financial risk. It is likely that these risks were largely invisible to individual home buyers because of the strong upward trend in house prices through to 2005. For example, the SandP/Case Shiller Composite-20 Index³ rose continuously from January 2000 to July 2006 recording an overall increase of 106% over this period (SandP/Case Shiller Index, 2008). The general macroeconomic background of low interest rates and low unemployment rates (Mayer et al., 2008) would have also contributed to this sense of economic risks being relatively immaterial. Compounding this would have been the tendency for individualistic societies to look ahead across only a short time horizon. Consequently, a favourable outlook for the future was anticipated by borrowers of mortgage funds and only token attention was paid to financial risk.

Contemporaneously, the risk focus of the providers of mortgage loans would have been affected by the benign economic climate and this myopic tendency. It may be questioned why they did not consider the sustainability of this strategy of selling nonprime mortgage loans. These mortgages carry a greater risk of default and it might have been foreseen that a relaxation of underwriting standards could not only affect the near-prime market but also threaten to impact on the exchange system. The latter would be of considerable importance as the individualistic culture is at risk of being usurped by another culture if the market system ceases to function effectively. Again, it is the problem of myopia that can explain this difficulty as this form of culture is not only myopic "to larger effects ... (but) ... foresees danger from the individual perspective" (Douglas, 1994, p. 66). Thus, individuals pay attention to those risks that may have a direct effect upon their personal wealth position. Therefore, it is probable underwriters will have focused primarily upon ensuring they complete mortgage transactions as this maintains or enhances their personal incomes. They are less likely to have considered the wider picture and to have thought about how their individual acts might impinge upon the wider market system within which they operated. In the wider context of the credit crisis banks generally have been criticised for having incentive structures that encouraged short-term risk taking (Stewart, 2009b); but in an individualistic culture this is inevitable and simply an extension of what has already been stated concerning the providers of mortgage loans. It can appear surprising that individualistic short-sightedness operates in this manner but it has been observed in respect of other incidents that have endangered the exchange system under an individualistic culture. For example, Linsley and Shrivs (2009) have provided a cultural theory-based explanation of why several potential warning signs in respect of Enron's earnings were ignored.

³ This Index measures changes in the value of residential properties across 20 regions in the USA.

Risk Management, Complex Financial Transactions and Patrolling the Margins

The risk management practices of banks have often been considered well developed (Bessis, 2002) and yet reports post-crisis suggest that there were inadequacies in the risk management control systems that were partly responsible for the problems that arose (see for example IOSCO, 2008). In part managing risk was a difficult task because of the complexity of the financial transactions that were occurring including securitisation and the use of credit derivatives (Murphy, 2009), and thus the two aspects of risk management and financial structuring have connections.

Broadly, securitisation is the process whereby money is raised through issuing bonds which are backed by a group of assets such as a bank's mortgage portfolio (Murphy, 2009). This potentially diversifies risk for the bank whilst also freeing up capital (IOSCO, 2008). It has already been stated that risk is a natural feature of the landscape for the individualist who sees it as a means for providing potential returns. Consequently, risk is not to be feared as such, but managed to one's advantage. Through securitisation the banks could focus on their "core competencies ... originating loans and servicing them" (Murphy, 2009, p. 17). The capital released could then be used to create more profits under this Originate to Distribute Model (ODM). Thompson (1992) explains that individualist organisations have a risk handling style that can be summarised as "acceptance and deflection" (p. 200). Thus, for the banks as individualistic organizations the use of securitisation (for example, through the issuance of mortgage backed securities) was also a means of transferring (deflecting) risk through to another party. Once the risk was transferred on then it was for the other party to consider how to deal with the risk.

The banks were also able to shift unwanted risk through the use of credit derivatives. Thus, credit default swaps transferred the risk of default to another party providing protection in the event of the original borrower defaulting and moving risk around was commonplace. The individualistic view of the world is "cornucopian (skill-controlled) and '(i)f you can do it, it's natural'" (Thompson, 1992, p. 202). Thus, although the markets for credit derivatives and securitisation grew to immense proportions⁴ the individualistic culture of the banks would imply that they would have been accepting of this. That is, it would likely be considered 'natural' to shift risk and to assume that there would be a 'natural' equilibrium overall in respect of the risk to the banking and financial system. Thus, it is not complacency as such that would hold with regards to risk and risk management, but a confidence that in the normal course of events balance occurs and stability is in-built.

This is not to say that some intervention may not be required to ensure that agency and asymmetric information problems are confronted. The individualist is not gullible or naïve and is aware that others may try to gain at their expense. Consequently, there is need for gatekeepers to verify information and the like. Examples of gatekeepers include auditors who verify the financial report by attesting to its truthfulness and hence aid investors to know that directors are fulfilling their stewardship role. In the case of securitisation the credit ratings

⁴ For example, the credit derivative market is estimated to have a worth approaching \$50 trillion and in 2006 \$3 trillion of asset backed securities were issued in comparison to approximately \$1 billion issued in 2002 (Murphy, 2009).

agencies had the role of verifying the risks that were attached to the loan portfolios being securitised.

In terms of cultural theory gatekeepers patrol “margins (which) are those points in a society that are particularly vulnerable to risks and dangers” (Linsley and Shrides, 2009, p. 502). The ratings agencies have been criticised for not being assiduous enough in patrolling the borders with concerns expressed about conflicts of interest (Arner, 2009). A particular concern was that the ratings agencies were paid by the issuers of the securities and it is possible to see that, in an individualistic culture, the agencies might act in their own interests (to gain payments from issuers) rather than acting impartially. This is because the “form of culture ... directly affect(s) the practice adopted” (Linsley and Shrides, 2009, p. 503). It would be wrong to single out the ratings agencies as the sole gatekeepers who had a role in the crisis. For example, auditors (as mentioned above) and regulators also had a gatekeeping function to perform that may have been weakened because of the individualistic culture.

CONCLUSIONS

At the outset of the article it was explained that in August 2007 a liquidity crisis occurred as banks stopped lending to each other. The freezing up of the inter-bank lending market was a colossal shock to the financial community. Individualists consider resources as abundant (Thompson, 1992) and this includes supplies of capital. With the onset of the credit crisis came headlines such as:

“Backlash grows over bonuses for culprits of disaster” (Bowers, 2008)

“The voices in G20’s chorus of protest” (Vulliamy and Rogers, 2009)

“The closing of the Thatcher era” (Rachman, 2009)

“It’s got so horrible that we ought to be revolting” (Caulkin, 2009)

These headlines are not just indicative of the magnitude of the crisis but also signify the scale of the threat to the individualistic worldview. In a case such as Enron the repercussions were largely confined to a small and very distinct group of people; namely, ex-employees who suffered greatly as they lost their jobs and 401(k) pension plans became worthless (Linsley and Shrides, 2009). However, as this credit crisis has unfolded the repercussions have been pervasive. Mortgage defaulters have become homeless (Burkeman, 2009), significant jobs losses have been occurring and for those remaining in employment there is a general feeling of insecurity. Additionally, the need for governments to provide additional capital to banks has created a sense of uncertainty as to whether savings are safe.

In an individualistic system where failure is considered an individual weakness and there is little assistance afforded to those who do not succeed then it is unsurprising that dialogues have opened up as to whether the individualistic pattern of social relations is appropriate. Additionally, it offers an opportunity for those whose worldview is not individualistic to try to persuade disillusioned individualists (or ex-individualists who may have ‘fallen out of the system’ through unemployment or homelessness and become fatalists) to swap allegiance. This is a particularly good opportunity for egalitarian groups to seek new recruits. These egalitarian groups have different agendas that may be, inter alia, political, environmental or religious (Vulliamy and Rogers, 2009) but what they have in common is they offer the

possibility of belonging to an activist group where loyalty is valued (and required) and the injustices of the outside world are a prime focus.

The difficulty this presents for governments and business is that these groups are at the 'Border' and, if they are successful in their recruitment, threaten the individualistic and hierarchical cultures at the 'Center'. Consequently, politicians and business have to be seen to be acting forcefully to address key concerns. It is to be expected that debates will centre around issues such as regulation, expertise and risk and in a manner that highlights the differences in the worldviews of the different cultural types. Hierarchists will wish to see a return to greater regulation and to emphasise the need for expertise in the running of financial institutions; to revive trust in the financial system they will assert that strong controls are needed to manage risk. Individualists will wish to perpetuate self-regulation and will argue that the individual is best able to manage resources effectively. Egalitarians will place less emphasis on regulation than on everyone committing to working together to create a better world believing the approaches of both the hierarchists and the individualists to be flawed.

The individualistic culture is currently under threat and cultural theory suggests that any society under threat will act to preserve the current order. It is too early to know whether its actions will be sufficient to ward off the danger it currently faces, or whether a different worldview and pattern of social relations will prevail. The crisis and responses to the crisis are still ongoing and future research projects will need to make this assessment with the benefit of hindsight. It is also important to note that whichever worldview triumphs, cultural dialogues will continue as to what social form is most apt.

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15

Cultural Theory of Risk and the Notion of “Management Accountants as Strategists”

Philip Linsley and Alexander Linsley

Introduction

It has become commonplace to claim that accountants must supplement their technical accounting skills with strategic capabilities and be “active participant(s) in the decision-making process” (Latshaw & Choi, 2002, p. 27). Thus, it has been argued that finance departments should become central to the decision-making process. Further, it has been suggested that accountants should provide strategic advice to managers working in other parts of the organization and that a pre-requisite for progression to finance director roles is the capacity to be a proactive strategist (Grundy, 2007).

This claim that accountants should engage in strategic decision-making and use strategy tools to increase shareholder value can be traced back to the early 1980s when the term “strategic management accounting” first emerged (Roslender & Hart, 2003). It is also possible to identify an important shift in the development of strategy thinking around this time with Whittington (1996) observing that corporate planning ceased to be the primary focus of strategy researchers and practitioners towards the start of the 1980s and ideas such as those related to the crafting of emergent strategies arose (Mintzberg, 1987).

One way of thinking about these contemporaneous changes in the scope of the remit of accountants and in strategy thinking is to draw the two strands together through Mary Douglas’s cultural theory of risk. The prime assertion of cultural theory of risk is that perceptions of what risks are important will be dependent upon the underlying patterns of social relations. Consequently, patterns of social relations determine how we respond to uncertainties and dangers and, in addition, will impact on

(inter alia) perceptions of the role of the accountant and of approaches to strategy.

The chapter argues that calls for accountants to be strategists are an outcome of the vigorous cultural dialogues that took place during the 1970s and, ultimately, resulted in the previously dominant hierarchical culture in the UK and USA being usurped by an individualist culture. Very broadly, in Douglas's conception, an individualist cosmology represents a highly competitive, free-market form of society whereas a hierarchical society possesses strong boundaries and is bureaucratic in its nature (Douglas, 1992).

It is argued this cultural shift resulted in calls for the accounting function to move from largely fulfilling a hierarchically based stewardship role towards supporting the individualistically based strategic goal of enhancing shareholder wealth. Hence, it is this change in patterns of social relations that is at the root of the demands that accountants evolve into strategists. Importantly, the chapter also draws on cultural theory to address an issue that, *prima facie*, appears anomalous in this context. Namely, although novel strategic management accounting techniques have been developed in recent years to support the pursuit of shareholder value, there has been restricted take-up of strategic management accounting initiatives post-1980.

The next section in the chapter explains key aspects of Douglas's cultural theory of risk. Section 3 then examines the hierarchical-individualistic cultural shift in the 1970s and links this to changes in strategy thinking. Section 4 considers how the change from a hierarchical to an individualistic culture has given rise to the notion of "management accountants as strategists". In examining this change in the accountant's role, the chapter explores why there has been restricted take-up of strategic management accounting initiatives in the post-1980 individualistic setting. Finally, within the conclusion some wider implications of using Douglas as a framework for examining "management accountants as strategists" are considered.

Douglasian cultural theory of risk and the grid-group model¹

The grid-group model Douglas has established in respect of her cultural theory of risk provides a framework which enables us to develop hypotheses about, and analyse the behaviours of, four solidarities (Figure 15.1) (see, for example, Douglas 1986, 1992, 2003).

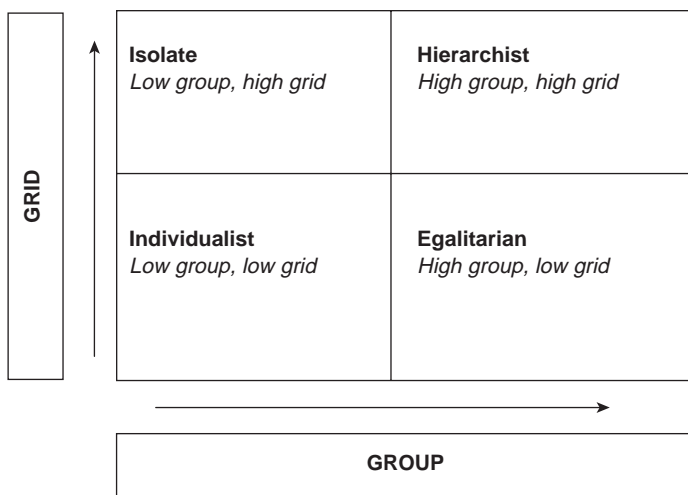


Figure 15.1 Grid-group model

Source: Adapted from Douglas (1982).

The grid dimension in the model relates to the degree of regulation that society imposes upon individuals in selecting social roles. Where there are extensive prescriptions directing individuals' behaviours this denotes a high grid society; in low grid societies individuals self-select social roles and can decide to cooperate with whoever they choose. The idea of group is concerned with an individual's commitment to other members of that society. High group denotes a society where individuals are strongly committed to one another; however, where individuals feel little allegiance to other members this would form a low group society.

This results in a typology of four solidarities: individualists, hierarchists, egalitarians and isolates. Crucially, the risks and uncertainties each solidarity identifies as important will differ as each is endeavouring to protect its particular pattern of social relations.

The hierarchical solidarity corresponds to a form of society where there are sharply defined internal and external boundaries. The external boundary separates group members from outsiders, and the internal boundaries ensure strong role differentiation. It is a bureaucratic form of society that defers to authority. Hence, risks that threaten the boundaries are of the greatest concern. By contrast, actors within an individualist society are free to connect with whoever they like. Characteristically, the individualist solidarity is conceived of a free-market type of society

where there is a preference for self-regulation, and risk-taking is seen as positive as it provides opportunity to profit. The primary motive underlying individual transactions is personal gain. A key difference regarding risk perceptions between a hierarchical and an individualistic society is the former is anxious about boundaries being violated whereas the latter fears risks that jeopardize the market or that threaten wealth creation.

In the egalitarian solidarity, the external group boundary assumes even greater importance than in the hierarchical solidarity as there are no internal boundaries. Hence, commitment to the group is of greatest importance and the egalitarian focus is upon any risks or uncertainties that might threaten the group. The fourth arrangement is the isolate solidarity. This comprises individuals who are limited in their selection of social roles and lack a sense of community. Isolates view the world as inherently uncertain. Consequently, they see little point in trying to plan ahead to manage risks.

Douglas argues that all four solidarities will be observable within any society or organization. Cultural dialogues imply a dynamic relation between the four solidarities as the supporters of each endeavour to convince others of the advantages of their cosmology. Thus, in any society, a particular solidarity may have greater influence but it may also be replaced over a period of time.

A further aspect of the relationship between the solidarities which Douglas discusses is how the hierarchical and individualistic solidarities have a greater hold on power. Therefore, these two solidarities are at the centre. Further, there is some reciprocity between these two dominant solidarities as the individualistic solidarity "needs a political base to assure its basic security (and)...the hierarchical (solidarity) needs an economic base" (Douglas, 1990, p. 12). By contrast, egalitarian groups are on the border and at a distance from the centre and its power. For this reason, it is less likely the egalitarian solidarity will have greater influence than the individualistic solidarity or the hierarchical solidarity in any particular society or organization.

The change from hierarchy to individualism during the 1970s and 1980s

The shift in dominant culture during the 1970s and 1980s

Heap and Ross (1992) note how in the UK and the USA the dominance of the hierarchical solidarity waned during the 1970s and was replaced by the individualist solidarity during the 1980s. This change in the

dominant solidarity was brought about by events that largely happened in the 1970s. These changes threatened the values held by supporters of the hierarchist solidarity thus making them vulnerable to the arguments of the other solidarities.

In the UK, economic problems present at the start of the 1970s worsened as the decade progressed. The oil crisis of 1973 added further difficulties to an already strained economy, and strike action by mineworkers eventually resulted in a three-day working week in 1974 as the government sought to safeguard coal supplies. In 1976, the then government had to ask the International Monetary Fund for a loan and government incomes policies eventually lead to public sector workers striking during the winter of 1978–79. Similarly, the USA suffered from a declining economy and de-industrialization during the 1970s. There was a general sense of living standards declining and this resulted in people querying whether the assurances inherent in the hierarchical way of life were still being met. For example, Hendry (1999) has observed how downsizing programmes undertaken by companies in the 1970s adversely affected job security and, because employees no longer felt cared for, this made them doubt whether the company they worked for deserved their loyalty.

Overall, this resulted in a questioning of the current order; for example, many started to ask whether governments should reduce regulation for businesses (Fraser, 2005; Gersemann, 2004). The outcome was that there were highly charged political debates, particularly towards the end of the 1970s, concerning whether a culture of dependency had grown up that should be replaced by an enterprise culture. Margaret Thatcher was voted into power in 1979 in the UK and the changes she instigated had a close fit with the individualist solidarity. Markets were deregulated, government spending was reduced, state firms were privatised and individuals found that they could not rely on the support of the welfare state to the extent they had previously done. A similar free-market approach was adopted by Ronald Reagan in the USA when he became president in 1981.

Strategy and the shift in culture

The changing ideas in strategy thinking across this period (pre- and post-1980) can also be interpreted as an outcome of the move from a hierarchical to an individualistic cosmology within companies.

The 1980s saw a shift in strategy thinking away from “the corporate planners of the 1960s and 1970s” (Kay et al., 2006, p. 34). The corporate planning view of strategy adopts a rationalistic approach to strategic planning whereby an orderly series of logical stages of analysing,

planning, implementation and control occur. Senior managers may be assisted by other experts in the analysis and planning phases, and it is a top-down method with an in-built expectation that lower-ranking managers will readily implement the strategic directives devised further up the command chain.

This approach to strategy is based on a procedural rationality and accords with a hierarchical cosmology. Deference is shown towards the authority of senior managers in the corporate planning process so that internal boundaries are not threatened. Kay et al. (2006) note a problem with the rationalist school is that although it emphasizes planning, "planning is not strategy" (p. 31). However, in the context of hierarchical societies it is to be expected that significant effort will be expended in the preparation of a strategic plan as this ritual reinforces group cohesion.

The fundamental criticism now levelled at the rationalistic approach to strategic planning is that it omits to recognize "the importance of practical craft" (Whittington et al., 2006, p. 616). This move away from a conventional idea of strategic management is rooted in Mintzberg's (1987) ideas about the crafting of strategy where he discusses how strategies may not always be deliberately conceived, but rather may emerge unexpectedly in different parts of an organization in response to unfolding events. Thus, strategy making is no longer the preserve of senior managers and experts, nor is it wholly rational.

How Douglas's solidarities accord with this idea of strategy as process can be seen by drawing upon Grant's (2003) study identifying primary changes in strategic planning processes during the 1980s and 1990s in major oil companies. Grant, like Hendry (1999), notes that the impact of the market for corporate control in the 1980s demanded senior managers focus upon shareholder wealth and this caused substantial changes in the approach to strategic planning.

There was a move to informal systems of planning that accentuated the role of direct discussion between managers at different levels. Strategic planning was now being undertaken by staff seconded from line management positions and other functional areas of the business. Accountability for strategic decision-making and, ultimately, performance was devolved to line managers. This changed the planning focus to enhancing divisional profitability with the purpose being to ensure that the financial performance of divisional managers could be measured against the metric of shareholder wealth.

The evolution of reoriented strategic planning systems can be explained through Douglas's individualistic typology as the hierarchy

of managers was removed and divisional managers became free to transact as they saw fit. In a hierarchical organization, it is not deemed acceptable to challenge others as this implies disloyalty and endangers group solidarity, but in the individualistic firm discussions now became more open. Expertise is no longer a determinant of status within the firm; rather status derives from the ability to meet performance targets. Importantly, as one might expect in an individualistic setting, goals become financially based and the key risk is not meeting these financial goals.

Accountants as strategists and the shift in culture

Accounting prior to the 1980 cultural shift²

Ashton et al. (1995) state that for UK and USA companies in the 1950s and 1960s “the dissemination of cost information tended to be slight... (with)... cost accounting systems... only loosely integrated with management planning and control systems’ (p. 2). These “mechanistic” systems (cost systems, budgetary control systems, capital investment systems) were “reactive” (Ashton et al., 1995, p. 2). Cost containment, rather than cost reduction, was pursued and the focus of the firm was on managing resources to meet production needs (Ashton et al., 1995).

Chandler (1977) describes how the structure of multi-divisional firms consisted of a hierarchy of management and separated functional disciplines such as finance, purchasing and sales. Allegiances to functional disciplines were reinforced through professional associations dedicated to the various occupational fields (Chandler, 1977). Magdy & Luther’s (2006) discussion of the IFAC description of management accounting in this pre-1980 period confirms the objectives of management accounting as “oriented towards the determination of product cost...supplemented by work on budgets and financial control of production processes” (p. 6).

If a hierarchical cosmology of accounting practice is now fashioned then a close match with the above descriptions of accounting practice pre-1980 can be discerned. As importantly, it is also possible to understand why there is a lack of strategic purpose on the part of the accountants within a hierarchical solidarity.

The strong grid aspect of the hierarchical cultural typology implies departmental segregation, with the accounting department distinct from other departments. Within the accounting department, a relatively unambiguous organizational structure will be evident, typically with the finance director at the apex and accounting technicians or clerks at the

base. Job titles signify the status of each member of the accounting department, supported by job descriptions that delineate levels of authority and set out the types of task that can be undertaken dependent upon job title. All of this ensures there are no doubts or uncertainties about the role of each member of the accounting department.

Similarly, pre-1980, organizations "clearly distinguished management control from strategic planning" (Ittner & Larcker, 2001p. 351). If strategizing is not denoted as an element of the accountant's role then that accountant is highly unlikely to strategize as this would arouse suspicions and create uncertainty regarding demarcations in respect of internal boundaries. Should an accountant presume to engage in strategizing when it is not designated a part of their role, there will be mechanisms for dealing with this aberrant behaviour to alleviate the uncertainty this creates. For example, in extremis, organizations will expel "troublemakers" from the "group" through dismissal procedures. These internal boundaries also hinder the development of novel management accounting initiatives as they do not facilitate cooperation between management accountants and others within the organization.

The actors within a strong grid (hierarchical) organization would view accounting staff as specialists possessing specific accounting-related proficiencies as denoted by professional accounting qualifications, which would confer respect and be important symbols of status across the organization. This view of accountants as specialists accords with, and upholds, the hierarchical pattern of social relations.

The design of accounting-based systems that support the strategy-making process will also be affected by the prevailing culture. Management control systems, for example, will be organized differently in hierarchical and individualistic organizations. In the former type of organization these systems will tend towards being bureaucratic or "mechanistic". Standardized procedures for the operation of the systems will have been drawn up by the accounting department and it will be expected that other parts of the organization comply with these procedures. It may appear strange that individuals will follow systems "blindly" and without querying their efficacy, but this can occur when there is a hierarchical expectation of compliance. The hierarchical organization is seeking to maintain the status quo wherever possible and any questioning of this creates uncertainty as it threatens the hierarchical solidarity.

The strong group aspect of the hierarchical organization suggests the accountant is likely to view their role as dominated by a stewardship

function for he or she will perceive their primary duty as ensuring there is certainty in respect of survival of the group and this is best achieved by being a guardian of the organization's capital. This implies a cautious and prudent approach to financial matters is adopted by the accounting staff. Therefore, the management accountant's approach to risk management is likely to be that there needs to be a very '(c)areful balancing of risks and rewards... to keep the firm safe" (Underwood & Ingram, 2010, p. 28).

The manner in which accounting-related information is used within management control systems will also be impacted by the strength of the group dimension. In a hierarchical organization the manner in which, for example, comparisons of actual and budgeted results occurs will be driven by the need to ensure that poor performance is a collective responsibility. The result is it becomes more tolerable for managers in strong group organizations to be able to attribute adverse variances to unforeseeable external factors. Therefore, it is logical in a hierarchical setting that cost containment is practised rather than cost reduction (Ashton et al., 1995) as it then decreases the likelihood of the need to challenge "under-performing" managers or divisions. In a strong group organization there may also be a number of goals set that have some ambiguity. The difficulty associated with setting one clearly defined target in this culture is that it creates the potential for group members to be pitted against one another as this goal is pursued. Strong group organizations wish to avoid internal rivalries and consequently set less certain (and more moderate) goals that allow group members to gain a sense of achievement without competition challenging the strong group ethos. Roslender & Hart (2002) discuss how new initiatives in measurement systems such as the balanced scorecard have a primary "concern with what firms are trying to become" (p. 260). Hierarchical firms are not "trying to become" they are "trying to remain as they are". Their fervent hope is the future will be configured as the past as this brings certitude.

Accounting practice post-1980

In 1981 Simmonds first proposed the idea of strategic management accounting (SMA), which has at its root the premise that management accounting and strategy be directly connected. However, a range of studies and surveys suggest the take-up of management accounting innovations in practice has been relatively weak. Drury & Tayles' (1995) review of the results of practice-focused surveys studying changes in management accounting practice found only very modest changes to have occurred. They concluded that "in view of the considerable amount

of publicity that has been given over the past 10 years to the apparent limitations of traditional cost systems and the urgent need for organisations to change their management accounting systems it is puzzling why most firms have been reluctant to change" (Drury & Tayles, 1995, p. 277). Similarly, studies such as Guilding et al.'s (2000) comparison of strategic management accounting practices in the UK, USA and New Zealand found "there is negligible use of the term 'strategic management accounting' in organisations and that appreciation of the term amongst practising accountants is somewhat limited" (p. 129).

Prima facie, it seems paradoxical that new management accounting techniques and, in particular, strategic management accounting ideas are not being used more frequently. As strategy thinking changed post-1980 and adjusted to fit with the individualistic culture then we might expect that management accounting would change and become more compatible with an individualistic culture by becoming more closely tied to strategy. This appears not to be so and, hence, explains why calls for accountants to have a greater strategy focus still persist.

The management accountant in an individualistic organization will, if sufficiently attentive, have perceived a shift in the basis upon which respect is accrued pre- and post-1980. Post-1980 status is no longer based upon having gained membership to one of the professional accounting bodies; more important is how well the individual accountant performs within the organization in supporting the creation of value for shareholders (Ittner & Larcker, 2001) as the individualist fears any threat to wealth. Technical accounting knowledge is also more open to question and, generally, there is less trust in and respect for the accounting profession (Linsley & Shrivs, 2009). In an individualistic setting past certainties regarding the role and place of the accountant are cast out. The nature of the accounting role also changes, with a more informal approach allowing for some flexibility in the operation of accounting-related systems. In this less restrictive environment, users of such systems may via from, or sometimes bypass, set procedures or controls further undermining the accountants' status.

A softening of the internal boundaries occurs as "functional specialization (through the use of cross-functional teams, as well as the elimination of traditional specializations)" is removed (International Federation of Accountants, 1998: paragraph 20). This provides the opportunity for actors in companies to have greater amounts of autonomy and suggests greater fluidity in roles is possible including permitting "a great deal of management accounting... (to be)... undertaken by the business managers rather than by the accountants" (Burns & Vaivo, 2001).

Armstrong (2002) explains that “some of the most successful applications of ABC have been initiated by operational managers” (p. 102). But this creates great uncertainty and associated anxiety for the accountant who cannot make the shift to the individualistic mode of life.

One possible explanation why the implementation of strategic management accounting innovations has been sporadic is that limited numbers of management accountants have completed the transition to an individualist culture.

A great difficulty for management accountants in changing to the individualistic culture may be that they have been steeped in the hierarchical culture, and perhaps more so than other categories of manager. The professional bodies of which they are members are likely to be biased towards the hierarchical solidarity as strongholds of expertise and professional status. As firms changed post-1980 this may have engendered considerable uncertainty as it threatened the perpetuation of their worldview. When dangers arise, hierarchists are ill-prepared to deal with the problem from the outset, because their inherent presumption is that the past will continue into the future. Hence, the change in the way firms were being configured could have been a difficult matter for accountants to acknowledge.

In due course if the danger is acknowledged, the hierarchists' response to this uncertainty or threat is to use generalized justifications for maintaining the prior way of doing things. In this way, the continued use of the traditional accounting methods might be defended and perceptions of certainty restored.

If the threat still remains then, to re-confirm the external boundary, the hierarchical community looks to itself to develop responses it considers acceptable. For example, the community of accountants might respond to the dangers “internally” via professional bodies such as the UK Chartered Institute of Management Accountants (CIMA) re-developing syllabi to include strategy modules, producing technical reports on issues such as performance management and strategic enterprise management, and developing continuing professional development programmes with a similarly broad scope. Whilst these initiatives can, in part, be seen as a means for developing accountants as strategists they also serve to renew the claim of accountants to expert status. If the primary purpose of these actions of the accountants is for the latter reason this would be not surprising for it can be understood as a hierarchical reaction to uncertainty during a period of change.

The difficulty in claiming expertise be judged “useful” is the previously discussed issue of the individualistic society being less impressed

by expertise and more impressed by performance. However, there is a part of accounting where a claim to expertise is considered appropriate in an individualistic context. A principal risk for the individualist is that the market does not operate efficiently. For this reason individualists, who generally favour self-regulation, recognize there must be some regulation to ensure integrity in the marketplace and a legal framework must be in place that provides the confidence that contracts can be enforced. In this respect, the individualist understands the need for some collaboration with the hierarchist. This brings with it a need for some accounting expertise to, *inter alia*, prepare financial reports, ensure internal control mechanisms are effective, guide internal audit processes and liaise with the external auditors. Hence, some accounting staff are able to leverage their expert status in the individualistic setting. For example, Zorn (2004) concludes that the rise of the Chief Financial Officer (CFO) since the 1980s in US firms can be traced to a need for accounting expertise to manage a specific "regulatory change in earnings reporting requirements (that) presented chief executives with a real threat to earnings" (p. 349). Zorn demonstrates that the CFO position first arose out of a need for accounting expertise in respect of FASB 33, and this was to ensure that the share price would be well managed. With regard to accounting roles of this type then firms may want to employ accountants with a hierarchical worldview as these roles are focussed upon issues of assurance, control and stewardship. However, this would not apply to management accountants whose role is not to manage relationships with the marketplace; rather the management accountant needs to have an individualistic worldview if they are to fully support the business in its strategic decision-making.

Conclusion

Douglas explains why different risks are deemed important by different solidarities by reference to patterns of social relations. Crucially each solidarity wishes to ensure it remains in existence and, hence, it identifies uncertainties and risk as important if they threaten its particular pattern of social relations. In turn, this affects ways of organizing and dispositions towards accounting and strategizing. If the individualistic solidarity is compared to the hierarchical solidarity then the former encourages risk-taking and strategy making, whilst the latter prefers a procedural rationality.

If firms wish to employ staff, accounting or otherwise, who are active strategists then a possibility is to ensure recruitment processes screen

for individualistic traits. Individualistic accountants are less likely to act solely as functional specialists and will have a propensity to assist in strategic decision-making performance to enhance shareholder value. This is because wealth symbolizes success in this setting and risk to wealth is uppermost in the mind of the individualist. As the individualistic culture is centred upon material self-interest, group loyalty does not hold staff together and, somehow, reward systems must substitute for this role. Individualistically induced behaviours may also lead to actions that threaten the very markets that individualists rely upon, as these individualists may look to game the system or gain competitive advantages.

The hierarchist is less concerned about threats to the market or to individual wealth and more concerned about uncertainties and risks that threaten internal and external boundaries. Consequently, the hierarchical accountant is inclined to work within their job description, to establish mechanistic control systems and to be cautious when managing risk to ensure that the risk–reward trade-off has been carefully calibrated. Thus, they behave differently to avoid threats to the hierarchical solidarity. Of course, acceptability of behaviour will be dependent on the worldview of each individual, but this underlines why it is important to understand what behaviours may likely occur in respect of a particular worldview.

Further research is needed to address complexities that have not been considered within this chapter. Relevant questions needing attention might include How do accountants function in egalitarian firms where the principal risk focus is upon protecting the group boundary? Are hybrid firms possible that unite two or more solidarities and, if a hybrid is achievable, what will the hybridized cosmology be and how will uncertainty and risk be viewed? Can the cultural dialogues that are a continuous feature of organizational life be used to offset excessive behaviours associated with the dominant solidarity? Douglas's cultural theory of risk has multiple implications and further research will assist in understanding the complexities and uncertainties associated with different accounting practices and different strategy practices in respect of the four solidarities.

Notes

1. Of necessity, only a very short overview of some key aspects of Douglasian cultural theory is provided in this section.
2. The International Federation of Accountants (IFAC) (1998) considers the development of management accounting as a four-stage process and with the

critical period of transition in the 1970s. This supports the idea of discussing management accounting as a pre- and post-1980 activity.

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Douglasian cultural dialogues and the Financial Reporting Council complexity project

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ABSTRACT

There has been near-universal reliance upon Hofstede's cultural dimensions as the theory base for culturally related accounting research. Given the criticisms that have been raised in respect of Hofstede this paper proposes Mary Douglas's cultural theory as a more appropriate theory base for future research. Central to Douglasian cultural theory is the notion of cultural dialogues which proposes that within any community four solidarities will be present and in constant competition. The paper identifies cultural dialogues through an analysis of comments letters submitted to the Financial Reporting Council (FRC) in response to their 'complexity of corporate reporting' discussion paper. To understand how a particular solution has been arrived at when an accounting or auditing issue is reviewed, the debates that precede the outcome need unscrambling by reference to cultural dialogues and the analysis of the comments letters reveals the voices of the different solidarities as they seek to persuade others of the validity of their way of life. The paper proposes a clumsy solutions approach is appropriate for resolving debates on accounting and auditing issues. This approach recognises that, because the solutions offered up by each culture have limitations, all four voices need to be heard in any debate.

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1. Introduction

There has been significant research undertaken examining how culture may influence accounting and auditing practice. With respect to the theory base that underpins this research [Heidhues and Patel \(2011\)](#) document the dominance of [Gray's \(1988\)](#) framework on accounting values. Gray's conceptualisation of accounting values is founded on Hofstede's research into national cultural differences and [Baskerville \(2003\)](#) verifies that culturally related accounting research has had a near-universal reliance upon Hofstede's cultural dimensions as the underlying theory base. Hofstede's ubiquity in accounting-culture research has been previously observed by other researchers; for example, [Harrison and McKinnon \(1999\)](#) note that "Hofstede's typology, together with the country rankings contained in his work, has been extensively, almost exclusively, adopted by cross-cultural researchers in management control systems in recent years" (p. 485).

The employment of Hofstede as the prime theoretical underpinning in accounting-culture studies, whether directly or indirectly via Gray's accounting values, is highly problematic as important deficiencies have been noted in respect of his cultural indices (see for example, [McSweeney, 2002](#); [Baskerville, 2003](#); [Heidhues and Patel, 2011](#)). It is for this reason that [Heidhues and Patel \(2011\)](#) maintain there is a need for accounting research that is not "blinded by the simplicity of

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Hofstede's ... and Gray's framework ... but (that) ... focus(es) on capturing the complexity of cultural and contextual influences on accounting by including more holistic perspectives" (p. 274).

The purpose of this paper is to propose Mary Douglas's cultural theory¹ as a suitable theory base for culturally related accounting research. Over a period in excess of forty years Douglas developed a formal and explicit typology of social structures. This holistic systematisation of cultures uses a grid-group framework to connect social structures and worldviews, resulting in a typology of four solidarities; individualists, hierarchists, egalitarians, and isolates.

A large body of studies have confirmed that cultural theory is generalisable (6, 2004) and some prior accounting research has successfully employed Douglas's work in the contexts of audit failure, emissions trading schemes and the socialisation of risk (Linsley and Shriver, 2009; Mete et al., 2010; Moerman and van der Laan, 2012). Importantly, these prior accounting studies have not drawn on Douglas's notion of cultural dialogues which is an essential component of cultural theory. Cultural theory proposes that within any community (or organisation or nation) the four solidarities are present and in constant competition, and this gives rise to cultural dialogues as the adherents of the four ways of life promote their worldviews and attempt to sway others to join their cause (see for example, Douglas, 1997, 2004). Consequently, the notion of cultural dialogues implies that culture is not static and cultural theory does not equate nation states and cultures; on the contrary, it questions the idea of unchanging groups and emphasises the dynamic nature of culture (Patel, 2007).

To support the proposal that Douglas's cultural theory may usefully be adopted as a theory base for culturally related accounting research the paper is structured as follows. In section two, key facets of Douglas's cultural theory are clarified and it is argued that the problems commonly raised in respect of Hofstede do not pertain to cultural theory. The second section of the paper also rebuts criticisms that are commonly raised in opposition to cultural theory. In the third section we seek to show that Douglas's cultural theory can be usefully applied in an accounting context by employing the notion of cultural dialogues to identify and analyse the voices of the different solidarities. The case used for this examination of cultural dialogues is the set of comments letters submitted to the Financial Reporting Council (FRC) in response to the discussion paper issued at the outset of their '*complexity of corporate reporting*' project. The paper is not seeking to assess the efficacy of lobbying activities upon regulatory proposals. Rather, the paper relates the responses in the comments letters to the four solidarities, and analyses how the relative power of the different solidarities affects how each seeks to have their voice heard. In this section the voices of the two solidarities that hold most power are analysed; these being the individualistic and hierarchical solidarities. The fourth section identifies and analyses the egalitarian voice. Typically, egalitarian groups are less influential than the individualistic and hierarchical solidarities (Douglas and Wildavsky, 1982). Consequently, the egalitarian voice is more strident and will seek to find ways for its voice to be heard. The final section of the paper discusses how the complexity project can be categorised as a 'wicked problem'. That is, the problem is "intractable ... (in an) inherently contestable arena ... and while we often turn a collective blind eye to such problems we cannot avoid making a decision at some point" (Grint, 2008, p. 12). The authors propose that the best approach to solving 'wicked problems' in accounting, such as complexity in corporate reports, is a clumsy solutions approach. Clumsy solutions are messy and require tolerance of imperfections as they eschew elegance and, instead, opt to recognise the alternative perspectives of the different ways of life.

2. Douglasian cultural theory

2.1. The principal ideas

The foundations of Douglas's ideas on cultural theory are located within *Purity and Danger* (1966) and then progressed and refined in a series of texts and papers (see for example, Douglas, 1970, 1978, 1982, 1986, 1989, 1990, 1992, 1993, 1994, 1995, 1999, 2003, 2004, 2005; Douglas et al., 1999, 2013; Douglas and Mars, 2003; Douglas and Wildavsky, 1982). In *Natural Symbols* (1970) the principal concern is to establish that the ordering of social relations is far more systematic than might be presupposed. The grid-group diagram first presented in *Natural Symbols* is provided to support this argument as an "impressionistic account of cultural controls drawn from anthropologically reported examples from all over the world" (Douglas, 1982, p. 1). The grid-group model expounded in *Cultural Bias* (1978) represents a progression from the previous diagram as it establishes a framework that can be used to investigate and analyse societies in connection with culture. Accordingly it facilitates the formulation of hypotheses about, and the analysis of, behaviours and cosmologies in the resulting four different solidarities.

The grid dimension relates to the amount of regulation that is imposed upon individuals in selecting social roles and in negotiating with one another (Douglas, 1982, 1993). Where there are extensive prescriptions controlling individuals' behaviours this denotes a high grid society; conversely, in a low grid society individuals self-select social roles and are free to interact with whoever they choose. The concept of group is concerned with an individual's commitment to other members. High group denotes a society where individual actors have a strong allegiance to one another; where individuals feel little or no commitment to other members of society and pursue their own agendas this would constitute a low group society. The grid-group model therefore results in a typology of four solidarities (Fig. 1); individualists, hierarchists, egalitarians (or sectarians), and isolates. It can be noted that cultural theory follows Boas in rejecting

¹ Reference is made to Douglas's cultural theory to ensure it is not confused with other 'cultural theories'. However, it is important to note that others have made major contributions in aiding Mary Douglas in the development of the theory including: Aaron Wildavsky, Michael Thompson and Richard Ellis.

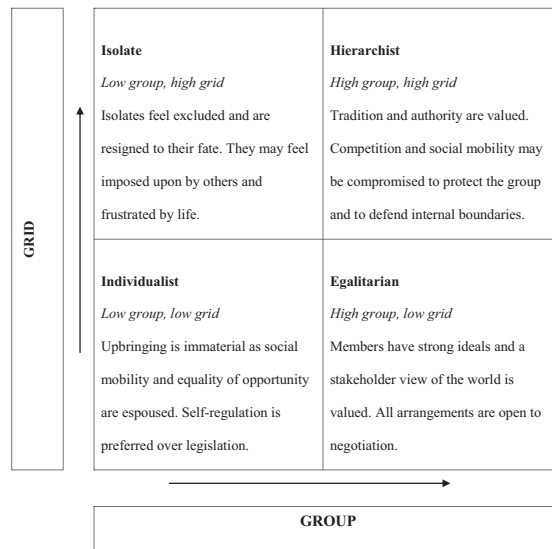


Fig. 1. Grid-group model.

Source: Adapted from Douglas (1978, 1982, 1986, 2004).

orthogenetic accounts of culture, asserting that the four solidarities apply across all societies regardless of scale or geographical location or historical period; hence, Douglas's remark that there is "no such thing as traditional culture" (Douglas, 2004, p. 86). In addition, Douglas's cultural theory is sometimes referred to as 'neo-Durkheimian theory' as this calls attention to how her theory can be partly understood as an extension of Durkheim's two-fold classification of social integration and social regulation.

The hierarchical solidarity (high group–high grid) "is a system of coordination based on authority, precedent, rules, and defined statuses (often hereditary, or based on age or gender) ... Its upholders justify it by appeal to traditions to be conserved" (Douglas, 2004, p. 291). Within the group social roles are restricted and strong internal boundaries ensure there is clear differentiation between roles. It is a form of society that values tradition and expects authority to be respected; rules are to be followed and the maintenance of order is important. Douglas perceives hierarchy as an environment where "an individual knows his place in a world that is securely bounded and stratified" (Douglas, 1982, p. 4). Hierarchists, in seeking to preserve their way of life, are especially concerned about dangers to the boundaries. Hence, loyalty to the group is of great importance and acts of social deviance committed by insiders will be dealt with robustly as this constitutes a threat to the internal boundaries. Outsiders are also perceived as potentially dangerous as they may violate the external boundaries, but they may become group members if they will conform.

By way of contrast, actors within an individualistic solidarity (low group–low grid) are at liberty to co-operate and network with whomever they choose. The cosmology of the individualist tendency is that it "explicitly sanctions individual competition" (Douglas, 2004, p. 291). Hence, Douglas conceives of this form of solidarity as an entrepreneurial form of society that is unconstrained by internal or external boundaries. The primary motive underlying individual transactions is to gain resources. There is no loyalty to others and "people are expected to go forth entrepreneurially, get new ideas, work hard, and compete for esteem and income" (Douglas, 2003, p. 1358). Consequently, the "prominent virtues are individual courage, intelligence, perseverance, and success (whilst) (p)ower and wealth are the rewards" (Douglas, 2005, p. 28). This is a very demanding form of society and those who fail have only themselves to blame; equally, those who fail cannot expect to receive assistance from others. The difference between a hierarchist's and an individualist's perceptions of dangers is that the former is focused on the breaching of boundaries whereas the latter is most concerned about threats relating to the acquisition and maintenance of personal wealth. Thus, any threat to the legitimacy of the 'marketplace' will be responded to vigorously (Wildavsky and Dake, 1990).

The high group–low grid typology corresponds to the egalitarian solidarity (or "sect" or "enclave") (Douglas, 1992). This combines facets of both the individualistic and hierarchical cultural forms. The external group boundary has, however, even greater significance than in the hierarchical culture, as it lacks internal divisions. Admission of new members to egalitarian groups is monitored very carefully as preservation of the group boundary is so important (Douglas, 1978). To unite its members the enclave defines itself by setting itself in opposition to the wider community. This can result in enclaves "striving to hold the moral high ground" (Douglas, 1993, p. 31) and, for this reason, ideas of equality and justice are important. In short, insiders bond together against outsiders (Douglas, 1992). Commitment to the group is of the utmost importance and disloyalty considered a heinous act likely to result in exclusion. Although egalitarian groups are close-knit communities, establishing authority is difficult. This is because there is no demarcation between internal roles with the result that asserting authority is problematic.

The final classification is the isolate solidarity (low group–high grid). This comprises individuals who are highly restricted in their selection of social roles and in the “kinds of contracts they can negotiate” (Douglas, 1993, p. 30). Relatively excluded and isolated, they possess no sense of community. Their perception is that unfairness is an inherent feature of life. Because the world is arbitrary and capricious the isolate has a passive attitude to risk. Their perception is that they have no control over events and are simply victims of fate.

An important aspect of the relationship between the four solidarities concerns Douglas and Wildavsky’s (1982) deliberations on the ‘center’ and the ‘border’. The hierarchical and individualistic solidarities are at the centre as they “constitute the major line of control and command in any society” (Douglas, 2004, p. 291). These two solidarities “make a formidably stable combination” (Douglas and Wildavsky, 1982, p. 181) and there is some reciprocity as “individualism needs a political base to assure its basic security (whilst) . . . the hierarchical (solidarity) needs an economic base” (Douglas, 1990, p. 12). Thus, these two solidarities are both collaborators and adversaries, and the dominance of the centre is particularly evident when the interests of the hierarchical and individualistic solidarities coincide (Douglas, 2004). Conversely, the border comprises egalitarian groups who are remote from, and critical of, the centre and its power. The critical stance that egalitarian groups adopt towards the institutions of the centre, and that arises from the identification of the outside world as inequitable and unjust, both strengthens the egalitarian group through reinforcing the group boundaries and results in hierarchists and individualists perceiving egalitarian groups as troublesome and a possible threat. The “sectarian tendency presents an opposed identity . . . (and) stirs the conscience of society” (Douglas, 2004, p. 291).

2.2. Clarifying Douglas’s cultural theory and addressing criticisms of Hofstede

It is important to clarify facets of Douglas’s cultural theory as it has been misinterpreted. These clarifications also provide an opportunity to explain why the problems repeatedly raised in respect of Hofstede do not apply to cultural theory. Baskerville (2003) summarises the criticisms that are commonly raised against Hofstede as being: the need to understand cultures from-within rather than from-without, problems in the adoption of numeric dimensions, the inappropriateness of positing a direct association between nation states and cultures, and that it is unreasonable to assume that cultures remain static.²

Douglas’s research is firmly rooted in the anthropological tradition of ‘understanding from within’. For example, *Purity and Danger* (1966) developed out of fieldwork undertaken in the then Belgian Congo (now the Democratic Republic of Congo). Further, the grid-group model was founded upon analyses of ethnographic studies (see for example, Douglas, 1970). Therefore, the first criticism that Baskerville (2003) raises in respect of Hofstede does not apply to cultural theory. Notwithstanding that Douglas’s work derives from experiencing societies in action, it is commonly argued that the grid-group framework is ineffective because it is an oversimplification of the real world. However, inherent in this criticism is a failure to recognise that the grid-group framework is intended as a heuristic device having been developed as an aid for understanding how social structures result in distinct worldviews. It needs to be understood that grid and group are continuous dimensions and should not be construed as comprising purely a high or low status. Douglas (1982) is fully aware that she is “gently . . . push(ing) what is known into an explicit typology . . . (and) . . . reducing social variation to a few grand types” (pp. 1–2) and that “eleven thousand or a million (types) would not be enough to cover the variety that is out there” (Douglas, 1999, p. 411). However, an explicit and parsimonious typology is necessary for meaningful analyses of cultural dialogues; even though at the level of nations this will likely be an especially difficult task (Douglas, 1999, 2004). Baskerville’s second criticism in respect of Hofstede is that culture cannot be quantified using numeric dimensions and the preceding discussion on the grid-group framework indicates that it is not intended that this framework be used as a measurement device. Very importantly, nor is it expected that a particular society or group will solely exhibit the features that would typically be associated with one of the four solidarities. As Douglas develops the ideas associated with her version of cultural theory she continuously emphasises that any community will comprise all four solidarities and there will be continual cultural dialogues as to which way of life should be favoured (Douglas, 1997, 2004).

A community at any one time is constituted, not by one, but by four distinctive cultural tendencies, each based on its part in the organization of the whole system . . . They constitute the community as a four-fold cultural unit engaged in a continuous internal dialogue. At all times a culture is responding to the individual culture bearers and how they are dealing with each other. (Douglas, 2004, p. 290)

Consequently, the four solidarities are not detached from one another and interaction between the four is a fundamental aspect of cultural theory. They are perpetually debating which form of organisation is ideal and whilst they are in opposition to one another, this opposition sustains them as the debates between the solidarities (whether the debates concern immigration, terrorism, accounting regulation or whatever) reaffirm what the respective forms of life represent (Douglas, 1993). As important, each solidarity needs the others to remain viable. For example, individualists need hierarchists to implement laws that provide remedies if contracts are reneged upon, whilst hierarchists need the taxable profits of entrepreneurs to maintain welfare systems.

² As previously stated Baskerville is not alone in her criticism of Hofstede (see for example, Greer and Patel, 2000; McSweeney, 2002). However, Baskerville raises the most important key concerns.

Further, the tensions between the four solidarities help ensure that they do not become parodies of themselves; for example, egalitarian groups can restrain hierarchies who may have a tendency to repress deviant individuals (Verweij, 2004). The cultural biases of the four solidarities will, therefore, be observed within any society as each attempts to win the debate as to the most appropriate “form of life to be led in common” (Douglas, 1997, p. 129). As Douglas (1997) states:

Because I need to avoid giving the impression of a culture as a sharply defined group of people, I would like to try presenting culture as a dialogue. . . . Intercultural dialogue is inherently agonistic. . . . the contest is about the form of life to be held in common. (Douglas, 1997, pp. 128–129)

Douglas's cultural theory has also been criticised as being deterministic. This charge was raised against Douglas when she first proposed the grid-group model in *Natural Symbols* (1970). By Douglas's own admission *Natural Symbols* is confusing and this initial attempt at presenting a ‘grand theory’ of types resulted in a conception of the grid-group model that had not been fully thought through. Douglas later acknowledged that the, then under-developed, ideas might be misconstrued as deterministic for she had presented an inert model within *Natural Symbols* which plotted values onto four seemingly fixed solidarities and the “role of individuals appeared to be passive in a determining social environment” (Douglas, 1999, p. 412).

Douglas significantly developed the ideas underlying cultural theory subsequent to the publication of *Natural Symbols*. Importantly, Douglas was aware that cultural theory needed to be able to account for cultural change; in the sense of understanding how and why the dominant solidarity in a community may be replaced by a different solidarity and, relatedly, how and why individuals change allegiance from one solidarity to another. The creation of a dynamic ‘version’ of cultural theory cannot be solely attributed to Douglas and she particularly acknowledges the role that Michael Thompson played in its development.

If Douglas's later ideas are reviewed then it is inappropriate to apply the charge of determinism to cultural theory. Rather it can be seen that cultural theory is seeking to connect agency and structure in a particular way. Douglas (1986) is concerned that the dynamic association between ‘minds and institutions’ (that is, the relationship between individual actors at the micro-level and communities or societies at the macro-level) is understood in terms of an *interaction* between agency and structure.

A fundamental tenet of cultural theory is that we are social beings who are predisposed to want to live with others and, hence, that the ‘self’ is constructed by reference to others (Douglas et al., 2013). It is because we are inherently social that we consent to the creation of social institutions that have claims over us (the types of claims being dependent upon the outcome of the cultural dialogues about “the form of life to be held in common”) and, hence that constrain our behaviours. These structures impose constraints on individuals, but there are also compensations that derive from the chosen way of life.

This rejection of individuals acting on self-interested preferences, and the argument that it is patterns of social relations that matter, have lead some to conclude that cultural theory assumes there is no agency and that structures determine behaviours.

However, in Douglas's conception of cultural theory individuals are active, not passive, agents and patterns of social relations are not forced upon individuals from without. The way of life (and the associated pattern of social relations) that is dominant at any particular time in a society is the product of all the separate cultural dialogues that have been taking place and is an outcome of individuals' verdicts on what form of life they would prefer. If the existence of cultural bias were to permanently tie an individual to a particular form of society then changes in the dominant way of life would not be possible and nor would it be possible for an individual to move from one solidarity to another.

As Douglas (1978) clarifies: “(w)hat I claim to be stable. . . is not (a person's) individual positions but the range of cosmological possibilities in which they can possibly land themselves” (p. 15). Cultural dialogues imply a dynamic relationship exists between the four ways of life and cultural theory permits individuals shifting support for one way of life to another should they find their current way of life unsustainable. Without individual agency it is not possible to explain how support for different ways of life change over time.³ Hence, Douglas notes that:

Culture is not a mechanical control on the individual members of a community. If enough individuals want to be free to compete, they will abolish the rules that check competition. . . . If the consensus prefers a society that will honour the old, and care for the infirm, or reduce accidents, or maintain a monarchy, they will set up regulations to restrain free enterprise. (Douglas, 2004, p. 290)

Further, Douglas does not argue that an individual will always conform to the expectations of the solidarity of which they are a member. For example, although there will be pressures to support traditions within institutions created on the basis of a hierarchical pattern of social relations, an individual in that setting can still choose not to uphold the traditions. The consequences that result from rejecting the traditions will vary, dependent on the relative importance of the traditions rejected, the manner in which they are rejected and whether the rejection is performed overtly or surreptitiously; but there is always freedom to think for oneself and to reject the traditions.

³ For a full account of the dynamics of how individuals' support for different ways of life change over time see Thompson et al. (1990) who explain that “(t)he movement of individuals between the different ways of life is not some additional complication that the. . . (cultural theory) framework has somehow to cope with; it is essential to that framework's very existence” (p. 190). For analyses of changes in respect of the dominant way of life see, for example, Heap and Ross (1992) and Linsley and Linsley (2010).

It is evident that cultural theory, with its attendant notion of cultural dialogues, accords with Baskerville's view that nations are not susceptible to being analysed as one relatively homogenous unit (the third criticism Baskerville raises against Hofstede). If we analyse a nation we should expect to find the four solidarities to be co-existing and, whilst this will not be a peaceable co-existence, there is some mutual dependence between the four ways of life.

Baskerville's final criticism of Hofstede is to question whether it is reasonable to assume that cultures remain static. Cultural theory does not presume this to be the case and fully allows for change. It has been explained that the four solidarities will be present in any society and competing to win adherents. Consequently, in any given society a particular solidarity may be dominant for a period of time, until another solidarity gains ascendancy. For this reason Wildavsky (1987) proposes that we should be "comparing countries by contrasting their combinations of culture" (p. 18).

3. Cultural dialogues: the case of the FRC complexity project

3.1. *The FRC complexity of corporate reporting project*

The case selected to apply the notion of cultural dialogues in an accounting context concerns the Financial Reporting Council's (FRC) *complexity of corporate reporting* project.⁴ The FRC is the "UK's independent regulator responsible for promoting high quality corporate governance and reporting... and... monitor(ing) and enforce(ing) accounting and auditing standards" (FRC, 2010). In June 2009 the FRC issued a discussion paper, 'Louder than words: principles and actions for making corporate reports less complex and more relevant' (FRC, 2009a). The FRC requested feedback on the proposals set out in the discussion paper and thirty one comments letters were received during the consultation period. The comments letters were submitted by a range of individuals, professional bodies, companies, and professional services firms, and it was possible to analyse the responses according to Douglas's typology consistent with the individualist, hierarchical and egalitarian solidarities.

A thematic approach to content analysis was adopted to code the comments letters and to identify the dominant solidarity and, where applicable the sub-dominant solidarity, pertaining to each respondent. Coding individual words was deemed inappropriate, as words can only be interpreted in the context of a sentence or paragraph. Further, as sentences often only represent part of an argument it was concluded that paragraphs should be used to identify a codeable 'moment' (Unerman, 2000). The paragraphs in the comments letters were coded to solidarities independently by the two authors, both of whom have substantial research coding experience. Detailed coding decision (disambiguation) rules were created by the authors to improve coding reliability (Beattie et al., 2004). These decision rules were based upon the characteristics associated with each of the four solidarities. Initially, a sample of five comments letters were independently coded by both authors and the results compared. The results of this pretesting were used to refine the decision rules (appendix 1 sets out indicative characteristics of the four solidarities used for coding and further coding details are available from the authors). The remaining twenty six comments letters were then also independently coded by both authors. There was minor disagreement in respect of a number of paragraphs in six of the comments letters, requiring the two coders to discuss the allocated codes and to re-code. This resulted in full agreement on coding for all thirty one comments letters. Table 1 details the dominant and sub-dominant solidarity identified for each respondent. In summary, there are seventeen individualistic responses, twelve hierarchical responses, two egalitarian responses and no isolate responses based upon the dominant solidarity.

The next two sub-sections of the paper analyse and discuss these patterns of responses for the individualistic and hierarchical solidarities.

3.2. *The individualistic cultural bias in the framing of the discussion paper and supporting individualistic responses*

It is evident the FRC's framing of the paper has an individualistic bias. The FRC executive summary prefacing the discussion paper states there is a need for re-focusing the corporate report towards the provision of decision-useful information for investors (in preference to other stakeholders) and this is re-emphasised in the main body of the paper (FRC, 2009a). This view that the primary function of the annual report is to assist investors to evaluate risky decisions as they seek to build wealth implies a free-market orientation that accords with the individualistic solidarity. Additionally, the FRC recommends that a "commonsense approach" needs to be adopted to simplify regulation for businesses preparing corporate reports. This recommendation alludes to the belief that interventions in the marketplace, regardless of whether by the state or other actors, hinder the operation of the market by impeding the individualist's ability to act without constraint. The individualist has a desire for self-regulation, albeit there is an acceptance that some limited degree of regulation or legislation is required to permit the enforcement of contracts and to keep the market functioning.

That the initial framing of the discussion paper by the FRC is biased towards the individualistic culture is not unexpected. The FRC's overall strategy expresses a belief in: "wealth creation", the promotion of "enterprise", attending to "signals from the market" and "not imposing unnecessary burdens" (FRC, 2009b). This overall strategy upholds the individualist's primary

⁴ Hereafter referred to as the complexity project.

Table 1
Dominant and sub-dominant solidarity by respondent.

Respondent	Respondent type (n = not UK based)	Primary solidarity	Secondary solidarity (where identified)	Reference made to the global financial crisis?
A.R. Morton	Individual	Individualistic	Hierarchical	No
Association of Chartered Certified Accountants (ACCA)	Professional body	Individualistic	Hierarchical	Yes
A. Dangerfield	Individual	Individualistic	–	No
A. Blair	Individual	Egalitarian	–	No
Association of British Insurers (ABI)	Trade association	Individualistic	Hierarchical	No
Association of Friendly Societies (AFS)	Trade association	Individualistic	–	No
Baker Tilley	Audit firm	Individualistic	Hierarchical	No
British American Tobacco (BAT)	Company	Individualistic	–	No
BDO LLP	Audit firm	Hierarchical	Individualistic	No
British Land	Company	Individualistic	–	No
BT	Company	Individualistic	Hierarchical	No
The Confederation of British Industry (CBI)	Trade association	Individualistic	Hierarchical	Yes
Centre for Financial Market Integrity	Trade association	Individualistic	Hierarchical	No
Chartered Institute of Management Accountants (CIMA)	Professional body	Hierarchical	–	Yes
Deloitte LLP	Audit firm	Individualistic	–	No
Deutsche Prüfstelle für Rechnungslegung (DPR-FREP)	Regulatory body (n)	Hierarchical	Egalitarian	No
Ernst & Young	Audit firm	Individualistic	Hierarchical	Yes
Danziger Capital Partners LLP	Consultancy	Individualistic	–	No
Global Accounting Alliance	Alliance of bodies (n)	Individualistic	Hierarchical	No
Grant Thornton LLP	Audit firm	Hierarchical	Individualistic	Yes
Institute of Chartered Accountants in Australia (ICAA)	Professional body (n)	Hierarchical	–	No
Institute of Chartered Accountants in England & Wales (ICAEW)	Professional body	Hierarchical	Individualistic	Yes
Institute of Chartered Accountants in Scotland (ICAS)	Professional body	Hierarchical	Individualistic	No
KPMG LLP	Audit firm	Hierarchical	Individualistic	No
Local Authority Pension Fund Forum (LAPFF)	Trade association	Egalitarian	–	Yes
P. van Wijck	Individual (n)	Hierarchical	–	No
PwC LLP	Audit firm	Individualistic	Hierarchical	Yes
Quoted Companies Alliance (QCA)	Trade association	Individualistic	–	No
RAAS Consulting	Consultancy	Hierarchical	Egalitarian	No
Radley Yeldar	Consultancy	Hierarchical	Individualistic	No
The Actuarial Profession	Professional body	Hierarchical	–	No

concern – *wealth creation* – and promulgates the individualist’s key policy mantra – *do not burden the market as we must be given freedom to transact as we see fit*.

As the FRC discussion document has an individualistic bias, those respondents identified as also holding an individualistic worldview (see [Table 1](#)) are able to endorse the discussion paper. The central argument presented in these individualist responses is that those engaged in business activities need to be left free to get on with ‘the business of business’ unimpeded. This argument provides the justification for asserting there is a need to reduce complexity, forms the basis for appealing for relief from “the ever increasing burden of regulation” (The Quoted Companies Alliance response) and judging that “cut(ting) clutter” (British Land response) is of central importance. That is, this group of respondents are cleaving to the individualistic belief that if businesses are given freedom to operate and are not constrained by regulation then the marketplace would ensure that “his (the individualist’s) activities will leave the future better off” ([Douglas and Wildavsky, 1982](#), p. 99).

This aversion to regulation on the part of the individualist is related to the individualists’ idea of time. [Malsch et al. \(2012\)](#) explain how hierarchists deliberate upon present actions by constantly referencing the past; whereas individualists do not consider the past an appropriate guide for making decisions as they view markets to be in a constant state of change. Therefore, individualists view markets as “ahistorical . . . (and) (i)n line with this conception of time, rule-based regulation is seen as paralyzing the vitality of market mechanisms and restraining the scope of individual negotiations” ([Malsch et al., 2012](#), p. 402).

For an individualist, regulation is problematic not solely because it potentially constrains freedom of entrepreneurial activity. Additionally, it is asserted that “complexity has a cost for companies . . . which costs are ultimately borne by shareholders” (Confederation of British Industry response). Thus, individualist respondents are concerned that the costs of regulation mar profits and, in turn, this threatens wealth acquisition.

A further indicator of the individualistic response is a preference for practice over theory. There are two aspects of the individualistic culture that give rise to this preference. First, it arises because for the individualist ‘doing’ is more important than ‘thinking’. You cannot think your way to material success. You have to get your ‘hands dirty’ and be proactive to achieve success. Underlying this propensity to want to act is the awareness of the individualist that if you do not perform to a high level then failure could arise, and if failure occurs this is a serious matter as you cannot expect support post-failure. Second, theory is of little interest to individualists as they consider that knowledge need only be adequate for the matter in hand, whereas the hierarchist has a preference for knowledge to be whole and systematic ([Thompson, 1992](#)).

Relatedly, differences in cosmology between the solidarities has an important influence upon the preference for principles-based or rules-based accounting standards. In the low group–low grid setting of the individualist one would ordinarily expect a preference for a principles-based approach to accounting and accounting standards. This preference is present in the complexity project responses identified as individualistic with, for example, the British American Tobacco response stating “the balance has swung too far from principles”. This preference arises as it permits the individualist the use of individual judgement rather than being tied to rules. The individualist wants freedom to take whatever action is necessary that best allows them to pursue success. They prefer practice that, typically in accounting, allows for a variety of possible treatments (rather than having to follow the treatment that is theoretically best) and this permits them to adopt a treatment that suits their purposes. Equally, they also prefer principles-based standards which can be manipulated to suit their own purposes, rather than being compelled to follow a rule.

In summary therefore, the individualistic responses are built upon the principle that businesses need to be left to get on unhindered. Further, the individualistic responses are identifiable because of the investor focus, advocacy of the removal of regulation and associated costs, a preference for practice over theory and support for principles over rules.

3.3. Hierarchical responses and self-assurance of the centre

Hierarchists will not accommodate any measures that pose a danger to either group loyalty or the social hierarchy as this threatens the hierarchical worldview. As the framing of the FRC paper matches the individualist’s worldview, we might expect hierarchist’s to promulgate their worldview with some diligence. A caveat to this relates to Douglas and Wildavsky’s (1982) observation that the individualist and hierarchical cultures are at the centre because of the power they hold. One outcome of this is that complacency can arise whereby individualists and hierarchists alike assume they do not need to expend great effort to garner support for their worldviews.⁵

In respect of the complexity project it is evident that whilst the comments letters of hierarchically biased respondents do not match the brevity of the individualistic comments letters, they are still more concise than the responses from the egalitarian solidarity. Notwithstanding this observation, it is apparent that there is a set of respondents who are promoting views that have a strong correspondence with a hierarchical bias (see Table 1). The three principal factors that suggest these respondents are adopting a hierarchical position relate to discussions concerning: goal commonality and the avoidance of conflict between different parties, stability and conformity, and a pro-regulation disposition.

The perpetuation of a hierarchical society requires group members to possess shared aims. This strengthens group cohesion and militates against societal conflict. This aspiration that the interests of the group be placed above individual interests is present, for example, in the response from the Institute of Chartered Accountants in Scotland (ICAS) who claim that a suitable outcome could “only be achieved if all those involved; the regulators, the preparers and the users, can adjust . . . their behaviours sufficiently and in a combined effort to work towards a common goal. The collective buy-in, not self-interest, is essential . . .” (ICAS response).

The avoidance of discord through the setting of common goals in a hierarchical solidarity is intimately connected with the issue of blame. Hierarchists have well established systems of justice that can attribute blame to, and punish, individuals who transgress internal or external boundaries. These systems exist because transgressors threaten the existing way of life. However, a hierarchical society is also careful not to jeopardise the notion of collective responsibility. That is, the hierarchical society will normally wish to avoid situations where, when common goals have been set but are then not met, one individual (or a small cluster of individuals) is held to account. This is because it could be divisive for this to occur. For this reason such a society is careful not to fashion unrealistic or unattainable goals. The Institute of Chartered Accountants in England and Wales (ICAEW) makes reference to these interconnected issues of goals, blame and the wish to avoid destabilising group relationships in the context of standard setting, maintaining that it is unfair to blame standard setters for unintended consequences arising out of the standard setting process. This is because it is unreasonable to “assume that the standard-setter can always get things right first time . . . perfection is an unrealistic objective” (ICAEW response). It is also significant that this respondent chooses to defend the *standard setter*. Hierarchists are prone to place trust in professional expertise and look to these professionals to uphold order. The respect that hierarchists accord to expertise and to the theoretical bases that underpin this expertise is also present in the ICAEW’s suggestion that the accounting expertise of professional services firms serves a valuable role as “(a)ccounting manuals produced by audit firms seem to us to be a useful way of helping preparers cope with complexity” (ICAEW response).

A pro-regulation stance is also present in the hierarchical responses. Regulation aids hierarchical organisations to maintain order and the need for regulation is defended in different ways by the hierarchically biased respondents. For example, both the ICAEW and ICAS argue that financial report-related regulation is needed on grounds of ‘necessary complexity’ to satisfy the disparate requirements of user groups. Hence, again there is reference being made to the need to avoid discord amongst different sub-groups. However, there is an avoidance of equating regulation with bureaucratization. This may be deliberate, with the hierarchists judging that a message that implies increasing bureaucracy would be difficult to ‘sell’ to potential recruits from either the individualist or egalitarian camps.

⁵ This complacency only dissipates when the dominance of the centre is threatened and this is discussed later in the paper.

A hierarchically oriented pro-theory stance is also observable. Hierarchists prefer knowledge to be complete and, hence, are supportive of theory (unlike individualists). For example, the ICAEW defend their view that theory is necessary in the following manner:

The (discussion paper) talks about the view of some that ‘accounting is becoming too theoretical’ and no longer describes business reality... The restrictions on hedge accounting are given as an example of ‘theoretically correct’ requirements, which lead to reported results that do not match economic performance as perceived by management. But users surely would not want a complete free-for-all and so some level of restriction is required. (ICAEW response)

It is notable that of the six professional body respondents, five have been identified as corresponding to the hierarchical solidarity (Table 1). This might be expected as internal and external boundaries are important in the context of professional bodies. The importance of expertise and trust in the hierarchical context has been discussed above. To maintain the expert status of its members, a professional body needs to monitor its external boundary carefully and it can do this in different ways. For example, members will only be admitted after successful completion of professional examinations and after completing relevant work experience with authorised training employers. Those who become members can be expelled from the group and, hence, disciplinary committees and the like are used by professional bodies to identify and deal with transgressors. These types of mechanism protect the external boundary and maintain order. At the same time, internal boundaries corroborate the status of members; delineating between trainees, newly qualified members, or fellows of the institute. In addition, internal boundaries matter as the professional qualification signals status both in a work and social context.

4. Cultural dialogues: the egalitarian voice

4.1. *The egalitarian worldview: the border attacks the centre*

It is not unexpected that only two of the thirty one responses are identified as matching the egalitarian solidarity (the Local Authority Pension Fund Forum (LAPFF) and A. Blair; see Table 1). Complexity in financial reporting is not an obvious subject likely to arouse the interest of egalitarian groups. It has been previously explained that egalitarian societies have a predisposition towards ideas associated with justice and equality, arising from their classification of the outside world as a threat, and that this is coupled with the low-grid dimension. Hence, egalitarian groups seek out causes that more obviously involve issues of injustice, inequality, discrimination or the like. These types of cause enable them to act “as the conscience of the larger community” (Douglas, 1993, p. 31), challenging the centre (the hierarchists and the individualists) which, in turn, unifies the group.

Overall, the centre (the individualists and the hierarchists) is inclined to speak with greater confidence and self-assurance. The egalitarian camp is less powerful and, therefore, to have its voice heard it must be much more assertive. Hence, a more strident tone is present in these two egalitarian responses.

The first section of the LAPFF response outlines a commitment to ‘corporate social responsibility’, ‘high standards of corporate governance’, ‘working conditions’ and ‘the environment’. These ideas accord with the aspirations of the egalitarian solidarity for the creation of a more just society:

LAPFF is... a voluntary association of 49 local authority pension funds based in the UK. It exists... to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest... LAPFF’s interest in this (discussion paper) arises from the effects of the financial reporting system on real economic decision-making. This impacts on business choices affecting job creation, working conditions, salaries and pensions, tax receipts, training and development, the environment and other issues across society (LAPFF response).

The LAPFF elaborates on its opening comments by explaining that it wishes to pursue a campaign for “more effective communication” because of its potential to engender transparency. The attitude to transparency of the individualistic, hierarchical and egalitarian solidarities differs markedly. Individualistic organisations consider that transparency should apply to others, but not to themselves. This is because access to information relating to rival organisations can be advantageous to the individualist; for example, when bidding for a contract or developing a marketing strategy. Conversely, individualists do not want transparency to be required of their organisation; they want to hoard their own information to ensure no benefit falls to competitors. Hierarchists do not want transparency if it emphasizes the privileges that accrue to those of higher rank in the social hierarchy as this may cause discontent. Transparency is only relevant to the hierarchist if it facilitates monitoring of boundaries as this aids in identifying (and subsequently dealing with) transgressors. However, for the egalitarian solidarity, transparency is important for its potential to publicly expose unethical or dishonest practices when these are undertaken by the centre. In turn, egalitarian groups hope this exposure will help in building a better society. Thus, in the context of the FRC discussion paper the LAPFF explain that “the numbers produced by management are incapable of being properly scrutinised... (and consequently) (r)ather than seeking to reduce complexity in reports, LAPFF believes the

FRC should be seeking to increase transparency . . . increased scrutiny can act as a spur to raise standards . . . and . . . in holding the board to account” (LAPFF response).

The LAPFF also argue that transparency is important as it can aid in stopping individualistic companies from ‘gaming the system’ to achieve their own objectives:

It cannot be healthy . . . that company accounts are understandable by relatively few rather than subject to wider informed debate. This leaves the field open to those who would exploit it either to game the system for their own ends . . . (LAPFF response).

The LAPFF's commitment to a justice-based notion of transparency is also observable in other parts of its response to the discussion paper. For example, the discussion paper asks the question: ‘Would a project on disclosures help stem the constant growth of accounting disclosure requirements?’ (FRC, 2009a, p. 60). The LAPFF's reply is that transparency is a far more important objective than stemming the growth of accounting disclosures. The LAPFF bolster their claim for the necessity of transparency through citing “the UN Principles for Responsible Investment (which) call on investors to be both informed and engaged” (LAPFF response). This lends a moral tone to their argument and is further evidence that the LAPFF response can be categorised as egalitarian.

The perspective of the LAPFF on regulation is also rooted in an egalitarian worldview. In an ideal world it would be unnecessary to have to enact regulations compelling people to act appropriately as “(r)esponsive boards will seek to understand, and . . . meet the information demands of their shareholders – whether they are required to do so by regulation or not” (LAPFF response). However, the egalitarian-rooted LAPFF assert that businesses in the ‘center’ are prone to interpreting regulations to benefit themselves as “there are . . . boards that will rely on a certain interpretation of the letter of the regulations to their own advantage” (LAPFF response). This distrust of the centre in respect of its attitude towards regulation also leads the LAPFF to raise doubts about how these firms would act should regulation be simplified:

Simpler regulation does not guarantee that companies will not simply adopt a box-ticking compliance approach rather than seeking to achieve best practice. (LAPFF response)

The LAPFF has little empathy with individualistic calls for the removal of some of the regulatory burden. For example, the LAPFF dismisses the argument that regulation could be unhelpful because it might lag behind market practice stating that, “(r)egulation takes time to catch up with market practice and there will be a certain amount of irrelevant information as a result of regulation that becomes outdated. But, as supporters of transparency, LAPFF considers this to be less of an issue than premature removal of data” (LAPFF response).

Similarly, the LAPFF's response to the FRC question, “Would it increase or decrease complexity if national and international regulators worked together in a more joined-up way?” is to reason that directors need to understand that “regulation is the cost of doing business in a certain jurisdiction” (LAPFF). This is because, for an egalitarian group, the purpose of regulation is not to address issues of complexity; rather regulation is to serve the purpose of creating a fairer world.

The second respondent identified as egalitarian, A. Blair, expresses similar views to the LAPFF. His judgement is that supplanting the ‘center’ is extremely difficult because of its dominance and, consequently, the tone of his response is somewhat less optimistic. He is similarly concerned that annual reports lack transparency and to support his contention he cites an example of the disclosure of share-based payments in “which the company did not make that figure clear . . . (and that) (t)hose extraordinary mortals who attempt to read it will struggle to understand much of the material” (A. Blair response). He then claims that “(i)t is open to any chief executive . . . to cut through the . . . “cackle” and describe what is really important . . . (b)ut they're simply not going to do that . . . (as) (i)nformation is power and those in possession of it are . . . going to disburse it sparingly” (A. Blair response). His view on regulation is that The Companies Act, IFRS, and the FRC's Corporate Governance Code are “gumph” and merely complied with. He argues that regulation of itself does not improve transparency and concludes that the FRC's suggestion that companies simply need to be encouraged to communicate clearly will not result in any change. Instead, he suggests ‘naming and shaming’ those companies with the most opaque annual reports might be the only way to bring about improvements in transparency.

4.2. *Egalitarians and leveraging current events*

Egalitarians believe they need to work hard to counter the power of the centre and will look for means that enable them to have their voice heard. One method is to leverage support by reference to current events. If these events are unsettling or disruptive then it may make an individual susceptible to re-consideration of their cultural bias. The publication of the FRC discussion paper was in June 2009 and at this time the recent global financial crisis was well advanced. The crisis had resulted in significant criticisms of the banking industry and there were grave concerns that there may be a repetition of the Great Depression (Linsley and Linsley, 2010). The problems stemming from the financial crisis had the potential to make the centre vulnerable to losing adherents. For example, resentment towards bankers had arisen in many sections of the UK population (see for example, Bowers, 2008; Hanson, 2009).

Cultural theorists have observed that the border (egalitarian groups) “tend(s) to ‘recruit’ members most successfully when individuals become critical of organisations at the center” (Linsley and Shrives, 2009, p. 505). That the FRC discussion paper was released at a time when there was persistent condemnation of the established order presented an opportunity to attempt to gain wider acceptance of the egalitarian view. The LAPFF response states that the financial reporting system prior

to the crisis had “failed to effectively warn of the risks that companies were taking . . . (and the LAPFF is seeking) . . . a change in mindset from those boards that have treated shareholders’ views as an inconvenience” (LAPFF response). The LAPFF references specific aspects of the financial crisis and in different contexts, and this provides a means of attempting to ‘sell’ an egalitarian vision. For example, the LAPFF revisits the theme of transparency and situates it both in the specific context of Lehman Brothers’ well publicised bankruptcy and in relation to more generalised concerns about the questionable motives of bankers and the wider business community. A further example of leveraging the crisis occurs when the LAPFF makes direct reference to the precautionary principle as follows:

... at a time when investor confidence has been severely shaken, we consider the precautionary principle makes it incumbent on the producers of the accounts to demonstrate why the publication of information is not appropriate. (LAPFF response)

The precautionary principle holds great significance for egalitarian groups. A key aspect of the worldview of individualists and hierarchists is, respectively, the world is wholly resilient and the world is resilient within parameters. By contrast, egalitarians perceive the world as fragile. Hence, it is imperative for egalitarians that due regard must be had for the fragility of the world by adhering to the precautionary principle.

In emphasising the crisis the LAPFF’s response can be understood as an attempt at creating a landmark narrative that will draw in new followers (Nichols, 1997). The second egalitarian respondent, A. Blair, makes no reference to the credit crisis; however, limited references are present in responses of those identified as individualistically biased or hierarchically biased (see Table 1 for which respondents made reference to the crisis). The remarks made in respect of the credit crisis by these two solidarities are brief and supportive of their particular worldview. Individualistically biased respondents who mention the credit crisis focus upon explaining the credit crisis as providing an opportunity for re-examining and better understanding shareholders’ requirements. Hierarchically biased respondents who refer to the crisis either suggest it is a technical (expert) issue in that it is a matter of how to account for financial instruments or that it signifies more regulation is needed in the form of increased disclosure requirements.

5. Discussion and conclusions

In the FRC complexity project the voices of three of the solidarities have been identified in the comment letter responses and the proposed policy solutions disentangled through drawing upon cultural theory. The individualists, as supporters of self-regulation and the market, endorse the goal of removing complexity from corporate reports. The hierarchists want to ensure that social structures are not threatened and boundaries are not breached. Therefore, they view regulation as necessary and judging there is a need for all parties to work together to address the problem of complexity in corporate reporting. In pursuit of fairness and equity, the egalitarians want corporate reports to be transparent so that management actions can be scrutinised. It is only the isolates who have not taken part in the dialogue. Vroom’s expectancy theory of motivation proposes that an individual’s behaviour is based on their expectation of the likely effect of that behaviour. Isolates are liable to judge that it is pointless attempting to lobby as they assume no one will listen. Hence, this judgement that any attempt at lobbying will have no impact is likely to result in them not deeming it worthwhile contributing to the FRC debate.

Verweij (1995) notes a key strength of cultural theory is that it can “provide a systematic and coherent taxonomy of the ways in which actors perceive and construct all kinds of . . . issues” (p. 95). Hence, by drawing on cultural theory it has been possible to observe the followers of each culture in the context of the complexity project as they engage in a “three-sided policy struggle” (Douglas, 1997, p. 130).

It is possible to envisage analysing the FRC comments letters based upon the presumption that nations are susceptible to being analysed as one relatively homogenous unit. Drawing upon an appropriate methodology the analysis might conclude for example that, *vis à vis* regulation, the *overall* national preference is for self-regulation. However, this conclusion would mask that alternative views on self-regulation have been expressed and this type of approach would not provide insights into why some respondents advocate greater regulation rather than self-regulation, or why some respondents are suspicious of self-regulation. Cultural theory can explain these different responses. It can explain the wish for greater regulation by reference to the hierarchical solidarity which needs tools for imposing order upon society and preserving internal and external boundaries. It can connect those who are suspicious of self-regulation to the egalitarian solidarity which perceives the ‘outside world’ as unscrupulous and, consequently, sees self-regulation as providing ‘outsiders’ with the freedom to perpetuate inequities. And it can explain the desire for self-regulation by reference to the individualistic solidarity which requires freedom to pursue advantageous opportunities. Thus, each of the three cultural solidarities presents an internally consistent ‘story’ regarding their stance on self-regulation, and this internal consistency will apply to all matters for the different ways of life.⁶

Importantly, cultural theory does not “ignore the existence of cultural differences within societies” (Greer and Patel, 2000, p. 309). Rather, cultural theory enables the different voices of the hierarchists, individualists and egalitarians (and the silence of the isolates) to be identified. This identification is possible as we can predict and explain alternative preferences for

⁶ The isolates also have an internally consistent story in respect of regulation. Their view on the matter is that because the future is uncertain then we can never know if regulation is likely to be beneficial. Therefore, they are largely indifferent to the enactment of regulation.

solutions by reference to the four solidarities, as each will suggest a solution that supports their worldview and with the ultimate aim being to preserve that way of life.

When the FRC or any other accounting body engages in activities such as making policy, reviewing accounting standards or auditing standards, or reworking the conceptual framework we will not be able to understand why the debates are progressing as they are if we assume there is a single national culture influencing the outcome of those debates. To comprehend how the eventual outcome has been arrived at in the making of policy or the reviewing of an accounting standard or auditing standard we need to unscramble the debates that preceded the final decision through analysing the cultural dialogues that are the origins of the different proposals for solutions. Each solidarity will seek to win sufficient support for their worldview to hold sway and to have their policy solution enacted. In this respect it might be potentially helpful to understand which worldview is dominant at a given time as this may explain why the policy solutions of that solidarity are being enacted to a greater extent than the policy solutions of the other solidarities. However, it is important not to then identify this as equating to the national culture, for although that solidarity may appear to be gaining more victories than the other solidarities it must be borne in mind that there will always be ongoing and vigorous cultural dialogues. Additionally, we must be very careful to recognise that cultural theory “offers a dynamic account of social and political life . . . and there is a continuous waxing and waning of the relative strengths of the . . . (solidarities)” (Verweij, 1995, p. 7) as individuals move from one way of life to another. This movement of individuals from one solidarity to another has been observed in practice. For example, Heap and Ross (1992) have recorded how the individualist worldview won adherents in the UK and USA as the hierarchical way of life failed to deliver on its promises in the 1970s and following the intense cultural dialogues associated with the economic and political difficulties of that period (for further details see also Thompson, 1992; Linsley and Linsley, 2010). Consequently, although a particular worldview may be dominant during a given time period, subsequently another worldview may come to dominate and cultural theory is able to explain this dynamic change.

Acknowledging the existence of the four solidarities, and the resulting cultural dialogues, is important as it has implications concerning the resolution of debates about accounting or other issues. We have seen that each solidarity offers a restricted view of the world and the solutions each solidarity offers up is similarly restricted as solutions must be internally consistent with worldviews. Rayner (2006), Thompson (2008) and Grint (2010) have argued that these internally consistent solutions might be satisfactory for solving tame problems, but they are unsuitable for solving wicked problems where a clumsy solution is required. Tame problems are “akin to puzzles for which there is always an answer” and, whilst they may be complicated, can be solved by applying the “appropriate process” (Grint, 2010, p. 307). Wicked problems are complex (rather than complicated) and cause and effect is unclear with circularity often a feature (Rayner, 2006; Grint, 2010).⁷ Often, wicked problems will not have “stopping points . . . that is the point at which the problem is solved” (Grint, 2010, p. 307). Thus, the FRC corporate reporting complexity project would fall to be a wicked problem for it is endeavouring to ensure that information in corporate reports is not unnecessarily complex, whilst retaining key characteristics such as relevance, comparability, reliability, and decision usefulness.

Applying the solution of one solidarity to a wicked problem is likely to result in failure. First, each of the solidarities’ “responses . . . shapes the definition of the problem and this . . . complicates wicked problems” (Rayner, 2006, p. 5). Second, the perspective each solidarity has is necessarily restricted and, consequently, each solution is only a partial solution. Third, each solution will only be supported by the adherents of that solidarity. There is no incentive for followers of other solidarities to endorse the solution; conversely, they may seek to undermine it.⁸ Policy makers may look to craft a solution that rises above the differences of the supporters of the four solidarities. However, this is problematic as the solidarities oppose one another and the likely outcome is that no-one will be satisfied.

To address these difficulties cultural theorists propose that wicked problems require clumsy solutions (see for example, Rayner, 2006; Thompson, 2008; Grint, 2010). Clumsy solutions start by accepting that any solution will be imperfect. Thinking that there is one best solution is a problem in itself and clumsy solutions recognise that the hope is for an improvement not a full solution. A key part of a clumsy solution is the need to listen to all solidarities as the “multiple viewpoints . . . (all) have something to tell you when they are brought together collectively about how you might grapple with the problem” (Rayner, 2006, p. 7). It is common in policy debates for participants to talk over others, but this may not work with clumsy solutions where each group is entitled to speak. This is not to imply that a clumsy solution is dependent on consensus per se; rather that there should be an avoidance of alienating any particular constituency. Each voice must be represented and heard in the consultation processes, and seen as part of the solution. If we are insufficiently clumsy our solution will lack democracy and its legitimacy will be questioned (Rayner, 2006). Inevitably, clumsy solutions require compromise and as Grint (2008) asserts: “a critical component of a necessarily clumsy solution is to combine elements of . . . (the) (solidarities) . . . into a (clumsy) solution-space and within each of these (solidarities) are techniques that, when combined, might just prise the wicked problem open enough to make some progress with it” (Grint, 2008, p.14).

⁷ For example, Rayner (2006) cites educational underperformance as a wicked problem which is complex and circular. Educational underperformance might be traced to poverty, which might be traced to social class, which might be traced to educational underperformance. Grint (2010) cites the Greek economic crisis and its implications for the euro as a wicked problem.

⁸ For example, Underwood and Ingram (2010) have observed how rule-based, top-down (hierarchical) risk management systems have foundered as (individualistic) managers have perceived the system as hampering their ability to take on risky but, in their view, advantageous projects.

The FRC asks for respondents to the discussion paper to be “frank in the feedback that you give us” (FRC, 2009a, p. 3), but what is also needed is that each solidarity should listen attentively to the feedback of the others. The FRC is now moving ahead with the plan to reduce complexity and has established the next phase of the programme as the *cutting clutter* project. As the next phase is in the same form as set out in the discussion document this suggests that the FRC has listened to the arguments of the individualists. This is unsurprising as these arguments accord with the FRC worldview. There is an inherent difficulty in any solidarity properly hearing the arguments of others, as its focus is on attempting to get others to attend to its views and a dialogue of the deaf is prone to occur. A truly open debate about corporate reporting and complexity would be one where all the differing views of the solidarities are not only voiced, but also heard. The view of the LAPFF is that the FRC need to act to bring about broader representation in the membership of the FRC council. It is important the voice of the border is clearly heard and that the isolates are also drawn in to the discussions. Therefore, the FRC should be ensuring each group is sufficiently engaged in the process.

The FRC complexity project is relatively small and nor is it especially contentious or high profile. Research studies examining cultural dialogues in respect of responses to much larger projects and that are more controversial or politically sensitive, such as the joint IASB-FASB conceptual framework project, are likely to reveal cultural dialogues that are even more vigorous. However, future research that draws upon Douglas’s cultural theory and the notion of cultural dialogues should not be confined to studies that examine other accounting projects and how they are responded to. For example, future research could seek to determine the dominant solidarities for a sample of accounting firms and to establish whether this results in the firms attracting graduates who support, and will perpetuate, this way of life. There is also a need to revisit the accounting values that Grey proposed and to assess whether it is possible to re-work these in the light of Douglas’s typology and cultural dialogues. This re-working has been outside the scope of this paper but would address Greer and Patel’s (2000) call for “an alternative framework for the examination of culture” (p. 309) that recognises inter-societal cultural differences.

Appendix 1: Indicative characteristics of the four solidarities

Individualist (low grid, low group)	Indicated by concepts related to: individual freedom, entrepreneurial activity, unconstrained activity, personal gain or wealth or success, group activity only relevant if there exists opportunity for trade or exchange, negotiation, failure a personal responsibility Accounting specifics indicative of this solidarity might include: burden or cost of regulation, minimising avoidable work, principles over theory, practice over theory, common sense, focusing on shareholders/investors rather than other stakeholder groups
Hierarchist (high grid, high group)	Indicated by concepts related to: tradition, authority, policing access, rules, theory, concerns over boundaries, loyalty Accounting specifics indicative of this solidarity might include: regulation, need for further subcommittees, necessity for regulation, professional integrity or qualifications, accounting expertise
Egalitarian (low grid, high group)	Indicated by concepts related to: idealism, justice, fairness, acting ethically, environment Accounting specifics indicative of this solidarity might include: CSR, philanthropy, triple bottom line reporting, sustainability reporting, social accounting, social audits, consideration of wider constituency
Isolate (high grid, low group)	Indicated by concepts related to: isolation, world is arbitrary and capricious, resignation to fate Accounting specifics indicative of this solidarity might include: no response provided, accounting unlikely to change anything ⁹

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⁹ Responses to the FRC discussion paper are available at: <http://frc.org.uk/Our-Work/Publications/FRC-Board/Louder-than-words/Responses-to-Discussion-Paper.aspx> [accessed 21.03.13].

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Employing neo-Durkheimian institutional theory in cross-cultural accounting research

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Abstract

Purpose – The purpose of this paper is to propose Neo-Durkheimian institutional theory, developed by the Durkheimian institutional theory, as developed by anthropologist Mary Douglas, as a suitable theory base for undertaking cross-cultural accounting research. The social theory provides a structure for examining within-country and cross-country actions and behaviours of different groups and communities. It avoids associating nations and cultures, instead contending any nation will comprise four different solidarities engaging in constant dialogues. Further, it is a dynamic theory able to take account of cultural change.

Design/methodology/approach – The paper establishes a case for using neo-Durkheimian institutional theory in cross-cultural accounting research by specifying the key components of the theory and addressing common criticisms. To illustrate how the theory might be utilised in the domain of accounting and finance research, a comparative interpretation of the different experiences of financialization in Germany and the UK is provided drawing on Douglas's grid-group schema.

Findings – Neo-Durkheimian institutional theory is deemed sufficiently capable of interpreting the behaviours of different social groups and is not open to the same criticisms as Hofstede's work. Differences in Douglasian cultural dialogues in the post-1945 history of Germany and the UK provide an explanation of the variations in the comparative experiences of financialization.

Originality/value – Neo-Durkheimian institutional theory has been used in a wide range of contexts; however, it has been little used in the context of accounting research. The adoption of the theory in future accounting research can redress a Hofstedeian-bias in accounting research.

Keywords Culture, Hofstede, Social relations, Cross-cultural, Cultural change, Mary Douglas

Paper type Research paper

Introduction

There has been significant criticism of Hofstede's approach to understanding and examining culture (see e.g. Baskerville, 2003). The association of nations and cultures is particularly problematic in respect of Hofstede's work as it does not facilitate nuanced analyses of preferences and behaviours of different groups and communities with regards to either within-country or cross-country analyses. This suggests that if accounting researchers are to undertake meaningful analyses of ethnic groups, however conceived, there is a need to draw on a theory (or theories) not subject to the



same criticisms as Hofstede and with sufficient subtlety and explanatory power to examine the complexities inherent in cross-cultural research.

This Special Issue addresses ethnicity and is “aimed at operationalising ethnicity in accounting and accountability research”; the specific area where we seek to make a contribution concerns “learn(ing) from the manner in which ‘humanities scholars’ have addressed and executed ethnicity-based research”. The proposal of this paper is that neo-Durkheimian institutional theory, as developed by the anthropologist Mary Douglas, is able to provide a structure for examining both within-country and cross-country preferences and behaviours of groups and communities. This theory does not assume an association between nations and cultures, and accords with Kanbur *et al.*'s (2009) belief that “the anthropological optic is useful as a corrective to the methodological nationalism of the social sciences generally and as a way of understanding the complexities of the local” (p. 147). Unlike Hofstede, neo-Durkheimian institutional theory contends that any nation, and indeed any community, will comprise four different solidarities each having distinct beliefs and worldviews which are a product of their different patterns of social relations (see e.g. Douglas, 2003). Another important criticism of Hofstede is it is inappropriate to assume cultures will stay constant (Baskerville, 2003). Neo-Durkheimian institutional theory does not make this assumption; rather, it is a dynamic theory that is able to explain cultural change via the interactions between the different solidarities that occur as they engage in continual “cultural dialogues”.

What is important to note is that this theoretical approach can be used to study groups or communities of all forms. Therefore, whilst it can be drawn on to yield additional understandings of accounting practices in Indigenous communities (see e.g. Chew and Greer, 1997; Greer and Patel, 2000; Jayasinghe and Thomas, 2009; who have previously researched accounting in the contexts of Indigenous Australians and Sri Lankans), its adoption need not be restricted to the study of Indigenous communities, ethnic groups or subaltern communities. In prior empirical studies, neo-Durkheimian institutional theory has been used to understand a very broad range of issues from, for example, terrorism (Douglas and Mars, 2003) to vaccination policy preferences (Song *et al.*, 2014). Cross-country and within-country studies have been undertaken that draw on the theory; for example, Grendstad's (2003) and Spalding's (2000) studies examine political preferences across Nordic countries and ethnic “antagonisms” within Nigeria, respectively. Additionally, Buonfino and Thomson (2007) in their report for the Commission on Integration and Cohesion analysing “what it means to ‘belong’ in contemporary Britain” (p. 5) judge Douglas's ideas offer nuanced understandings of the dynamics of group memberships, identity and belonging.

At present, the theory has been employed in the field of accounting only to a limited degree with studies having been undertaken by Linsley and Shrivs (2009), Moerman and van der Laan (2012) and Linsley and Shrivs (2014). The first two of these accounting-based studies focus primarily upon how risk perceptions are constructed according to neo-Durkheimian institutional theory in the contexts of the Enron failure and asbestos claims; the third paper draws more widely on the theory examining cultural dialogues occurring in the responses to a discussion paper issued by the Financial Reporting Council.

It is important to note that the prior studies of Linsley and Shrivs (2009) and Moerman and van der Laan (2012) do not incorporate Douglas's ideas regarding cultural dialogues and how, within any nation or community, the four different solidarities will be present and interacting. Linsley and Shrivs (2014) incorporate the

idea of cultural dialogues but to a limited extent. Their paper maps each response submitted to an FRC consultation to one of the four solidarities and analyses how each solidarity is interacting with the other three; however, what they are unable to do is to examine the cultural dialogues that will have occurred as each stakeholder group developed its response and nor can they observe how the dynamics of these cultural dialogues will alter over time within each stakeholder group. Cultural dialogues (as described later in this paper) are a fundamentally important part of neo-Durkheimian institutional theory as they provide the mechanism through which cultural change occurs. In this paper we draw fully on the ideas of cultural dialogues and, in this way, extend the work of Linsley and Shrives (2009), Moerman and van der Laan (2012) and Linsley and Shrives (2014).

This paper first of all specifies key components of Douglas's theory and lays out how the grid-group classificatory structure is composed. This enables us to assert the theory merits serious attention as being suited for undertaking cross-cultural research. Then, to illustrate how the theory can be used in cross-cultural accounting and finance research, a comparative interpretation of the different experiences of financialization in Germany and the UK is provided drawing on the grid-group schema and notions of cultural dialogues. Financialization experiences in Germany and the UK have been selected to demonstrate the value of neo-Durkheimian institutional theory and to show how the theory can be used as a frame through which to view temporal and spatial variations in economic and social relationships in two different countries over the last four decades. The argument proposed is that through this stylised interpretation of the historical experience of financialization in both Britain and Germany, differences in Douglasian cultural dialogues can be identified in this history of the respective countries that can provide an explanation of the variations in the different experiences of financialization.

Financialization has attracted substantial and increasing attention across different social science and humanities disciplines. In turn this has generated a rich and varied set of typologies and conceptualised modalities of financialization. These have been used to describe, analyse, and theorise the different forms of financialization that appear to have occurred across time and space (e.g. Krippner, 2005; Lapavistas, 2011; Pike and Pollard, 2010). These different modalities offer sometimes contradictorily divergent attempts to theorise the increasing and intensifying role that finance plays in shaping economic, social, and political outcomes in the contemporary world.

The plural nature of work to date on financialization is observable with respect to the different definitions of financialization and the different schools of thought that have evolved (Pike and Pollard, 2010). Financialization definitions fall into two groupings focusing upon either shareholder value or the increasing scope of finance (see e.g. Haslam, 2010). Those adopting the shareholder value focus examine the consequences this has for management, strategies and firm performance. The scope of the definitions in the second grouping is broader. Definitions range from Froud *et al.*'s (2002) and Erturk *et al.*'s (2008) ideas relating to "coupon pool capitalism" to Krippner's (2005) definition of financialization "as a pattern of accumulation in which profits accrue through financial channels" (p. 174). The implications of financialization for individuals has been examined by, for example, Langley (2008) and Aalbers (2008) who have been concerned with understanding how governments have devolved responsibility (and risk) for financial planning down to the individual.

The array of financialization definitions highlight how wide a spectrum of effects financialization is judged to have had across the economic, corporate and social spheres.

Thus far no conceptual framework has been advanced that has successfully integrated these differing approaches and can account for financialization not having been a globally uniform phenomenon (Engelen, 2008). If Douglas's grid-group schema can be used to interpret differing financialization processes across space and in time, and as a means of conceptualising cultural discourse and cultural change both within and between social groups in a way that is sensitive to temporal dynamics, then this can serve to illustrate its potential usefulness for cross-cultural accounting research.

In arguing in this paper that neo-Durkheimian institutional theory can provide an approach for accounting researchers to undertake within-country and cross-country research there are two points to emphasise. First, while we find this interpretation of the different financialization experiences historically convincing, we highlight that it is subordinate in this paper to the theoretical aspect outlined. Second, it should be noted the framework is being used heuristically, and necessarily, as an aid to interpretation. This interpretation is performed from the perspective of historical sociology (Fischer, 1995) whereby we emplot "constructed evidence" which, though partial and necessarily incomplete, nevertheless "confronts theory" (Fischer, 1995, p. 20). This implies we are not claiming a definitive interpretation for although there is a historiography (qua history) of financialization, our treatment of British and German history is undertaken to show how such a comparative interpretation might be achieved using neo-Durkheimian institutional theory rather than being a claim to the last word on the Anglo-German experiences of financialization. Further, because we are looking across such an expansive period of time then it is not possible to claim a definitive interpretation. The chief contribution of this paper is to enable nuanced interpretation of typological variations within a theoretical whole and so articulate with the aims of this Special Issue.

Neo-Durkheimian institutional theory and cultural dialogues

Neo-Durkheimian institutional theory has been described as "one of the most profound and ambitious bodies of social theory to emerge from within anthropology" (6, 2014a, p. 287). Douglas's (1963) extensive body of work initially stemmed from ethnographic studies undertaken in Africa and this led to the development of the theory over a significant period of time. The theory seeks to describe the connection between preferences, social relations and ways of life. It assumes we are social beings and that ideas of "selfhood" are formed by reference to others. Hence, preferences are constructed dependent upon how social relations are arranged. Social relations and cultural biases augment one another as "adherence to a certain pattern of social relationships generates a distinctive way of looking at the world; adherence to a certain worldview legitimises a corresponding type of social relations" (Thompson *et al.*, 1990, p. 2).

To understand how social relations and cultural biases connect, Douglas developed the now familiar, grid-group typology (Douglas, 1970, 1978, 1986, 1993, 1994, 1997, 1999, 2003, 2004; Douglas and Wildavsky, 1982). This classifies social structures on two dimensions of grid and group commensurate with Durkheim's two dimensions of social regulation and social integration, and with the outcome that four solidarities are distinguished. Each of the four classifications or solidarities (individualist, hierarchist, enclave, and isolate) supports four distinctive ways of life (see Figure 1). Because Douglas (2004) establishes the four solidarities by reference to distinctive patterns of social relations, then we can understand why she considers it amiss to talk of "traditional culture" in its recognition that "(g)roup cultural markings are products of the human interactions that form and sustain groups" (Richards, 2009, p. 3).

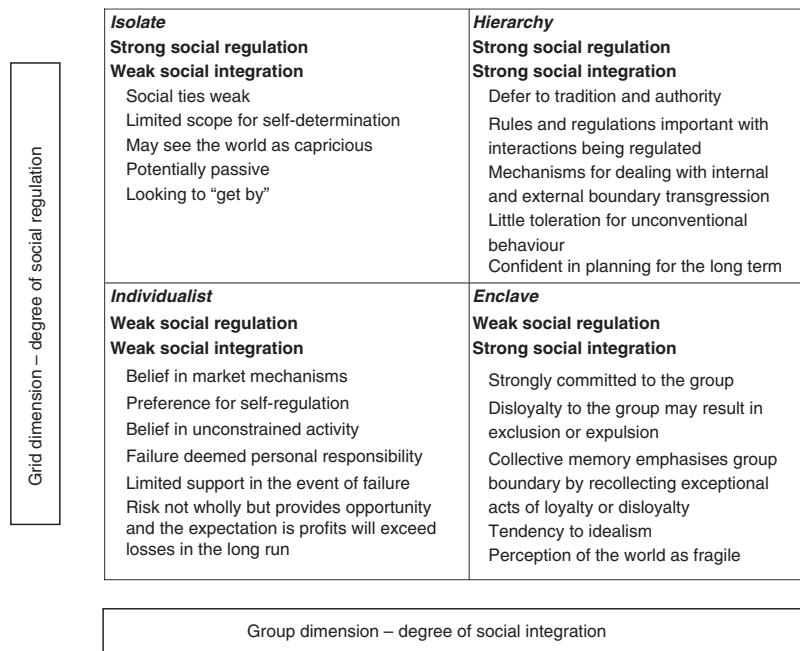


Figure 1.
The grid-group framework

Sources: Adapted from Douglas (1978, 1986, 2004)

This neo-Durkheimian approach helps us explain the different preferences and behaviours of the supporters of each solidarity across a very wide range of issues including, for example: the apportionment of blame, views of time, relevant risks, perceptions of resources and nature, and preferences in respect of regulation. (See e.g. Thompson, 1992, for a summary of the preferences of the four solidarities in respect of a very wide range of issues.) Douglas (1997) recognises the typology is open to misinterpretation and stresses that the:

[...] typology of cultures is derived from cultural biases [...] A cultural bias is a point of view, with its own framing assumptions and readily available solutions for standardized problems [...] It is a question of a way of life, and the way of life depends [...] on the social relations that are entailed (p. 128).

If the form of social relations is hierarchical the high grid-high group configuration entails clearly defined outer and inner boundaries. The strong outer boundary separates insiders (group members) and outsiders who are a potential threat to the group, whilst the strong inner boundaries delineate societal roles. To maintain the boundaries hierarchical societies have systems of punishment should boundaries be transgressed (Heap and Ross, 1992). In this form of society "tradition and respect for authority are features [...] and abnormal or anomalous behaviour deemed unacceptable" (Linsley and Linsley, 2010, p. 197) and there is an "integrated status system based on authority" (6, 2011, p. 65). By contrast, in the individualistic (low grid-low group) society or community individuals are "relatively free from control by others (although) that does not mean the person is not engaged in exerting control over others" (Thompson *et al.*, 1990, p. 7). This is a competitive form of society and

individuals who fail to prosper find limited support is to be had. This can result in an entrepreneurialism and willingness to bear risk (6, 2011).

The social structure in an enclaved solidarity is of the low grid-high group form. The high group element results in a strong exterior boundary, and the low grid facet provides actors with freedom as there is a lack of social regulation. Loyalty to the group is of even greater consequence than in a hierarchical society as there is only an exterior boundary. To buttress the exterior boundary and “to maintain stability within the group (enclaves) identify the outside world as a threat” (Linsley and Shrivess, 2009, p. 496). Hence, they will commonly identify the outside world as unjust or unequal. To create sufficient unity in enclaved groups requires members to, in advance, commit to forego “individual choice in favour of commitment to live by collectively agreed practices” (6, 2011, p. 67). It can be argued that the hierarchists and individualists are slightly fearful of enclaves as potentially they “bring threats of radical change to the fabric of society” (Malsch *et al.*, 2012, p. 96). For this reason the hierarchists and individualists can be willing to collaborate to protect their interests when threatened by enclaves.

The fourth way of life is the isolate (high grid-low group) solidarity. Isolates are in a position where there are strong prescriptions in respect of social regulation and, consequently, there is reduced scope for acting independently. Additionally, they are not a part of a community. Consequently, it is commonly argued they are prone to be “pessimistic [...] expecting that attempts to improve their lot will result in failure” (Chai, 1997, p. 53). This implies passivity on the part of isolates, although this need not always be the case as isolates will also develop tactics for “getting by” (6, 2014b).

Douglas’s fourfold matrix assists in understanding how different patterns of social relations result in different worldviews. (Douglas, 1978) is aware that she is “reducing social variation to a few grand types” (p. 185), but these four basic types are the forms of social relations that have been observed to be stable and recurrent. Therefore, Douglas is arguing that the “limitation in variety should be explained at the level of the most fundamental dimensions of the ordering of relations among people, rather than by locally contingent and case-specific features of context” (6, 2014a, p. 290).

Cultural dialogues and change

Essential to neo-Durkheimian institutional theory is the notion of cultural dialogues. The theory does not consider nations or communities or other forms of group to be homogenous cultural entities. Therefore, it is not expected that a community or society would exclusively display characteristics connected with one of the solidarities. The four solidarities do not operate in isolation; rather, in any society or community they co-exist. This co-existence between the four solidarities is discordant as each is vying to gather new adherents and endeavouring to win the debate as to the most appropriate “form of life to be led in common” (Douglas, 1997, p. 129). The interactions between the four solidarities are important with cultural dialogues arising as they debate which form of community is preferable with the “adherents to the [...] ways of life [...] (trying) to impose their interpretations on others and [...] to institutionalise their preferred form of social relations” (Verweij, 1995, p. 96). Consequently, the relationship between the solidarities is dynamic. These wrangles between the four solidarities also serve to remind adherents what each form of life signifies and the tensions between the four solidarities can aid in ensuring they do not become exaggerations of themselves (Douglas, 1993). In this sense Douglas is indicating “that ‘culture’ is never coherent but always riven with conflict” (6, 2014a, p. 298).

Douglas's early versions of the theory presented a static model, and Douglas accepts the static version seemed to map four apparently fixed solidarities with individuals in a submissive role, and this potentially implied the theory was deterministic. But Douglas was aware the theory needed to be able to explain change. That is, it needed to be able to explain how and why the dominant solidarity in any organisation or society may come to be supplanted by a different solidarity and, relatedly, how and why individuals switch commitment from one solidarity to another. The dynamic version explains that individuals may swap allegiance either because they have been expelled from their present solidarity (e.g. this might occur in an enclaved community where an individual has transgressed the group boundary) or because that individual's commitment to the solidarity is undermined. The latter situation arises when "successive events intervene in such a way as to prevent a solidarity from delivering on the expectations it has generated, thereby prompting (that) individual to seek more promising alternatives" (Thompson *et al.*, 1990, p. 4). For example, an inherent promise in respect of the hierarchical solidarity is that the community will offer some support to individuals who encounter difficulties; if such support ceases to be available then this may cause an individual to question whether to continue to commit to that solidarity. That is, "(a)s disappointment and frustration set in, people have no option but to try to organise under one of the other elementary forms, thus giving rise to negative feedback" (6, 2014a, p. 292)[1].

The direction in which an individual moves as they transfer allegiance will depend on the nature of the events that are provoking the change and the persuasiveness of the arguments that proponents of the other solidarities assemble. As a consequence, in any society one of the solidarities may have greater influence than the other solidarities, but it may also be superseded over a period of time. Knowing which is dominant at any point in time can be useful because it helps explain why the policy solutions of that solidarity are being enacted to a greater extent than the policy solutions of the other solidarities. Further, although the four solidarities may have a frictional relationship, they may also make "provisional settlements [...] and [...] hybrids might arise but also decay" (6, 2014a, p. 292). These ideas of cultural dialogues and dynamism are important in neo-Durkheimian institutional theory as they allow for, and can explain, cultural change. This ensures that the theory avoids assuming that cultures are unchanging.

A criticism that is sometimes aimed at neo-Durkheimian institutional theory is that it is deterministic. However, what needs to be recognised is the theory is asserting that individuals are active agents and the solidarity that achieves primacy only does so as an outcome of individuals' verdicts on what form of life they would prefer. It is our instinctive sociability that leads us to approve the establishment of social institutions that limit our actions and can lay claims over us. In return compensations arise from selecting that way of life. Consequently, the individual-society relationship should be understood as a collaboration between structure and agency (Douglas, 1999). Individuals can cease lending their support to a particular way of life and transferring allegiance is only possible because individuals have agency.

These discussions indicate that neo-Durkheimian institutional theory is "against [...] the methodological timidity of merely piling up local descriptions, (with) Douglas insist(ing) that humanity is one species subject to many of the same basic constraints" (6, 2014a, p. 290). These basic constraints, social regulation and social integration, result in a typology where there is limited variation in the different forms of social organisation. The classification provides a structure for the analysis of actions and

behaviours associated with the four solidarities (and hybrids of these four) across all types of group or community regardless of geographical setting or time period. The names ascribed to the four solidarities can sometimes be contentious, but these should be understood simply as labels and it is the underlying theory that is of paramount importance. Understanding “cultural markings” by reference to patterns of social relations carries the implication that “loose and lazy notions of ethnic, national, traditional, class cultures cannot describe coherent systems of belief and motivation that drive individual action” (6, 2014a, p. 298). Instead, neo-Durkheimian institutional theory posits that we can understand cultural markings (such as rituals, dress, food classifications, forms of blaming, use of stories) as a product of social organisation and, hence, can recognise them as epiphenomena (Richards, 2009). It is also important to re-state that neo-Durkheimian institutional theory is not subject to the criticisms commonly aimed at Hofstede. These are the criticisms that his approach does not examine cultures from-within, assumes a direct relation between nations and cultures, and assumes cultures are constant.

The next section reviews and compares the experiences of financialization in the UK and Germany. The two subsequent sections then examine, on a necessarily broad level, key cultural dialogues in the UK and Germany in the period post-Second World War. This examination of cultural dialogues suggests that the dominant solidarity in each country lost adherents as individuals transferred allegiance from one way of life to another. In the UK the dominant hierarchical solidarity is replaced by a dominant individualistic solidarity whereas in Germany the dominant hierarchical solidarity is replaced by a hybrid hierarchical-enclaved-individualist solidarity. Importantly, overlaying the analysis of cultural dialogues onto the different financialization trajectories of the two countries reveals a strong match in respect of both the UK and Germany.

Comparing the experience of financialization in the UK and Germany

There is an established consensus that the UK, together with the USA, has “moved furthest in the direction of being truly ‘financialized’” (Engelen, 2008, p. 114) and that financialization in the UK grew rapidly across the 1980s and 1990s with its roots being traceable to the 1970s or possibly a little earlier (Mollan and Michie, 2012). In the context of firms it has been asserted that when globalisation started to take hold and foreign competitors entered the marketplace in the 1970s, UK manufacturing firms experienced a decline in profitability (see e.g. Tweedale, 1996; Froud *et al.*, 2000). The threat posed by this change was especially noticeable in respect of car and consumer electronics manufacturers. Froud *et al.* (2000) propose that the productionist period of the 1980s was then superseded in the 1990s and a second period of financialization commenced with firms in a contest to produce value for shareholders.

Erturk *et al.* (2008) (see also Froud *et al.*, 2002) argue that a defining characteristic of financialization in the UK was the “massification” (i.e. the increasing amounts) of savings from individual households which were then channelled through a coupon pool[2]. This resulted in innovative financial products being developed; hence, this widened the assortment of coupons being traded. As well as impacting on firms by driving the demand for improved shareholder value, this change also impacted on family units. The key impact on families was that they were forced to take greater personal responsibility for their financial futures and the associated management of risk. Langley (2008) has furthered these discussions of the impact of financialization on individuals in the UK by considering the likes of mortgages and consumer credit. These discussions

emphasise the underlying narratives of individual responsibility, while illustrating the linkages between changes in individual behaviours with innovation in the financial markets in the form of, for example, asset backed securities and credit default swaps. Aalbers (2008) has also discussed financialization in the context of UK and US mortgages and securitisation, with a focus upon explaining why the “financialization of mortgage markets demand(ed) that not just homes but also homeowners become viewed as financially exploitable” (p. 148). In the UK context Aalbers’ comments are particularly important because of the, by European standards, relatively high levels of home ownership.

The “massification” of savings underpinning these financialization waves also had the outcome of significantly increasing the numbers of financial intermediaries. Retail banks were reshaped as they began offering a plethora of products for savings and borrowings, and finance fed on itself (Erturk *et al.*, 2008). In turn this ensured that the financial services industry in the UK continually grew in importance and brought into being what Hall (2009) describes as “financialized elites” in the City of London. Alongside this rapid increase in financialization in the UK, it has been observed that inequalities have also grown apace (Erturk *et al.*, 2008).

The literature examining the experience of financialization in Germany is less well-known and depicts a very different state of affairs to the UK experience. Jürgens *et al.* (2000) provide an early account of financialization from the German perspective in which they maintain that by the end of the 1990s there had been only a limited move towards a shareholder value orientation in Germany, and that this move only began to occur in the mid-1990s. That there has been some movement towards financialization since the mid-1990s is indicated by a modest rise in institutional share ownership, concentrated on a very narrow group of German companies including Daimler-Benz, Hoechst, MAN, and Preussag[3]. Consequently, they conclude that, even in comparison to other Continental European countries, Germany moved only marginally towards a shareholder value orientation. They argue that because the German stock market is small in comparison to the size of the economy and only a small proportion of adults own shares, there has not been the same impetus for a shareholder value orientation compared to the UK where “value-oriented investors are major players” (Jürgens *et al.*, 2000, p. 56). Additionally, they suggest that because of bank domination of the German corporate governance system[4] and codetermination, shareholder value is not the principal concern of the majority of companies[5].

Deeg (2009) has sought to determine whether non-financial European companies have financialized by considering a different set of factors to Jürgens *et al.* (2000). Deeg asserts that a financialized company is one which has a focus on shareholder value, a preference for market finance and is listed on a stock exchange. His expectation is that financialization will be observable if: there is a move away from using domestic debt towards using international debt; there is a decrease in the percentage of loans in total liabilities; and a culture of listing can be observed in respect of domestic firms. Deeg’s analysis of German data for these three factors leads to a similar conclusion to that of Jürgens *et al.* (2000); namely, that there are only muted signs of financialization in Germany and starting in the mid-1990s[6].

Duenhaupt (2012) provides a comparative study of rentier income[7] in Germany and the USA for the period 1980-2005. The trend of the results for the period 1980-1994 support the claim that financialization had not taken place in Germany in this period as both the wage share and rentier income remain stable. Subsequently, the wage share fell and rentier income rose for the period 1995-2005, which

Duenhaupt interprets as indicative of a partial move towards shareholder value orientation in the late-1990s in Germany. Duenhaupt's study extends Epstein and Jayadev's (2005) examination of rentier income in fifteen OECD countries for the period 1978-1999, and Epstein and Jayadev's rentier income trends for Germany are consistent with Duenhaupt's conclusions.

Engelen *et al.* (2010) and Lapavitsas (2009) provide more recent perspectives on financialization in the German context, with both examining data from the 2000s. All of the measures of financialization employed by Engelen *et al.* (2010) depict Germany as lagging significantly behind the other four countries in the study. A similar state of affairs holds in respect of Lapavitsas' (2009) study, with the German data significantly below the two other sample countries (USA and Japan) in respect of both household financial assets as a proportion of GDP and household liabilities as a proportion of GDP. Engelen *et al.* comment that their results demonstrate "the limited extent to which financialization has worked itself into the capillaries of German daily life" (2010, p. 65). The outcomes of these two studies provide further confirmation of Jürgen *et al.*'s (2000) earlier suggestion that financialization has been limited in the German context and, overall, implies that there is consensus in the literature that signs of financialization in Germany only became noticeable from the mid-1990s and that the impacts of financialization were much less marked in Germany than in the UK.

Tracing cultural dialogues in the UK

Malsch *et al.* (2012) have observed the dominance of the hierarchical and individualistic cultures in Western societies, and it will be argued in this section of the paper that this can be interpreted in the economic and political history of the UK in the post-Second World War years. Here we offer a knowingly stylised historical account which shows the transition from the dominance of a hierarchical solidarity in the approximate period 1945-1970 as the socio-economic settlement gradually failed to meet expectations sufficiently (Gamble, 1985). We interpret that some of this shift from the hierarchical was down-grid, with progressive social movements indicating a shift to an enclaved solidarity for some individuals, but ultimately with the individualist solidarity coming to dominate.

The key domestic actions of the Labour government elected in 1945 were expanding welfare provision, actively engaging in organising the economy and nationalising approximately twenty per cent of the UK's industrial base (McCormick, 2003). These measures were a response to the severe economic difficulties the UK faced following the war and were implemented with the aim of ending unemployment (Schenk, 1994). The war had had some impact upon the patterns of social relations in the UK, but the pre-war dominance of hierarchically based social structures had largely been sustained (Marwick, 2003). The government actions listed above were hierarchically oriented with their focus upon regulating and planning (in respect of both the economy and firms) and in providing support for those who may fall upon difficult times (whether because of unemployment, old age or sickness). A Conservative government was voted into power in 1951, and again in 1955, but the fundamental basis for distributional politics remained unchanged as successive governments remained committed to the welfare system, government economic planning, and a commitment to full employment all within, broadly, a Keynesian economic framework (Lloyd, 2002). Although there were political and economic crises during this period, as Childs (2006) notes the 1950s "came to be regarded as idyllic, the era of the affluent society [...] unprecedented prosperity and full employment [...] (when) earnings had risen faster than prices" (p. 79).

Hence, one of the fundamental pledges implicit in a hierarchical way of life was met; that society would provide for individuals in return for institutional consent. In the 1950s this political-economic compact was broadly settled. From a neo-Durkheimian institutional theory perspective, though cultural dialogues by definition cannot have been absent in this period, they were nevertheless relatively subdued. While there were those who espoused an individualistic way of life and argued that governments should not intervene in the economy and called for nationalised firms to be returned to private ownership they were not (yet) culturally dominant (Muller, 1996). Similarly, enclaved voices could be heard such as in the late-1950s in, for example, the arts where writers including John Osborne, Alan Sillitoe, Kingsley Amis and other “Angry Young Men” were variously attacking or satirising the “establishment” and the injustices perpetuated against those at the bottom of the hierarchy (Lloyd, 2002; Kalliney, 2001; Kroll, 1961) – but at best they can be said to have merely foregrounded the later destabilisation of the Post-War consensus and accompanying changes to social mores that were a hallmark of the 1960s and the 1970s.

Criticism of the dominant hierarchical way of life became more pronounced in the UK during the 1960s and the early 1970s. Economic crises caused by balance of payments problems in the mid-1960s (and Sterling devaluation in 1967) led to a squeeze on pay, resulting in heightened tension between labour and management (Childs, 2006). From a neo-Durkheimian institutional theory perspective, this can be seen as unsettling individuals who may have been supporters of a hierarchical way of life as it constituted a threat to the espoused values of the solidarity and this made them more susceptible to the arguments of the other solidarities. This was not solely a susceptibility to the arguments of the individualistic culture; there was also the potential for disenchanting hierarchists to be persuaded to shift down-grid by enclaved groups. It has been argued that in the USA in this period a similar process occurred connected to a collapse in trust in the establishment, emblematically seen by widespread protests against the Vietnam War and increased cynicism of government provoked by the Watergate scandal (Linsley and Shrivess, 2009). In the UK support for anti-establishment movements was not as great as in the USA, but enclaved organisations and movements did exist and included groups committed to protecting the environment, to ending gender discrimination and opposing nuclear weapons (Marwick, 2003; Urwin, 1997).

Social changes in the 1960s reflected in the enactment of the Abortion Act, Divorce Reform Act and Sexual Offences Act legalising consensual homosexual sex (Lloyd, 2002; Marwick, 2003) can be interpreted as the weakening of the hierarchical solidarity and increased vibrancy in the enclaved and individualist solidarities.

By the 1970s the previously settled political-economic arrangements of the post-war consensus were breaking down in the face of a “general sense of a worsening economy and declining living standards [...] and the break-up of the optimistic consensus” (Marwick, 2003, p. 151). Policy frameworks which had been the basis for that earlier period such as the Prices and Incomes Policy were abandoned (Porter, 1996). The oil crisis of 1973 aggravated a struggling economy where the principal features were high inflation, high unemployment and a high balance of payments deficit (Schulze and Woodward, 1996; Lloyd, 2002). By the time of the coalminers strike and the three-day week in 1974 the stability of the post-war years had broken down. The Labour government of 1974-1979 was beleaguered by a stagnant economy, high inflation, and having to request a loan from the IMF in 1976. By the time of the “Winter of Discontent” in 1978-1979 when public sector workers including nurses, ambulance drivers, refuse collectors and gravediggers went on strike, the legitimacy of the

previous policy-framework had broken down (McCormick, 2003). In turn, this historical context opened the way for what we interpret to be a fundamental shift in the outcomes of cultural dialogues.

In the run up to the election of April 1979 the Conservative party espoused an individualistic cosmology talking of “reducing the role of government (and) [...] enabling everyone to become better off by individual effort” (Childs, 2006, p. 417). During the election campaign the Conservatives implicitly argued that the hierarchical (post-war consensus) solidarity had not delivered on its promises and this was summed up in the now-famous “Labour isn’t working” poster depicting a very long and meandering line of unemployed people. Margaret Thatcher was voted into power in 1979 and enacted changes commensurate with an individualistic culture including: curbing social welfare, deregulating markets, reducing taxation and government spending. Many policies of Thatcher’s government were aggressively free-market and pro-business and, eventually, 42 state enterprises were privatised employing c. 900,000 people (Foreman-Peck, 2004). The power of trade unions was ruptured, which included the government refusing to concede during the bitter year-long miners’ strike in 1984-1985. Unemployment benefits decreased (Hall, 2007); the aim being to end a “culture of dependency” that was judged to be smothering enterprise and initiative (Heywood, 2003). The competing cultural dialogues did not stop at the voting in of Margaret Thatcher; if anything we would argue they intensified and this can be seen in the bitter contests for competing visions of British society. Nevertheless, the success of the Conservative party electorally indicates the appeal of a political credo that can be clearly interpreted as being individualistic. In turn it follows that there was a commensurate decline in commitment to, and attractiveness of, the “old” hierarchical solidarity (Dahrendorf, 1988). The advent of persistently high unemployment caused by sudden de-industrialisation was a kind of social hysteresis; an undoing of the ways of life that had sustained the post-war consensus and its commitment to full employment.

We argue that these shifts in the political, cultural and economic landscape of the UK can be interpreted as indicating the individualistic solidarity had become dominant by the end of the 1970s and the beginning of the 1980s, and that in broad terms this tallies with the acceleration of financialization in the UK. According to Douglas (2004) the individualistic solidarity “explicitly sanctions individual competition” (p. 291). It is an entrepreneurial form of society, where the stimulus motivating individual transactions is to gain resources and “people are expected to go forth entrepreneurially, get new ideas, work hard, and compete for esteem and income” (Douglas, 2003, p. 1358). The “prominent virtues are individual courage, intelligence, perseverance, and success (whilst) (p)ower and wealth are the rewards” (Douglas, 2005, p. 28).

These individualistic endeavours can be seen as congruent with neo-liberalism, and with self-regulation being deemed the most appropriate mechanism for managing markets and the economy. The way the individualistic way of life underpins the financialization process can be conceptualised through the consideration of the three major features of the financialization literature: the rise of shareholder value, the construction of financialized elites and the production of inequality, and the growth of financial services.

In the context of companies, if the hierarchical solidarity is dominant then managers should direct and control employees to ensure internal boundaries are maintained. In turn, employees should accept these strictures as the company has a reciprocal commitment to looking after the employees (Hendry, 1999). Managers in

this context primarily act as stewards conserving the company's resources and being prudent in their management, to ensure sufficient resources are retained for the future. The aim is for the firm to survive in the long term as this accords with the time orientation of hierarchists. By contrast, if the individualistic solidarity dominates, the focus of managers should be on wealth creation for the owners and, hence, priority is given to shareholder value. For employees, this individualistic way of life is competitive and retaining employment with the company is dependent upon individual performance. The company's goals are then financially based and linked through to the overall strategy of maximisation of shareholder wealth. As importantly, the goals are demanding and clearly defined as this enables blame to be traced to specific individuals if targets are not met. The individualistic focus is on the short-term in line with the observation by Douglas and Wildavsky (1982) that, in "response to competitive pressure [...] he (the individualist) has to be ready to cut his losses, so he does not live by history and tradition. His environment does not encourage him to plan far ahead" (p. 96).

Financialized elites and inequality also fit into the landscape of the individualistic solidarity. The acquisition of wealth, or symbols of wealth, denotes what it is to be a winner in that solidarity and, as there is no expectation of a safety net, wealth affords some measure of protection should an individual fall on hard times. Thompson (1992) explains it is inevitable that there will be those who prosper and those who sink in this context, as there is no in-built self-balancing mechanism that will even out the inequalities. The people who prosper will be the ones who have sufficient talent, resilience, and possibly some good fortune or *chutzpah*, to successfully navigate the networks that help in being successful. Then there will be those who either do not possess these qualities and are pushed to the fringes because of their lack of success, or who choose not to deploy these attributes as they are not adherents of the individualistic way of life. Inequality is not a sign that the individualistically based system is malfunctioning; rather, the opposite is the case as it denotes that it is working.

In the individualistic setting it is to be anticipated that financial firms should come to the fore and become pivotal. Individuals need financial firms to provide them with mortgages and loans as the individualistic setting creates a particular set of preferences in respect of styles of consumption. The goods acquired through borrowing symbolically indicate that someone is a winner. They might financially stretch themselves when borrowing but judge it worth the risk of over-borrowing because the extra goods acquired may acquire additional social status and enhanced access to useful networks; hence, there is a return for taking on the risk.

A solidarity becomes dominant as an outcome of individuals' verdicts on what form of life they would prefer (Heap and Ross, 1992). The individualistic way of life has attractions and one of these is that it "*implies* (emphasis added) an equality of opportunity exists for anyone" (Linsley and Shrives, 2009, p. 499). For example, in the UK during the 1980s the Conservative government could sell the dream of home ownership (a dream that was subsequently perpetuated by the banks and building societies) because an individualistic society implies that anyone, regardless of background, can own a home. Once acquired the home becomes more than just somewhere to live. It becomes a financial asset and a symbol of individual success. For those who were already home owners a more volatile and liquid property market enabled them to seek to trade up to a more expensive home. Of course it is only an appearance of equality of opportunity. For example, the mortgage advisers

encouraging home buyers were not trying to democratise the housing market; they were looking to gain financially from a transaction (Linsley and Linsley, 2010). The proposition that underpins the individualistic way of life is that by dint of individual effort an individual can achieve whatever they want.

Tracing cultural dialogues in West Germany/Germany

In the immediate aftermath of the Second World War and its attendant horrors of Nazism the experience of German citizens was very different compared to UK citizens, with physical survival and material reconstruction a critical priority (Eichengreen, 2007). The German population also faced the difficult task of creating a country and a polity anew (Conradt, 2009). This difficult task was compounded by the splitting of East and West Germany, and in the context of the Cold War.

In May 1949 the Federal Republic of Germany was formed. Post-1949 the Social Democratic Party and ruling Christian Democratic Union party, led by Chancellor Adenauer, worked together and converted the business community to the view that industrial relations based on confrontation – frequent in some industries in the pre-war Weimar Republic – should be replaced by social partnership and consensus (Conradt, 2009). The result was that the Federal Republic instituted a series of welfare measures to create what became known as a social market economy. This resulted in a relatively generous welfare system and German governments, both state and national, demonstrated a willingness to intervene in the economy through regulation, the provision of subsidies, and state investment.

Although these measures were frequently clad in the reformist language of ordoliberalism, we can interpret this as being indicative of a hierarchical culture[8]. Therefore, we might be tempted to follow Lane and Quack's (1999) suggestion that hierarchy grew to become the dominant cultural dialogue in Germany. However, this ignores that the ideas introduced in post-war Germany went further than the creation of a supportive welfare system and government willingness to intervene in the economy. The Basic Law (*Grundgesetz*) ratified in 1949 was intended to ensure that past errors would not recur and that the new republic would be governed as a human rights-based democracy (Green *et al.*, 2008). This set another tone for cultural debates by creating an initial constitutional impetus for the protection of civil liberties (however, narrowly defined) and the promotion of the rights of minority groups[9]. Further, the social market model, developed post-war by Erhard and Müller-Armack, stressed that the market should operate in the interests of society as a whole (Bruff, 2008) and this provided scope for enclaved groups to develop and to be heard. Given the political dominance of industrial groups in the first two decades of the new republic, this did not create an enclaved culture but it nevertheless facilitated support for enclaved ideas.

The gradual influence of enclaved aspects on the socio-political structure of the Federal Republic can be observed in respect of the social capital that eventually developed (Urwin, 1997). Large numbers of citizen groups became affiliated to the mainstream political parties, as did smaller, local action groups seeking to resolve a wide range of issues. Surveys suggest that by the mid-1960s Germans had developed a far greater propensity to engage in social protest and interest than in many other democratic countries (Barnes and Kaase, 1979). The extent of interest groups in Germany after the 1960s has been viewed by sociologists as being indicative of enclaves having gained a significant foothold (see e.g. Helm, 1981). One aspect of the rise in activist-type groups was that the political activism of

the New Left in the 1960s encouraged citizens to view protest against government as a means of obtaining reform (Conradt, 2009)[10]. A further aspect was that there was a generational adjustment whereby the so-called “68ers” (people too young to have had experience of the war) were more willing to confront the country’s Nazi past, partly because of fears of a revival of authoritarian tendencies (Green *et al.*, 2008). Consensus was central to the German social market model and this aided in accommodating the voices of the enclaved-type interest groups alongside the hierarchical solidarity.

The economic result was the German model of social-democratic capitalism and the economic miracle of the 1950s and 1960s. The basis of the German model (which is heavily covered in the “varieties of capitalism” debates) was a combination of strong worker protection, labour representation on the supervisory boards (Aufsichtsrat) of publically limited companies (Aktiengesellschaften), collective wage bargaining, and a dynamic and substantial sector of middle-sized companies (Mittelstand) with significant community rootedness (Hutton, 2003; Green *et al.*, 2008; Busch, 2005). As Busch (2005, p. 126) argues:

The characteristics of this model were a comparatively prudent fiscal policy, which (partly due to federal structures) did not experiment with Keynesian demand management; a stringent policy of price stability, carried out by a famously independent central bank, the Bundesbank (which did not shrink even from major conflicts with the government of the day); and a very low degree of labour market unrest, leading to low strike rates and thus supporting the low inflation environment.

As can be seen in the quote above there are elements of both enclaved and hierarchical solidarities present in the German model – capitalist businesses with high levels of social welfare and stakeholder involvement in corporate governance. The effect was to insulate West German workers from the more damaging effects of the global economic problems of the 1970s. Although unemployment in West Germany rose during the global recession of the 1970s, overall the economy remained relatively strong (Conradt, 2009). Consequently, we can interpret that Germany was simply not subject to the same intense cultural dialogues that addressed a collapsing economic model as experienced by Britain in the 1970s. The pre-existing Post-War hybrid hierarchical-enclaved solidarity held despite the emergence of influential neoliberal critics (see e.g. Giersch, 1976)[11]. West Germany’s economy continued to maintain, by European standards, relatively low official unemployment rates through to the end of the 1980s despite millions in the conscript army and in apprenticeships. In this context, one critical voice, the sociologist Dahrendorf (1988), was still able to conclude that in Germany “the corporatist culture [has] remained largely intact; whereas in Britain, Mrs Thatcher has, in her nine years as Prime Minister, probably affected a deeper change in social values than any other politician in the post-war period” (p. 194).

In the 1990s, however, this settled situation was to change. The unification of West and East Germany caused significant economic hardship, as the moribund economy of the East had to be integrated into the much more dynamic Western economy. This led to a waning of economic success which began to erode the dominance of the German model and impacted on cultural dialogues. For example, the enactment of the second and third laws on the promotion of financial markets (*Zweites Finanzmarktförderungsgesetz* and *Drittes Finanzmarktförderungsgesetz*) in 1995 and 1998, brought about some liberalisation of German financial markets albeit only in

limited form (Vitols, 2003). More significantly, in 2003 Chancellor Schröder began enacting a number of laws (Agenda, 2010) to stimulate the economy. Agenda 2010 included some individualistic responses to Germany's problems as these laws cut taxation, and reduced spending on social welfare, including on pensions and unemployment benefit (Conradt, 2009).

From a neo-Durkheimian institutional theory perspective we can interpret that by the 1990s Germany had developed a hybrid hierarchical-enclaved-individualist solidarity. There are two reasons why the previous hierarchical-enclaved hybrid appears to have been modified rather than being usurped. First, the enclaved element of this hybrid moderated the cultural dialogues. Second, there remained a continued desire to maintain a political-economy that insured against authoritarianism taking hold (Freedland, 2012). This fear of authoritarianism has been stated in a commitment to a form of latent political consensualism, which Schmidt (1987) described as a "middle way". The "middle way" hypothesis originally stipulated that Germany's multi-veto point polity prevented extreme policy changes leading the country to maintain a position between "extremes of Scandinavian welfare capitalism and Anglo-American market capitalism" (Schmidt, 2001, p. 1). According to Schmidt (2001) this preference for consensual politics was largely maintained post-reunification even though the underlying policy approach had become more costly in budget terms. Consequently, it appears that some of the commitment to the prior hierarchical-enclaved solidarity switched to the individualist solidarity with both some diagonal movement from hierarchy to individualism and horizontal movement from enclave to individualism occurring; the outcome being a hybrid hierarchical-enclaved-individualist solidarity.

Overall, it can be argued that the cultural dialogues in the UK match with the timing and experience of the UK in respect of financialization, and this is also the case in the German context. Namely, the implanting of the individualistic culture into the hybrid hierarchical-enclaved way of life in Germany in the mid- to late-1990s corresponds with the introduction of financialization in Germany. Further, financialization in Germany was only partial and this also fits with the presence of the German hybrid hierarchical-enclaved-individualist culture. The fusion of the three cultures in Germany implies the hierarchists, enclaves and individualists would all have the opportunity to give voice to their beliefs and opinions, and it is apparent this is the case if we return to the study of Jürgens *et al.* (2000). Jürgens *et al.* (2000) state that in the media debates concerning shareholder value in Germany during the 1990s a limited number of positions can be identified: those who consider a shareholder value orientation as potentially harmful because of an implied short-termism; those who are critical of a shareholder value orientation because of its associations with unemployment and being to the detriment of social relationships within firms; those who perceive a shareholder orientation as having a potentially beneficial effect upon how companies are managed; and those who are resigned to it becoming increasingly the norm for German companies to adopt a shareholder value orientation. The first response corresponds to the voice of the hierarchists whose time orientation is towards the long term. The second is the enclaved voice criticising shareholder value orientation for the production of inequities both in creating unemployment and in producing relationship conflicts. The third voice is that of the pro-shareholder value individualist and, finally, there is the (often silent) voice of the isolate who feels powerless in the face of any change. Given the hybrid hierarchical-enclaved-individualist nature of the German culture it is understandable

that Jürgens *et al.* (2000, p. 55) contend that shareholder value is an “ambiguous development” in the German context.

In recent times, however, there is evidence that financialization in Germany is advancing, albeit in specific ways that reflect the unique cultural dialogues and indicate that cultural dialogues are always ongoing. The impact of unification led to questioning the appropriateness of the German model for the present era and it has been increasingly possible for large corporations to argue that the labour-settlement at the core of the model is out-dated in a globalised economy (Busch, 2005; Green *et al.*, 2008). Haves *et al.* (2014) argue that since the 1990s German banks have withdrawn from their traditional role as providers of long-term finance, and have adopted more American investment bank style practices; that there has been a rise in institutional and foreign shareholding in large companies; and that there has been an increase in the role of Hedge Funds and Private Equity. All of these three things are seen to have weakened the pre-existing corporate governance arrangements, including labour protection, and are associated with increased financialization. Similarly, Trampusch (2015) discusses the financialization of German public debt management, concluding that:

(T)he far reaching consequences of the financialization of public debt management [is vital] to one of the core domains of modern capitalist democracies, namely public budget and finance policy. Among these consequences the most important are the disempowering of old organisations involved in issuing government bonds and debt management, the probable implications for parliamentary control over budget policies due to obscure deals on interest-rate and currency-rate swaps, the empowering of the financial market, governments’ double role as regulators of banks and being one of their main clients (*Quis custodiet ipsos custodes?*) and probable conflicts of interest between monetary policy, fiscal governance and debt management (Trampusch, 2015, p. 132).

Germany’s role in the unfolding Eurozone debt crisis (Hall, 2012), in particular with regard to Greece, is further evidence that the cultural dialogue emerging in Germany is increasingly centred around perceptions of the need to protect German financial interests, even at the expense of notions of European solidarity.

Conclusion

We have proposed in this paper that neo-Durkheimian institutional theory might be a valuable theoretical framework to adopt in cross-cultural accounting research. It overcomes problems associated with Hofstede’s approach as it does not connect nations and cultures, and does not make “heroic assumptions of ethnic homogeneity in historical or political arrangements of societies” (Baskerville, 2005, p. 391). In its initial inception the theory presented a static model; however, subsequent developments and the integration of the idea of cultural dialogues have ensured that the theory is capable of explaining cultural change. The emphasis upon groups or communities comprising all four solidarities provides insights into group dynamics that are not evident in Hofstede’s work. Cultural dialogues reveal the dependencies between the four solidarities as well as the differences. Each solidarity only remains viable because of the existence of the other solidarities and the constant debates they are engaged in present an opportunity for the members of each solidarity to affirm their worldview and to look to win new recruits.

As it is such an expansive (or “grand”) theory then there are parts of it that inevitably remain under debate and need to be developed. The isolate solidarity has

often been ignored and it is only recently that its significance is being investigated. A more detailed understanding of the functioning of hybrids is required as there is less discussion of these in the literature than there might be. Additionally, the mechanisms of change are being explored from a range of different perspectives to more fully understand how they operate. Extant empirical research has provided strong support for the theory (as discussed by 6, 2011), whilst there remains a need for more empirical work to be undertaken to augment the extant literature (6, 2014b). Researchers using neo-Durkheimian institutional theory have found it to be useful in a wide range of settings (see e.g. the research assembled in 6 and Mars, 2008). In her own writings Douglas displays this inter-disciplinarity in applying her ideas, for example, to aspects of economics, sociology, and philosophy. As a consequence her work ranges from examining the language of emotions (Douglas, 1995) to deviance and danger (Lianos and Douglas, 2000) to condemnations of poverty (Douglas, 2004). A strength of neo-Durkheimian institutional theory is its universality, in that its use does not have to be restricted to studies of accounting practices in ethnic groups or Indigenous communities. It can be applied to all types of groups and communities, and can lend understanding to within-country and cross-country analyses. A caveat is, however, that the grid-group framework needs to be used with reference to the underlying theory.

The comparative study of experiences of financialization in Germany and the UK has been presented to demonstrate the utility of the theory in a relatively demanding context; namely, showing how the framework is able to integrate the differing modalities, while retaining an appreciation for the unique variations, of financialization that are seen at different moments in history and in different societies. Within the confines of the space of this paper we have not been able to undertake as detailed a historical analysis of Germany and the UK as we might wish. Sociologically inclined historians (producing “sociological history” as opposed to “historical sociology” to paraphrase Fischer, 1995) might look to examine in greater detail the cultural, intellectual, political and economic history of the two countries in order to achieve a more complete and historically acute account of the comparative histories. This caveat made, our stylised historical interpretation does support the contention that in the UK individualistic attitudes towards the organisation of economy and society can be seen to be dominant from the 1980s onwards, and this is the critical period when the intensification of the financialization process can be certainly, clearly and consistently seen. In the Douglasian formulation, the cultural dialogues resulted in the gradual erosion of hierarchical mode of social structure, and a contest thereafter between individualistic and enclaved modes of social and economic organisation. This contest was primarily “won” by a coalition of individualistic social groups and, in turn, this affected the form of financialization that is seen in the UK. In the case of Germany, financialization only began to gain traction from the mid-1990s and in a much more muted form, and the interpretation provided indicates this corresponds to a period when an individualistic outlook began to win some of the policy arguments and so was more prominent in the dialogue. However, in Germany the influence of the individualistic oriented social groups was restrained by being embedded within a long-standing hybrid hierarchical-enclaved culture. Clearly, this interpretation is open to re-interpretation and counter-interpretation, but it nevertheless serves to illustrate how a Douglasian-based analysis can be undertaken in the field of accounting and finance.

Notes

1. Much of the development of the theory as a dynamic theory is attributable to Michael Thompson. For a more extensive discussion of the dynamics of change (see e.g. Thompson *et al.*, 1990).
2. For a full discussion of coupon pool capitalism see: Froud *et al.* (2001). In this paper it is explained that the coupon pool is “not (just) the secondary market in issued ordinary shares [...] it includes all coupon investment opportunities, including bonds, venture capital and securitised paper” (p. 276). Further, coupon pool capitalism is “where the pool of new and issued coupons becomes a regulator of firm and household behaviour” (p. 275).
3. Kädtler and Sperling (2008) also identify Daimler-Benz as moving to a shareholder value orientation. They note that for other German owned car assemblers there are significant barriers to shareholder value orientation.
4. That is, banks are an important aspect of corporate governance in respect of the provision of company finance and, in turn, the banks control voting rights via networks of cross-shareholdings and have strong representation on supervisory boards. Jürgens *et al.* (2000) note some loosening of these networks of cross-shareholdings occurring after the mid-1990s, albeit in a restrained manner.
5. In line with Jürgens *et al.* (2000), Emmons and Schmid (1998) suggest that German universal banks and codetermination regulations have historically acted as quasi-state institutional means of coordinating individual activities and of achieving social consensus. They argue that this, together with shareholder concentration, reduces the role of the stock market as a coordination and control mechanism.
6. An earlier paper by Deeg (2005, p. 175) similarly suggests that “the German system embodies an overall *logic of voice* with long-term cooperation founded on expectations of reciprocity” which reform efforts during the 1990s sought to maintain, rather than replace. Deeg suggests that given the adherence to this logic, a shareholder-orientated subregime has emerged where the logic of voice has been partially replaced by the logic of exit; without the workings of the main regime being fundamentally altered.
7. Rentier income can be defined in different ways. Broadly, it is income that derives from owning capital or investments. An example of a more clearly specified definition is Epstein and Jayadev’s (2005, p. 50) classification of rentier income as: “profits earned by firms engaged primarily in financial activities plus interest income realised by all non-financial non-government resident units”.
8. Ordoliberalism is associated with the Freiburg School of German economists who argued that state intervention was necessary to ensure that free markets achieved their full potential (see Ptak, 2004). Ordoliberalism became associated with the idea of a social market economy in later years of Adenauer’s chancellorship (1949-1963).
9. These traits became more pronounced under the chancellorship of the Social Democrat Willi Brandt (1969-1974) who de-emphasised Cold War agendas in favour of a democratisation of German society (see e.g. Kommers and Miller, 2012).
10. For example, in 1983 citizen groups successfully protested against a planned government census on the grounds it was invading private lives and, hence, infringed civil liberties.
11. This is not to say that a pronounced neoliberal faction was absent from German politics. However, the principal neoliberal party, the Free or Liberal Democrats (Freie Demokratische Partei or FDP) historically only received between 5.8 and 14.6 per cent of the popular vote in Federal elections from 1949 to 2009 (available at: www.wahlrecht.de/ergebnisse/bundestag.htm accessed March 2013).

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CONSULTATION IN THE POLICY PROCESS: DOUGLASIAN CULTURAL THEORY AND THE DEVELOPMENT OF ACCOUNTING REGULATION IN THE FACE OF CRISIS

PHILIP LINSLEY, ROBERT MCMURRAY AND PHILIP SHRIVES

This article employs Douglasian cultural theory to explain how policy consultations intended to secure meaningful reform can, in fact, work to reinforce the status quo. The context for this is an examination of responses to three consultations established by the Financial Reporting Council (FRC), the body responsible for regulating accounting and auditing in the UK. The results reveal a lack of diversity of voices in the responses to three consultations, with the enclave and isolate voices being significantly under-represented despite the policy issues under debate being related to the financial crisis. Further, the initial pre-consultation proposals are largely unchanged post-consultation. We suggest that the regulator has not been captured; but instead is subject to what may be described as self-capture. Self-capture describes the instinctive reaction of a solidarity to act to uphold its pattern of social relations which results in the regulator's worldview inevitably (and unwittingly) being perpetuated.

INTRODUCTION

As the British regulatory state has grown over the last three decades, so too has concern that the promise of independent oversight is giving way to politicization and vested interest (Lodge 2014). Moreover, consultations intended to secure meaningful reform in regulatory functions across policy areas as diverse as welfare provision, infrastructure development, and financial services (James 2000; Oliver 2010; Lodge 2014) have failed to bring about dramatic changes in oversight policy or practice. Employing Douglasian cultural theory (DCT), we consider how the very consultation processes designed to facilitate change have in fact worked to reinforce existing modes of thought and practice so as to buttress the status quo.

The context for this exploration is the greatest regulatory failure of recent times; the 2007–08 financial crisis which resulted in the UK government taking emergency measures to ensure that the banking system did not fail and, ultimately, acquiring shareholdings in major UK banks such as Lloyds Banking Group. The crisis shone a light on weaknesses in regulation (FRC PN 243 2008), and a fundamental review of the regulation of the financial services sector ensued. However, the body charged with securing change in respect of the regulation of accounting, auditing and governance – the Financial Reporting Council (FRC) – concluded in the aftermath of the crisis that '(we) currently believe that the recent difficulties in the financial sector do not require a generalised tightening of governance standards across the UK corporate sector' (FRC PN 243 2008).

The FRC fulfils its primary role of regulating accounting and auditing in the UK through two committees. The Conduct Committee is focused on disciplinary and supervisory matters in respect of the accounting and auditing professions, while the remit of the Codes and Standards Committee is to set accounting, auditing and governance codes and standards.

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The FRC undertakes a public consultation process when a code or standard needs amending or originating and all consultation responses are made available on the FRC website. Following consultation, proposals are refined and the final version of a standard or code published.

This article explains how the FRC consultation processes worked against the very possibility of substantial policy reform and regulatory change. With the aid of DCT we explore how different solidarities function as 'a consistent pattern of constraints upon reasoning towards decision-making' (6 2014a, p. 90) so as to circumscribe the room for change such that, ultimately, people are led to make decisions that reinforce the dominant institutions of which they are part. Such reinforcement has the secondary effect of making it difficult for people to attend to the arguments of other solidarities. Specifically, we demonstrate how a dominant individualistic worldview was maintained (at the expense of more hierarchist, enclave or isolate worldviews) such that the consultation processes emerge as a mechanism for the maintenance of prevailing policies rather than the starting point for their substantive re-negotiation.

The article is structured as follows. The first section justifies the selection of three key post-crisis consultative activities of the FRC. The second discusses important aspects of DCT and the third explains the method employed in analysing the three consultations. The results are then reported in terms of the competing cultural dialogues identifiable in the differing policy proposals submitted by the consultation contributors in respect of individualist, hierarchist and enclave solidarities. We argue that the responses of the individualistic solidarity identified within the FRC, albeit moderated by a subordinate hierarchical worldview, took precedence over the views of the other solidarities. In concluding, we note that while DCT cannot prevent regulatory or policy failure, in attending to the underlying logics of shifting worldviews it can provide useful pointers to policy blind spots arising out of particular cultural biases.

FRC CONSULTATION SELECTION

The government department responsible for economic growth in the UK is the Department for Business, Innovation and Skills (BIS). 'Corporate accountability' is a key BIS policy established to address a perceived loss of public confidence in how companies are run. The FRC chairman is appointed by the Secretary of State for BIS and in 2013–14 the FRC had an operating budget of *c.* £26 m (FRC Annual Report 2013–14). Therefore, the FRC was selected for this study as it is a significant regulator in an important government department and is concerned with matters with a high public profile post-the financial crisis.

A proportion of FRC consultations concern technical amendments to accounting standards or audit practice notes. Consequently, in selecting the consultations to examine for this study it was considered that less-specialized consultations were likely to be more characteristic of public consultation processes, being of broader public concern. Three different consultations were selected from each of the years 2009, 2010, and 2011. The cases are all post-financial crisis when calls were being made for regulatory reform in the accounting, auditing and governance field.

The first case, the Cutting Clutter (CC) project, concerned the FRC's complexity of corporate reporting project. In June 2009 the FRC issued a discussion paper, 'Louder than Words' (FRC discussion paper 2009) suggesting that it was time to reconsider the fundamental purpose of accounting. The project had a primary concern with reducing complexity

in corporate reports and it was argued that 'key messages (were) lost in the clutter of lengthy disclosures' (FRC discussion paper 2009, p. 2). The second case, the FRC Auditor Scepticism (AS) project ('Auditor Scepticism: Raising the Bar', FRC discussion paper 2010a), concerns audit effectiveness. In the aftermath of the banking crisis, questions were raised as to whether, *ex post*, audit firms demonstrated a sufficient degree of scepticism in questioning management's assumptions in constructing the financial statements (Sikka 2009). The third case examined company stewardship and the 2011a FRC discussion paper 'Effective Company Stewardship: Enhancing Corporate Reporting and Auditing' (ECS). This paper made recommendations regarding the role and responsibilities of 'directors as stewards of investors' interests' and particularly having regard to deficiencies revealed by the financial crisis. Thus, for example, the paper discusses the importance of companies reporting on their risk management activities.

DOUGLASIAN CULTURAL THEORY

Mary Douglas, and with other significant contributors (for example, Professor Michael Thompson), developed the ideas associated with DCT over a long period (see, for example, Douglas 1970, 1982, 1994, 2003; Douglas *et al.* 1999). Central to DCT is the belief that we are social beings and our idea of 'self' is fashioned by reference to others. Consequently, social relations are of paramount importance and the foundation of the theory is that distinct arrangements of social relations exist; specifically, the diversity of arrangements is limited to four basic (or elementary) forms (6 2014b).

The four basic forms of social relations can be understood by reference to the dimensions of grid and group. The two dimensions relate to the degree to which members of a group are bound to one another (the group dimension) and the extent to which interactions and relationships are regulated (the grid dimension). In their 'weak' and 'strong' states these two dimensions co-join to create the grid-group matrix of four solidarities. Each of the four solidarities is associated with a particular pattern of social relations which, in turn, determines the worldview of the solidarity.

In the individualistic solidarity (weak grid–weak group) individuals can elect to cooperate with whomever they choose and will place their own interests above those of the group. The resulting type of society is competitive and there is an expectation that individuals will 'go forth entrepreneurially, get new ideas, (and) work hard' (Douglas 2003, p. 1358).

The hierarchical solidarity (strong grid–strong group) has two types of boundary. There is a strong commitment to the group, the external boundary, and this distinguishes who does and does not belong to the group. Internal boundaries are a feature of a high degree of social regulation. Thus, roles and statuses are plainly marked out. There is an expectation that authority will be acceded to and rules abided by, and systems will operate to manage group members who threaten to breach boundaries.

The enclaved solidarity (weak grid–strong group) has minimal internal boundaries and social regulation is low. However, there is a strong external group boundary and as this is the only boundary it has great significance. If this boundary is endangered by, for example, a member displaying disloyalty to the group this person will be dealt with harshly. Enclaved groups are inclined to reinforce the external boundary by defining themselves against the 'outside world' and believing that they 'hold the moral high ground' (Douglas 2013a, p. 31). For this reason ideas related to fairness, integrity and the like are of importance.

The isolate solidarity (strong grid–weak group) has a strong set of internal boundaries and this denotes little margin for self-selecting social roles, which is confining. The weak group feature implies a limited sense of being integrated into any group. This results in a feeling that life is intrinsically inequitable and events difficult to control.

By assigning ‘weak’ and ‘strong’ forms to the two dimensions, Douglas recognizes this is ‘reducing social variation to a few grand types’ (Douglas 1982, pp. 1–2). However, these four basic forms are the ‘recurrent regularities that the grid-group typology captures’ (Ellis and Thompson 1997, p. 4). Therefore, this classification provides a structure for the meaningful analysis of actions and behaviours associated with the four solidarities.

Importantly, DCT is a dynamic theory. It is expected that all four solidarities will coexist in any community albeit to varying degrees. Cultural dialogues will occur as the four solidarities voice their thoughts about the most appropriate way to live life and the ‘community ... engage(s) in a continuous internal dialogue’ (Douglas 2013b, p. 290). For the most part, each solidarity will be looking to win over new converts and to rebut the arguments of the other solidarities. These interactions between the four solidarities serve to bolster the worldviews of the members of each by reminding them of what is important for that solidarity based on its pattern of social relations. Further, any given solidarity may decide to collaborate with another for a period if this helps it achieve its objectives.

Douglas does not regard patterns of social relations as an imposition on individuals. We are active agents with freedom to choose within the prevailing conditions of social regulation and integration. Hence, individuals are at liberty to commit to a different way of life and if a particular solidarity does not fulfil an individual’s expectations, this disruption of expectations ‘may dislodg(e) people from their ways of organising’ (Thompson 2008, p. 81). Hence, change is always possible as people move between or through solidarities. This dynamism implies that the solidarity that has dominance at a point in time in any given community will have achieved that position by virtue of the product of the cultural dialogues occurring at that time. Further, it implies that the dominant solidarity in any community may be replaced over time as supporters move across the four solidarities.

DCT-based propositions

A set of hypotheses, or propositions, need to be developed to examine consultation as a part of the policy process. The first proposition is based on the premise that DCT expects that all four solidarities will coexist in any community and will want to voice their respective views on the most appropriate way to live. Placing this in the context of our examination of the FRC policy consultation process we would, therefore, expect that there will be responses to all three consultations exhibiting worldviews corresponding with the four solidarities.

This same hypothesis has been examined by Lodge *et al.* (2010) and Lodge and Wegrich (2011) in DCT-based articles exploring food safety regulation and financial regulation post-the financial crisis, respectively. These two articles identify the different arguments of the solidarities by examining discourses in newspaper articles. We extend this prior work by looking directly at consultation responses. Consulting stakeholders when making policy or regulation is judged to be important because, in principle, it enables all voices to participate. Therefore, examining consultation responses enables us to establish whether all four solidarities are voicing their views in the FRC consultation process.

While the expectation is that the worldviews of all solidarities will be present in the responses to the three consultations, they may not be present to the same extent. In their examination of financial regulation post-the global financial crisis, Lodge and Wegrich

(2011) find the hierarchical worldview more prevalent. Pre-crisis individualistically oriented free market ideas were dominant and their finding suggests that hierarchists, who have a preference for greater regulation, are arguing for increased supervision. It can be argued that this should also hold true in this study, as FRC regulation is in the domain of corporate accountability and this has a commonality with financial regulation, and the FRC consultations are all post-crisis.

Further, it can be argued that the isolate solidarity, while not always passive, is less likely to contribute to consultations as there will always be a proportion of isolate actors who consider it fruitless trying to have their voice heard. Therefore, the first proposition (P1) comprises three parts as follows:

- P1: (a) The worldviews of all four solidarities should be expected to be present in the responses to the three consultations.
 (b) The worldview of the hierarchical solidarity will be present to a greater extent than the worldviews of the other solidarities.
 (c) The worldview of the isolate solidarity will be present to a lesser extent than the worldviews of the other solidarities.

All FRC policy consultations are within the domain of corporate accountability and this implies that, while each FRC consultation will relate to a specific topic in this domain, there will be some broad commonalities across all the consultations. Because, in DCT, each solidarity has a distinct worldview associated with its particular pattern of social relations (see, for example, Douglas 2003), an argument can be made that we should, therefore, expect that common themes will be identifiable in respect of the arguments presented by each solidarity in their responses across all three consultations. This proposition also permits us to build on the prior work of Lodge *et al.* (2010) where, in their examination of food safety regulation, patterns of argumentation commensurate with worldviews were observable that 'could not have been predicted by interest group-based analysis (that would predict "capture" by the regulated industry)' (p. 263). That is, if themes of arguments in the responses to the three FRC consultations are commensurate with worldviews of the solidarities, this provides some support that DCT can contribute to our understanding of regulatory change and provide a different perspective to the regulatory capture by interest group view of regulation. Therefore, the second proposition (P2) is:

- P2: The themes of the arguments presented by each of the four solidarities within their responses will have features in common across the three consultations.

In respect of financial regulation, recent research has argued that the 'traditional' narrative of regulatory capture by interest group may not adequately explain the policy-making process in this domain (Kwak 2014). For example, Young's (2012) research documents how the Basel Committee on Banking Supervision was not 'systematically vulnerable to influence by transnationally organized special interests' (p. 681) and he concludes by calling for new ways of understanding the policy-making process.

DCT can provide a less orthodox understanding that is different from this traditional narrative of regulatory capture, as it would suggest that the regulator will listen only to voices allied to their own solidarity. This may be unintentional, but arises as each solidarity is looking to perpetuate its own worldview and defend its pattern of social relations. Hence, each solidarity lacks awareness that it is deaf to the voices of other solidarities (Douglas 1994). Therefore, DCT would predict that the regulator will enact their own preferred solution(s) in accord with their worldview, and this forms the third proposition.

To examine this requires identifying whether the FRC holds a worldview commensurate with a particular solidarity, and then comparing this to the worldview associated with the eventual regulatory solutions enacted by the FRC. If the proposition is confirmed, this would suggest that there has not been regulatory capture of the FRC; rather, there is a form of 'self-capture'. This would be a potentially important finding as it would challenge both the regulatory capture narrative and the view that policy consultation is good practice as it inevitably results in regulators hearing the voices of others and incorporating their different ideas into re-drafted policy or regulation.

Therefore, the third proposition (P3) is:

P3: The worldview of the regulator will influence the outcome of the three consultations.

Hybridity has been observed in respect of the solidarities in DCT where two or more solidarities unite. This requires an actor to be willing to compromise their worldview by offering some concessions to another solidarity. However, as Lodge *et al.* (2010) have noted, this tactic can assist actors in having at least some part of their preferred solution enacted. These collaborations with actors who support an alternative worldview are not permanent, and typically they are two-way as there are difficulties in creating hybrids that go beyond this. Strategic hybrid collaborations may be perceived as useful devices for actors in respect of consultation responses as they may then have at least some of their preferences incorporated into the subsequent regulation. Therefore, the fourth proposition (P4) is:

P4: There will be respondents who exhibit hybridity in their worldviews as a means for having at least some part of their preferred solution enacted.

METHOD

Data coding

Across all three projects there were a total of 136 responses submitted. Each paragraph of the responses was coded to Douglas's typology consistent with the four solidarities. Coding paragraphs was deemed more appropriate than coding sentences, as sentences often constitute only part of an argument. Content analysis is unavoidably subjective, and to improve coding reliability the paragraphs in an initial sample of 10 letters were coded to solidarities independently by two of the authors and compared. Minor disagreements are inevitable in coding and these necessitated detailed discussions in respect of the allocated codes followed by re-coding. Coding decision rules were created. A paragraph that had more than one possible solidarity classification was classified into the solidarity most emphasized within the paragraph. A further 40 response letters were coded by the same two researchers and compared. The remaining response letters were then coded by one of the authors based on the decision rules. Inter-coder reliability, as measured by Cronbach's alpha, was sufficiently high at 81 per cent. For each response letter the number of paragraphs per solidarity was totalled to identify the dominant solidarity and subordinate solidarity, where applicable. The identification of the subordinate solidarity indicates that there is some hybridity.

In DCT each solidarity holds a distinct set of beliefs and values which they adhere to as a means of ensuring that their particular pattern of social relations is preserved; for example, hierarchists value rules as this protects the strong boundaries. To code each paragraph a broad, indicative set of characteristics associated with each of the four solidarities was determined, based on the key beliefs and values of each solidarity (table 1). After coding of the paragraphs, key themes the supporters of the different solidarities had proposed in

TABLE 1 *Indicative characteristics of the solidarities*

Individualist	Indicated by concepts related to: individual freedom, entrepreneurial activity, personal gain or success, group activity relevant if there exists opportunity for trade or exchange, negotiation, failure treated as personal responsibility.
Hierarchist	Indicated by concepts related to: tradition, authority, policing access, respect for rules, concerns over boundaries, loyalty.
Enclave	Indicated by concepts related to: idealism, justice, fairness, acting ethically, consideration of wider constituencies.
Isolate	Indicated by concepts related to: isolation, getting by, world is arbitrary and capricious, resignation to fate.

Source: Adapted from Linsley and Shrivs (2014).

TABLE 2 *Summary of dominant and subordinate solidarities*

Dominant and subordinate solidarity	FRC consultation (number and percentage of responses)			Overall
	CC	AS	ECS	
Hierarchy dominant and no subordinate solidarity ^a	4 (12.9%)	6 (23.1%)	22 (27.8%)	32 (23.5%)
Hierarchy dominant and individualist subordinate (hybrid) ^a	6 (19.4%)	4 (15.4%)	8 (10.1%)	18 (13.2%)
Hierarchy dominant and enclave subordinate (hybrid) ^a	2 (6.5%)	1 (3.8%)	0 (0.0%)	3 (2.2%)
Individualist dominant and no subordinate solidarity ^b	7 (22.6%)	7 (26.9%)	30 (38.0%)	44 (32.4%)
Individualist dominant and hierarchy subordinate (hybrid) ^b	10 (32.3%)	6 (23.1%)	16 (20.3%)	32 (23.5%)
Enclave dominant and no subordinate solidarity	2 (6.5%)	1 (3.8%)	3 (3.8%)	6 (4.4%)
Isolate dominant and no subordinate solidarity	0 (0.0%)	1 (3.8%)	0 (0.0%)	1 (0.7%)
Total responses ^c	31	26	79	136

^aTotal responses hierarchy solidarity dominant – 53 responses (39.0% of total).

^bTotal responses individualist solidarity dominant – 76 responses (55.9% of total).

^cColumns may not add to exactly 100% due to rounding.

each consultation were then identified. As the indicative characteristics were very broadly defined, this ensured that we did not pre-empt what themes might subsequently be identified for the responses.

CONSULTATION RESPONSES AND THE THREE FRC PROJECTS

Dominant and subordinate solidarities identified in the responses

The outcome of the coding of the responses is summarized in table 2. The coding identified 53 responses having a dominant hierarchical worldview, 76 responses a dominant individualistic worldview, six responses a dominant enclave worldview and one response a dominant isolate worldview.

The lack of responses from the enclaved and isolate solidarities implies that the consultation dialogue is partial and has a strong bias towards the policy solutions of the hierarchical and individualistic solidarities. While we would not necessarily expect an equal weighting of responses across the four solidarities, we might have expected the proportion of enclave and isolate responses to have been higher as the consultations concern governance and accountability reforms following the financial crisis; potentially a topic of wide interest. However, policy consultations are (ostensibly) undertaken to encourage a plurality of voices to be heard and as these two solidarities appear under-represented we reject part

TABLE 3 *Summary of hierarchically oriented themes*

Theme	FRC consultation		
	CC	AS	ECS
Defending the expertise of, and placing trust in, professionals	Yes	Yes	Yes
Defending regulation	Yes	No	Yes
Preference for knowledge to be 'complete and organized'	Yes	No	Yes
Common goals important	Yes	No	No

(a) of proposition P1. Nor do the results confirm part (b) of proposition P1. The results do confirm part (c) of proposition P1.

The notion of hegemonic discourses may explain why there were only six enclaved respondents. Jones and Song (2014, p. 466) suggest that for some issues there may be a 'dominating discourse' which will attract the attention of some solidarities and discourage other solidarities from entering into the debate (see also Song *et al.* 2014). In respect of regulating business, the 'dominant discourse' in recent years has centred on arguments for reducing the quantity of regulation, rather than on the content of the regulation; for example, this is evident in respect of the Red Tape Challenge initiated by the UK government in 2011 and in a similar Action Programme for Reducing Administrative Burdens instigated by the European Commission in 2007.

Framing business regulation consultations in this way is likely to draw hierarchists and individualists into the debate as they are, respectively, strongly for and strongly against greater regulation. However, enclaved respondents may judge that this is not the debate they want to have, being more concerned about the intent of the regulation and, particularly, whether it improves matters. That is, enclaved groups will be looking to engage in business regulation-related debates that are framed in terms of discourses of (in)equity, (in)justice and the like. For example, on issues relating to the global financial crisis, enclaved groups might be more keen to debate issues such as curbing excessive bonuses for bankers or the impact of austerity measures on individual households.

That there was only one response identified as fitting with the isolate solidarity might be because isolates are inclined to believe that responding is likely to be fruitless as no one will listen to their comments. The sentiment that their voice will not be heard is apparent in the single isolate reply, with the respondent asking that the FRC reconsider the proposals while at the same time anticipating that their suggested ideas will be rebuffed. A further possibility is that there may be barriers deterring some from responding, such as a lack of technical knowledge in respect of this domain.

The themes of arguments presented by each of the four solidarities

Common themes have been identifiable for each of the hierarchical, individualistic and enclaved responses in respect of the three projects, and tables 3, 4, and 5 indicate that there is a sufficient degree of commonality to support the second proposition.

The four principal hierarchically oriented themes relate to the significance of professional expertise and trust, defending regulation, a preference for knowledge to be 'complete', and the importance of common goals (see table 3).

The theme present in responses to all three projects relates to professional expertise and, connectedly, to trust in professionals. Hierarchical institutions advocate differentiated statuses, and respect for expertise upholds a hierarchical pattern of social relations.

TABLE 4 *Summary of individualistically oriented themes*

Theme	FRC consultation		
	CC	AS	ECS
Regulation a burden and a cost	Yes	Yes	Yes
The need for investor-relevant information	Yes	Yes	Yes
Principles preferred to rules	Yes	Yes	Yes
Practice preferred to theory	Yes	Yes	Yes

TABLE 5 *Summary of enclave-oriented themes*

Theme	FRC consultation		
	CC	AS	ECS
Recognizing that actions have wider societal impacts	Yes	Yes	Yes
Transparency prime	Yes	Yes	Yes
Resilience important	Yes	Yes	Yes
The unreliability of IFRS	No	No	Yes

In the context of this paper, with the FRC as the regulator responsible for oversight of professional accountancy bodies, such discussions specifically seek to defend the expertise of accountants. The issue of trust, and particularly in respect of trusting professional judgement, is linked to this defence of professional expertise. It is expected that professionals will have the trust of the public, but also have in place appropriate mechanisms to ensure that this trust is warranted (Hughes 1984). In the case of professional accountants, mechanisms associated with their acting with integrity are 'maintained through membership criteria of the professional institutes, professional exams, continuous professional development and where necessary disciplinary measures' (Grant Thornton, AS response, p. 2). The notion that disciplinary measures will operate to maintain trust in professional accountants is important in a hierarchical context where it is expected that there will be procedures to deal with those who transgress boundaries. Hence, the ICAEW explain that accountants can be trusted as there are 'various pieces of legislation ... [which] provide for regulatory action and even disciplinary action' (ICAEW, ECS response, p. 5).

The theme concerning defence of regulation relates to the hierarchical worldview of rules being a means for both setting out how things should be done and for re-establishing order when a boundary is violated. However, hierarchically biased responses to the CC and ECS projects go further and also argue that complex regulation can be a force for good as it helps ensure that disagreements between different subgroups can be resolved satisfactorily. Thus, regulation is also judged to be helpful as a means of reducing the possibility of group frictions.

The third theme concerns knowledge, and the hierarchical worldview is that knowledge should be 'almost complete and organised' (Thompson 1992, p. 199). For example, in response to the CC project, the ICAEW suggest that before reaching conclusions as to what has caused the increase in volume of annual reports, there is a need to organize our knowledge to assemble a complete picture to identify the causes of the increase. This worldview of both the scope of knowledge and of expertise is also why theory is perceived

to be as valuable as practice in a hierarchical context. Expertise is, in part, underpinned by theoretical understanding of that area of expertise and theory aids in making knowledge comprehensive. The pro-theory position of the ICAEW is evident in their contention that the CC discussion paper is wrong to promote the view that 'accounting is becoming too theoretical', arguing that this aids in ensuring that there are 'acceptable boundaries' (ICAEW, CC response, p. 4) in respect of accounting standards.

The final theme in this solidarity concerns the establishment of common goals. This is important for hierarchical solidarities as shared objectives assist in achieving group unity. For example, this theme is addressed in the CC project in a discussion on how the project will only be satisfactorily concluded if there is a 'combined effort to work towards a common goal' (ICAS, CC response, p. 2).

Individualistically oriented themes relate to a propensity for less regulation, the importance of providing investor-relevant information, a preference for principles as opposed to rules and a preference for practice rather than theory (see table 4).

One facet of the individualistic worldview is a preference for self-regulation and there are repeated calls from particular respondents for the FRC to avoid regulation as it is both a burden and a cost. The objections to greater regulation are contextualized within each project. Thus, the arguments surrounding costs of regulation are that these would arise from greater disclosure requirements in respect of the CC project, over-auditing in respect of the AS project and an unnecessarily expanded audit report in respect of the ECS project. The argument for reducing regulation is often supported by contending that there is need to 'avoid ... measures which could limit ... economic growth' (Deloitte, AS response, p. 6).

The second theme concerns the provision of decision-useful information to investors. The individualistic solidarity has faith in efficient markets. For markets to be efficient, investors need relevant information. Hence, it is argued that at its core 'financial reporting should be able to give a clear ... statement of the core activities of the business' (Ernst and Young, CC response, p. 3). Further, there is a need for accounting regulation to provide 'information ... comparability across companies' (Deloitte, CC response, p. 4) to ensure that stock prices reflect all available, relevant information. However, government intervention in stock markets is largely seen as unhelpful, and markets should be left to self-correct.

The individualistic solidarity's worldview, with regard to the scope of knowledge, is that it should be 'sufficient and timely' (Thompson 1992, p. 199). This is also a reason why theory is of minor interest in the context of this solidarity. Knowledge needs to be timely as individualistic societies perceive markets to be in constant flux, and for markets to be efficient there is a need for timely, price-sensitive information. Hence, there are discussions over whether the annual report is fit for purpose or needs 'to be updated on a real-time basis' (PWC, ECS response, p. 3).

The individualistic bias towards wanting to have freedom to negotiate underlies the theme of preferring principles to rules. Pragmatic (rather than theory-based) solutions are preferred as they offer a 'practical and useful framework' (BT, ECS response, p. 2). Hence, ACCA argue the FRC should 'avoid over-prescription ... [and permit companies to] incorporate an appropriate element of flexibility ... [how] to frame their reports' (ACCA, ECS response, p. 3).

The individualistic and hierarchical respondents are professional bodies, audit firms, trade associations, and individuals, and within each of these four categories there is a mix of individualistic and hierarchical responses. This suggests that, for example, audit firms are not working together to capture regulation as an interest group. Ten respondents

replied to all three consultations and another eight replied to two of the consultations. For these 18 respondents, their dominant solidarity remained the same across the different consultations except for two occurrences where the dominant and sub-dominant solidarity reversed. That their worldviews remained substantially consistent over time tends to support DCT in its contention that groups will want to ensure that their particular pattern of social relations is preserved.

Six responses were identified as consistent with the enclaved solidarity, three of which were submitted by the same organization who replied to all three consultations. This organization is the Local Authority Pension Fund Forum (LAPFF). Enclaved organizations are prone to classifying the world outside their group as a threat, and are predisposed to take on the role of questioning whether the 'outside world' has lost its moral compass. Such moral zeal is evident within all six responses.

Table 5 provides a summary of the principal themes identified in enclaved responses. Enclaved groups are inclined to argue that we need to understand the wider impacts that actions have on society and this is a key theme identified. For example, the LAPFF makes this claim by stating that the FRC needs to understand that financial reporting affects real-life economics and 'impacts on ... job creation, working conditions ... tax receipts ... the environment and other issues across society' (LAPFF, CC response, p. 1).

A second theme concerns the necessity of transparency. The LAPFF argues that transparency is vital as it opens up boards of directors to increased scrutiny and requires directors to be 'responsive ... [regardless] whether they are required to do so by regulation or not' (LAPFF, CC response, p. 2). The LAPFF also believes that there is a need for a 'change in mind-set from those boards that have treated shareholders' views as an inconvenience' (LAPFF, CC response, p. 3). The LAPFF is anti-simplifying regulation if it permits a 'box-ticking compliance approach rather than seeking to achieve best practice' (LAPFF, CC response, p. 6). To emphasize the importance of transparency, the LAPFF cite opacity as an important facet of the financial crisis. Blair (another of the enclaved respondents), in replying to the CC project, also provides examples of opacity in annual reports.

The LAPFF response to the AS consultation is as vigorous as its response to the CC project, being especially critical that auditors did not raise any alarm in the run-up to the banking crisis. Fundamental to their argument is another recurring theme of resilience. Enclaved groups perceive the world as fragile and, hence, incorporating resilience into the world is judged to be vital. Thus, the LAPFF argues that to protect the capital base of the business, companies need to have a 'forward view of the resilience of the business' (LAPFF, AS response, pp. 1–2). The LAPFF make reference to the financial crisis and contend that it has shown that 'certain banks which received clean audit opinions ... were not in a resilient condition beneath that appearance' (LAPFF, AS response, p. 2).

The LAPFF response to the third ECS project is arguably even more critical of the FRC than in the first two projects. It claims that the FRC has 'skirt[ed] around the accounting issue to the extent of denying a problem with accounting and audit and the key role that played in the banking crisis' and is 'using the consultation to deflect attention from its effectiveness as a regulator' (LAPFF, ECS response, summary page). The two themes of resilience and transparency are central to the LAPFF response to this project. These themes arise out of the LAPFF's conviction that the FRC's adoption of International Financial Reporting Standards (IFRS) for preparing financial statements has been harmful and has resulted in 'capital, pay and dividends ... be[ing] based on unreliable and dysfunctional numbers' (LAPFF, ECS response, summary page). The LAPFF judges that accounts

are 'misleading' and 'legitimis[e] imprudent value destructive behaviour' (LAPFF, ECS response, summary page).

In relation to transparency, the LAPFF comment again on the behaviour of directors, stating that they cannot always be trusted and 'may make losses, or even make off with the capital' (LAPFF, ECS response, p. 3). Similarly, another of the enclaved respondents argues that 'management incompetence can be masked' and that the auditor '(c)osying up to management in the hospitality box etc. is simply not good enough' (Yaxley, ECS response, p. 3). For the LAPFF, this is an important reason why reliably audited financial statements are necessary; namely, they are vital for the effective functioning of the AGM as this is the principal forum for shareholders to hold directors to account.

The worldview of the FRC

The worldview of the FRC, identified through examining the three project discussion papers prepared by the FRC, the FRC feedback and FRC's next steps in respect of the three projects, displays hybridity with the dominant solidarity individualistic and the subordinate solidarity hierarchical. The key themes in the FRC discussions are the same four individualistically oriented themes previously identified in table 4. However, these discussions are moderated, and this is perhaps due to the influence of the subordinate hierarchical worldview.

At the outset, the CC discussion paper suggests that there is a need to modify the annual report so that it presents investors with decision-useful information that will aid investors in allocating capital efficiently and taking into account the risk of a company. The FRC advocates a common sense approach towards the issue of the complexity of annual reports and contends that the regulation should be simplified. It suggests that principles are better than rules as a basis for regulation and it is implied that regulation should be practically rooted.

In the AS discussion paper, while the individualistic solidarity is still dominant and the subordinate solidarity still hierarchical, the distinction is less marked than in the CC paper. It is proposed that any 'further move away from "principles" towards "rules"' (AS, FRC discussion paper 2010, p. 14) will be detrimental, but the discussion of regulation is moderated. For example, the paper suggests that Auditing Standards are already sufficiently rigorous, but grants that more guidance on audit scepticism may be helpful for audit firms. Thus, it is acknowledged that some regulation is necessary and the balance the FRC is seeking is for sufficient scepticism to ensure that the audit is effective; but not too much scepticism that the auditor carries out additional and unnecessary audit tests. The latter is to be avoided as it has a post-audit cost implication for either the client if they consent to paying an additional fee or the audit firm if the fee cannot be re-negotiated.

The FRC discussions suggest that the hybridity may be a result of the FRC acknowledging that interdependence exists between the individualistic and hierarchical solidarities. That is, the individualistic solidarity recognizes that for markets to function efficiently hierarchically based mechanisms need to be in place to protect against companies misinforming investors with regard to their performance. This relates to 'threats to the functioning of the market' (Thompson 1992, p. 200) being a prime concern of the individualist solidarity.

This acknowledgement of a co-dependence is also evident in the ECS discussion paper. At the outset, the ECS paper states that the proposals are built 'on existing foundations and are not ... over-prescriptive' (ECS, FRC discussion paper 2011, p. 5). This is not to

say that there is to be no prescription. For example, it is explained that investors need more risk- and strategy-related information in the annual report. The paper recommends that to achieve this, extra information should not be required through regulation, but rather through a less onerous reporting standard. This standard would then not be too burdensome. This need for investor-focused, decision-useful information is embedded in discussions relating to the information needs of an efficient capital market. This accords with the worldview of the (dominant) individualistic solidarity, as does the FRC statement that it is not seeking to eliminate the 'risk of failure' through its prescriptions. Thus, this is the individualistic stance that risk can bring the opportunity for profit, but success is not guaranteed in a competitive marketplace and failure is possible.

In 2010 the FRC published a feedback statement summarizing responses to the CC consultation. The FRC analysis of CC responses notes that there was some variation in views received, but the overall FRC message conveyed in the feedback statement is that '(t)he principles for less complex regulation were well supported by most respondents' (CC, feedback statement 2010b, p. 2). The FRC performed further CC follow-on work and published the outcomes of this follow-on work in 2011 (CC, FRC discussion paper 2011b). In this 2011 paper the FRC position is essentially unchanged from the original pre-consultation proposals paper. For example, the FRC continues to maintain that there is a need to simplify the corporate reporting requirements so as to 'reduc[e] the time, energy and cost of preparing unnecessary disclosures and increasing clarity for investors' (CC, FRC discussion paper 2011b, p. 3).

The FRC outlined its proposed post-consultation actions to the AS project in a 2011 feedback paper (AS, FRC feedback paper 2011c) and, again, the fundamentals of the initial position are maintained; namely there must be balance so that there is sufficient scepticism but without causing unnecessary costs to arise. The FRC feedback regarding the responses to the initial consultation is that there was a 'high degree of consistency in the responses from the accountancy firms and their professional bodies' (AS, FRC feedback paper 2011c, p. 2). The FRC acknowledge that there was a range of opinions in the responses from stakeholders, but there is only a very short discussion of these in the feedback paper which is justified on the grounds that 'it is difficult to prepare a succinct summary of their responses' (AS, FRC feedback paper 2011c, p. 5). The key proposed post-consultation action by the FRC is that they will provide further guidance on what scepticism means, but maintain a stance of keeping regulation in check, emphasizing that any requirement would 'not be overly time consuming' (AS, FRC feedback paper 2011c, p. 10).

The FRC 'Next Steps' paper feeding back on responses to the third project was published later in 2011 (ECS, FRC feedback paper 2011d). The FRC states that 'respondents were substantially supportive of the FRC's proposals and the FRC continues to believe that the approach outlined in its Discussion Paper is correct' (ECS, FRC feedback paper 2011d, p. 2). In the feedback paper it is acknowledged that the response to one aspect of one proposal was 'controversial' in that while there was some support from auditors and investors, it was wholly opposed by listed firms. This aspect concerned increasing investor participation in the appointment of a firm's auditor and the FRC decision was to not proceed with this particular aspect.

DCT suggests that any solidarity is likely to only listen to voices that espouse ideas aligned with their own worldview. This is because each solidarity has a primary focus on winning over others to their worldview as they believe that their pattern of social relations is the most appropriate. That the FRC summary of responses seems to indicate that they have judged most responses as supportive despite the evidence suggests there may be

a lack of awareness that other voices had spoken. Prima facie, the analysis indicates that proposition P3 appears to hold as the regulator has enacted solutions that correspond with their worldview. This would suggest that the regulator has not been captured; instead, it is subject to what may be described as self-capture.

It is important to clarify what we mean by 'self-capture' in the context of DCT. The financial regulation literature generally suggests that powerful groups in the financial sector have captured regulation and, therefore, the underlying motivating 'force is ... material self-interest' (Kwak 2014, p. 75; see also Young 2012). From a DCT perspective, 'self-capture' is, however, different from self-interest. 'Self-capture' describes the instinctive reaction of a solidarity to act to uphold its pattern of social relations. For this reason the regulator's worldview is inevitably (and unwittingly) perpetuated.

Hybridity

A significant number of respondents display hybridity, either of the same form as the FRC or of a reverse form with the hierarchical solidarity dominant and the individualistic solidarity subordinate (see table 2). It has been stated that hybridity observed in respect of the FRC may be due to the FRC recognizing interdependence between the individualistic and hierarchical solidarities. Those respondents displaying hybridity of the same form as the FRC also appear to frame their responses such that they are acknowledging that the individualist solidarity has a need for some of the solutions of the hierarchical solidarity. For example, hybrid responses of this type in respect of the CC project discuss that while their desire is for regulation to be reduced, they also accept that some limited measure of regulation is required, and in responses to the AS project the view is not wholly anti-audit regulation but rather that cost-effective audit regulation is as important.

An alternative explanation as to why there is hybridity observable in the FRC is that it is less an acknowledgement of interdependence between solidarities and more a tactical manoeuvre to ensure that respondent groups holding a dominant hierarchical worldview are less likely to raise substantive objections. Thus, the subordinate hierarchical worldview identifiable in the FRC proposals may be that the FRC is deliberately prepared to cede some ground to supporters of the hierarchical solidarity to lessen objections. However, it is difficult to ascertain which of these is the primary reason underlying the hybridity and, therefore, it is difficult to know whether the fourth proposition is supported.

The arguments of hybrid respondents where the hierarchical solidarity is dominant and the individualistic solidarity subordinate can be contrasted with the hybrid respondents who are of the same form as the FRC. The line of reasoning evident in these hybrid responses is apt not to be towards recognition that the hierarchical solidarity has some need for the individualistic solidarity; rather, it errs towards being a justification of why the individualistic solidarity needs the hierarchical solidarity. For example, when defending regulation, the ICAEW state: 'But users surely would not want a complete free-for-all and so some level of restriction is required' (ICAEW, CC response, p. 4). Similarly, in respect of the same project, KPMG note that regulation is required as it enables economic activity rather than being a burden on the economy. Therefore, the arguments are inclined to be concerned with clarifying 'why you need us' as opposed to 'why we need you'. It is possible that this category of hybrid respondent construct their arguments in this form as they wish to counter the proposals of the regulator which have been configured based on an inverted worldview where the individualistic solidarity is dominant and not the hierarchical solidarity.

CONCLUSION

The above findings have important implications for policy-making and the regulatory state. In respect of proposition P1(a) the overwhelming majority of respondents display either individualist or hierarchical worldviews, and the enclave and isolate voices are significantly under-represented. Ostensibly, policy consultations are undertaken to facilitate change through encouraging a diverse range of voices to engage in the consultation process and to offer their insights and propose solutions. These results suggest that this diversity of engagement is not occurring despite the policy issues being related to the financial crisis which has been the subject of extensive public debate.

It is feasible that the lack of diversity of voices may be a result of the policy context – focusing as it does on accounting, auditing and governance regulation. In this setting the dominant discourse may centre on debates over whether more or less regulation is better, and this may not engage enclaved groups. In effect, an agenda is set that precludes the widespread engagement of two of the solidarities. Moreover, the perception that such voices may be registered but not heard might further reduce participation in consultation processes. It could be argued that such agenda-setting (Lukes 2005) stands as a well-rehearsed mechanism for avoiding unwanted challenges to prevailing regulations or policies. Therefore, where different views are sought, policy makers would do well to consider how the framing of consultations is likely to encourage or discourage the participation of particular solidarities.

That we found support for propositions P2 and P3 underscores the need for a diversity of voices to be heard in policy consultation processes. The analysis of responses has distinguished the preferred solutions of each of the hierarchical, individualistic and enclaved solidarities and distinct themes have been identifiable for each. This confirms proposition P2 and substantiates that the different solidarities are constrained in their decision-making with the solutions any solidarity offers to a problem being limited in scope. This implies that policy blind spots will arise as each solidarity has a restricted view of the world. To solve wicked problems there is a need to find some means of combining the proposals of the four solidarities to craft a clumsy solution. Not only will this be a broader solution; it is also more likely to be acceptable to all four solidarities as no voices are being excluded.

The acceptance of proposition P3 suggests that the FRC has, for the most part, not heard other voices as it makes policy and develops regulation. If the regulator does not deviate from their own worldview following a consultation, DCT would predict that the outcome of the regulation would be sub-optimal and, therefore, unlikely to be in the public interest. This is because it has excluded the voices of the other solidarities.

The LAPFF view is that the FRC must listen to the voices of others and it advocates that the FRC partner with a more diverse range of bodies 'to ensure that no one set of views is dominant in the FRC's thinking' (LAPFF, 'Louder than Words' response, p. 1). That we find support for proposition P3 implies that the scope for reform becomes circumscribed as the regulator is enacting its preferred solutions commensurate with its worldview and this places constraints upon reasoning, decision-making and the framing of acceptable options and action (6 2014b). As the victor in the policy debates, this results in better implementation of the status quo. We have described this as regulatory self-capture. Regulatory self-capture runs counter to the common narrative in financial regulation of capture by interest group, and this result suggests that DCT can add to existing explanations of how policy and regulation are made. This suggests that attention should be focused on averting self-capture rather than capture.

Finally, in respect of proposition P4, significant hybridity is observable. For example, the FRC reflects this hybridity with the dominant individualist worldview supported by a hierarchical subordinate worldview. What is difficult to know is whether the hybridity on the part of the FRC indicates that alliances are deliberately being enacted or if they are an acknowledgement of a mutual interdependence between the solidarities. Despite not being able to determine which of these reasons holds, it implies that, at best, only two voices are being attended to and two solidarities are effectively excluded; whereas there needs to be a proactive approach on the part of the regulator to both draw in and listen to all voices.

Consequently, these results suggest that future research further examining policy and regulatory consultation processes by drawing on DCT is of importance. Studies examining consultations in other policy contexts might add to understanding of whether there are ways of drawing in responses from all solidarities. Such studies would be valuable as they could recommend ways of ensuring that consultations can be framed to encourage full participation. Studies that look to provide examples of the enactment of clumsy solutions would be particularly helpful. Such research would assist in knowing how it is possible to ensure all four voices respond to consultations and how to ensure that all four voices are then heard. These studies would also reveal how we can avoid the possibility of regulatory self-capture.

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Understanding risk disclosures as a function of social organisation: A neo-Durkheimian institutional theory-based study of Burmah Oil Company 1971–1976



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ABSTRACT

This paper draws on neo-Durkheimian institutional theory to identify patterns of social relations within the Burmah Oil Company Limited (BOC) in the period 1971–1976 and to assess whether the risk perceptions and the approaches to risk management discussed within the risk disclosures for the BOC annual reports are consistent with the patterns of social relations. Using archival sources the dominant pattern of social relations in the period 1971–1973 is identified as hierarchical and in the period 1974–1976 as isolate; the change in the pattern of social relations resulting from the BOC tanker fleet crisis in 1974. Significantly, the annual report risk disclosures are found to be consistent with the dominant patterns of social relations. Much prior risk disclosure research has focused on examining the principal characteristics of risk disclosures and testing for associations between volumes of risk disclosures and firm characteristics. This study suggests neo-Durkheimian institutional theory may offer a causally-based explanation for annual report risk disclosures.

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1. Introduction

Risk management is now considered a fundamentally important activity for the achievement of a company's strategic objectives. Consequently, directors are required to take responsibility for ensuring that a risk management system is “incorporated within the company's normal management and governance processes” (Financial Reporting Council, 2014a, p. 2). Significantly, the function of a risk management system is not limited to supporting directors in better managing the company; the process of managing risk also generates risk information that can then be made publicly available. Disseminating this risk information is considered an equally important responsibility for director as it “ensures that shareholders and other stakeholders are well-informed about the principal risks and prospects of the company” (Financial Reporting Council, 2014a, p. 1).

Investors and other stakeholders need risk information to be able to assess a company's risk profile and to understand how risks are being managed. This enables them to make risk-informed decisions and assists in holding directors to account in

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respect of the risk implications of strategic decisions. The importance attached to publishing risk information has resulted in many countries requiring companies to provide risk disclosures in their annual reports. For example, in the UK §417 of the Companies Act 2006 stipulates “(t)he business review must contain ... a description of the principal risks and uncertainties facing the company” and provision C.2.1 of the UK Corporate Governance Code states that in the annual report “directors should describe those (principal) risks and explain how they are being managed or mitigated” ([Financial Reporting Council, 2014b](#)).

There has also been a growing academic interest in studying risk disclosure. The research to date has largely focused on examining risk disclosures in corporate annual reports in different countries and has been dominated by content analysis-based research methodologies (see, for example, [Elshandidy & Neri, 2015](#)). In this paper we explore risk disclosure in a different manner to prior studies and a detailed literature review is provided in the next [section](#) of the paper.

As has been stated risk disclosures should stem from a company's risk management process. This process requires a company to identify those risks they judge to be significant, which will be dependent on the company's perceptions of risk, and then to decide how they wish to manage these risks. This implies that discussions of principal risks and how those risks are managed in a company's annual reports should represent the risk perceptions and attitudes to risk and risk management of the company. One way of understanding risk perceptions and risk attitudes is through the insights of neo-Durkheimian institutional theory as developed by the anthropologist Mary Douglas. In summary, the theory argues that the pattern of social relations in a group or community restricts how decisions are analysed. Social relations place a frame around the group's reading of a problem and affect the solutions the group creates to address a problem through shaping which strategic choices will be seen as feasible. This shaping arises as the pattern of social relations influences aspects such as the time scales over which a group will look ahead, the extent to which the group is willing to fully commit to a strategy, the strength of the connection made between reasoning and objectives, and how risk is viewed ([6, 2014a](#)). Further discussion of neo-Durkheimian institutional theory is provided in the third [section](#) of the paper.

This paper examines a case company over a period of time and has two principal objectives. The first objective is to identify the pattern(s) of social relations existing within the case company for the period under observation. The second objective is to assess whether the risk perceptions and the approach to risk management identified in the risk disclosures for the annual reports are consistent with the pattern(s) of social relations identified for the case company for the period under observation. If it is possible to trace through from identifying the pattern of social relations to the impact this has on risk perceptions and approaches to risk management contained within the risk disclosures, then neo-Durkheimian institutional theory may offer a causally-based explanation for annual report risk disclosures.

We apply neo-Durkheimian institutional theory to the case of the *Burmah Oil Company Limited (BOC)* for the period 1971–1976. BOC has been selected for study as it faced an oil tanker fleet crisis and was subject to a financial bailout by the UK government in 1974 which caused significant disruption to the organisation. Therefore, this allows us to explore whether the disruption in 1974 led to a change in the pattern of social relations and, if so, whether the risk disclosures reflected this change in social relations as predicted by neo-Durkheimian institutional theory. This makes BOC an interesting and appropriate case for study, permitting analysis of changes in social relations and the impact this has on risk disclosures in the annual reports. Furthermore, the BOC archives are substantial and contain documents which facilitate the identification of patterns of social relations within the company.

The paper seeks to extend risk disclosure research in the following ways. First, we seek to understand risk disclosures by applying a theory that derives from social anthropology and can potentially provide a causal explanation for annual report risk disclosures. Both sociology and anthropology have examined the topic of risk extensively (examples being the works of Ulrich Beck and Niklas Luhmann) and yet prior risk disclosure studies have not sought to ascertain if the risk ideas in these two fields can be employed to understand aspects of risk disclosure. Second, by drawing on the BOC archive our study goes beyond solely focusing on examining the risk disclosures in the annual report and draws on other sources to seek to understand why risk disclosures exist as they are. Third, we adopt an alternative methodology to content analysis which facilitates analysing the specific subject matter of the risk disclosures.

The rest of the paper is organised as follows. In the next [section](#) we review prior risk disclosure studies. Neo-Durkheimian institutional theory is then detailed and discussed. The methodology is outlined next, and followed a summary of the case company. The analysis and discussion of BOC in the period 1971–1976 is then presented, followed by the conclusion.

2. Prior risk disclosure studies

[Abraham and Shrives \(2014\)](#) assert that risk disclosure as a research topic is “still very much in its infancy” (p. 91); however, this statement requires clarification as academics have recognised that risk disclosure is of importance and there is a growing body of literature examining risk disclosure in different settings.

Thus, previous studies have examined financial firms (see, for example, [Maffei, Aria, Fiondella, Spanò, & Zagaria, 2014](#)), non-financial firms (see, for example, [Oliveira, Rodrigues, & Craig, 2011](#)), and government owned enterprises (see, for example, [Allini, Manes Rossi, & Macchioni, 2014](#)). Risk disclosure practices across a range of countries have been investigated including, for example, studies of companies in Italy, USA, UK, Finland, Netherlands, and Egypt (see respectively, for example, [Beretta & Bozzolan, 2004](#); [Campbell, Chen, Dhaliwal, Lu, & Steele, 2014](#); [Elshandidy, Fraser, & Hussainey, 2013](#) [Miihkinen, 2013](#); [Mokhtar & Mellett, 2013](#)) and there have been comparative cross-country studies (see, for example, [Barakat & Hussainey, 2013](#); [Dobler, Lajili and Zeghal., 2011](#); [Elshandidy & Neri, 2015](#)). Studies have examined risk disclosures in their

entirety (see, for example, Linsley & Shrides, 2006) and other studies have focused on subsets of risk disclosures including operational risk and market risk disclosures (see, for example, Al-Hadi, Hasan, & Habib, 2016; Deumes and Knechel, 2008; Lajili, Dobler and Zeghal, 2012). Whilst the annual report has been the main focus for the majority of studies there have been investigations of other publications that contain risk information such as interim reports (see, for example, Elzaher and Hussainey, 2012) and prospectuses (see, for example, Deumes, 2008). A small number of papers have adopted a wholly theoretical approach to researching risk disclosures (see, for example, Dobler, 2008; Jorgensen & Kirschenheiter, 2003) in comparison to papers that have sought to examine how external events such as the implementation of a risk disclosure-based accounting standard and the global financial crisis of 2007–8 have impacted on risk disclosures provided by companies (see respectively, Miihkinen, 2012; Ntim, Lindop, & Thomas, 2013).

The sense in which it is appropriate to argue that risk disclosure research is “still very much in its infancy” is that for much of the prior empirical research content analysis has been the dominant research methodology and this content analysis has been both manual (see, for example, Abraham & Cox, 2007; Bowman, 1984) and computer-based (see, for example, Elshandidy, Fraser, & Hussainey, 2015; Kravet & Muslu, 2013). Further, the aims of much of this prior research has been to gather insights into the principal characteristics of risk disclosures or, through regression analysis-based hypothesis testing, to examine for associations between volumes of risk disclosures and corporate governance characteristics such as board composition (see, for example, Elshandidy et al., 2013; Khlif & Hussainey, 2016; Maffei et al., 2014).

The main purpose of research examining the principal characteristics of risk disclosures has been to identify the potential usefulness of annual report risk disclosures by identifying risk sentences and coding these to ascertain the relative proportions of sentences that are, for example, quantified or unquantified, forward looking or backward looking, and if they explain specific risk management actions or merely describe risk management policy. In summary, the research to date finds it is atypical for risks to be quantified or for forward-looking risk disclosures to be provided (Abraham and Cox 2007; Beretta & Bozzolan, 2004; Linsley & Shrides, 2006; Linsley, Shrides, & Crumpton, 2006; Dobler, Lajili, & Zeghal, 2011). Linsley and Shrides (2006) also find that a significant proportion of the risk disclosure sentences are explanations of risk management policies rather than discussions of specific risks. The suggestion is that risk sentences are of greater use to the reader if they are quantified, forward looking or explain specific actions taken to manage specific risks and, therefore, the common conclusion drawn in this prior research is that companies need to improve the quality of their risk disclosures.

It is more difficult to compare the results of those studies that are regression analysis-based hypothesis tests examining for associations between volumes of risk disclosures and corporate governance characteristics. This is because they are set in different contexts and test different characteristics. For example, Barakat and Hussainey (2013) examine for relationships between operational risk disclosures and corporate governance characteristics and aspects of banking regulation for a sample of EU banks, whilst Al-Hadi et al. (2016) examine for relationships between market risk disclosures and bank risk committee characteristics for financial firms from Gulf Cooperation Council countries.

What is evident is that there are a number of aspects of risk disclosure that could be usefully examined, but that these prior studies have not considered. First, the content analysis approach adopted by many prior studies means that the specific and detailed subject matter of the risk disclosures has not been analysed. Second, whilst these prior studies analyse the risk disclosures in the annual report or other disclosure document under consideration, there is no scrutiny of other information sources that might provide an understanding of the risk disclosures. Third, prior risk disclosure research has largely relied upon theories that have originated in economics and management such as agency theory, stakeholder theory, legitimacy theory and resource-dependence theory (see, for example, Allini, Manes Rossi, & Hussainey, 2016; Ntim et al., 2013) and there has not been adoption of other theories that might be better able to assess why a particular set of risk disclosures has been provided by the company.

As outlined in the introduction, this study seeks to address these gaps in the following ways. First, content analysis is not adopted; rather, the specific subject matter of the risk disclosures in the BOC annual reports is examined in the manner described in the methodology section. Second, in addition to examining the annual report risk disclosures the BOC archive is drawn on to aid in understanding why the risk disclosures are as they are. The wide range of documents available in the BOC archive and the use to which they are put are also described in the methodology section. Third, neo-Durkheimian institutional theory has been adopted as it provides an opportunity for ascertaining whether it is possible to track through from patterns of social relations to risk perceptions and attitudes to risk management, and then through to risk disclosures. The theories adopted to date are unable to offer a causal explanation of risk disclosures in this manner. Hence, it is in these ways that the paper is distinct from prior studies and is looking to develop risk disclosure research in a new direction.

3. Neo-Durkheimian institutional theory

Mary Douglas developed the ideas that now form neo-Durkheimian institutional theory over an extensive period (see, for example, Douglas, 1970, 1978, 1986, 1987, 1989, 1990, 1994, 1995, 2003, 2004; Douglas & Wildavsky, 1982). At the core of the theory is the proposition that as social beings we comprehend the world by reference to our relations with others and, hence, we need to be concerned with understanding social relations. To be more precise, social relations are of fundamental importance because they shape how we evaluate decisions, how we interpret problems and what preferences we have when selecting solutions. In neo-Durkheimian institutional theory such shaping is often described by referring to social relations as impacting on *thought styles*.

Douglas seeks to explain the significance of institutions in this context and she clarifies that “(t)o institute is to establish order ... An institution is specifically an ordering of social relationships into regular patterns” (Douglas, 2008, p. 9). It is a key concern of Douglas to establish that the ordering associated with institutions is far more systematic than might be presumed (see, for example, Douglas, 1989). Hence, Douglas argues there are a limited number of basic patterns of social relations (see, for example, Douglas, 2003) and asserts the diversity is limited to four basic (or elementary) forms. These are substantiated as the viable forms of institution (see, for example, Thompson & Ellis, 1997) and there is a propensity for any institution to revert to one of these four forms as they have a comparative permanence and are observed to consistently recur (Douglas, 1978).

The framework which sets out these four basic forms is based on the two dimensions of grid and group. The grid and group dimensions derive from Durkheim’s classifications of social regulation and social integration. Significantly, Douglas does not treat these two dimensions as separate but “cross-tabulated them and focused ... on the forms found in the interstices” (6, 2011, p. 64). The result is that the two dimensions combine in weak and strong (or low and high) states to create the matrix of four basic forms; isolate, enclave, hierarchy, and individualist (Fig. 1). The four basic forms are often referred to as solidarities and the names attached to each of the four solidarities have altered over the years as Douglas attempted to ensure they would not mislead (see, for example, Douglas, 1999).

Social integration (the group dimension) concerns the extent to which an individual is committed to other members of an organisation or group. If an individual has a high degree of loyalty or commitment to other members in their community this signifies ‘high group’; conversely, if individuals are more focused on achieving their own goals than the group’s goals this represents a ‘low group’ form of organisation (Douglas, 1978). Social regulation (the grid dimension) relates to the degree of freedom individuals have in respect of being able to self-select social roles. If there is relative freedom to select social roles then this constitutes a low grid society; conversely, if there are restrictions (or regulations) upon the social roles one can choose and prescriptions regarding social interactions this represents a high grid society. Hence, the grid dimension is concerned with issues of role “(a)utonomy, ambiguity, (and) negotiation” (Douglas, 1989, p. 173). Thus, in summary, social integration and social regulation respectively concern the extent to which “practices, positions, and relations are specified by strong or weak accountability to bonds and memberships, and by strong or weak accountability to constraint, imperative, prescription, (and) roles” (6, 2014a, p. 89).

Hierarchical ordering (high group and high grid) denotes that individuals are strongly bound to one another and regulation of roles is strong. This implies clear role demarcation occurs. Distinguishing roles from one another assists in defining statuses; in addition, deference is shown to those in authority (Douglas, 2004). Traditions are valued and respected, and rules are deemed important as they maintain order. The actions and operations of a hierarchical group or organisation are co-ordinated as there are shared aims and common goals. There is a strong sense of “common membership in a community, albeit among unequals” (6, 2014a, p. 90) and a high degree of loyalty to the group. Outsiders are viewed with some distrust as they are external to the group. In this form of ordering styles of thought are such that planning horizons are over the long-term as hierarchical institutions perceive a permanence and continuity from the past through to the future. There is an underlying assumption that the hierarchical form of social relations can be expected to persist into the future and because they are comfortable looking ahead over the long-term they are willing to engage in long-term commitments.

For hierarchical institutions the approach to risk (that is, the thought style regarding risk) is not to be risk-averse; rather, a careful balance is sought between risk and reward. When making decisions under uncertainty the approach is to carefully consider the risk implications of the venture. Expertise is drawn on to assess if the potential rewards are worth pursuing and if

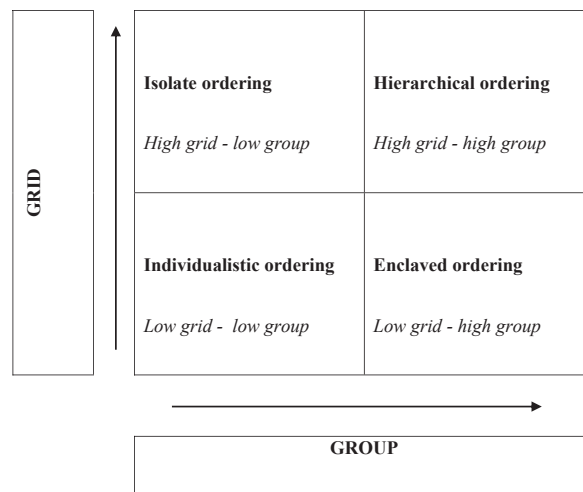


Fig. 1. Grid-group framework.

Source: Adapted from Douglas (1986, 2004).

they assist in diversifying overall risk. There is a thorough approach to the appraisal of the potential risks and careful deliberations on the venture under consideration. Further, plans or procedures will be put in place to manage potential risks associated with any commitments taken on. Hence, under this form of social organisation there is strong belief in expert knowledge and if risk assessments are undertaken with care then faith is placed in them.

The extensive prescriptions just described for hierarchical ordering do not apply to an individualistic institution as there is weak social integration (low grid) and weak social regulation (low group). This permits individuals to collaborate with whoever they wish and the preference is for self-regulation. Douglas perceives this as a demanding form of social organisation in the sense that it “sanctions individual competition” (Douglas, 2004, p. 291) and individuals “are expected to go forth entrepreneurially” (Douglas, 2003, p. 1358). There is little help available if an individual fails as they cannot appeal to others for assistance. Consequently, controlling resources is potentially important as it determines power (6, 2011). Styles of thought in the context of this pattern of social ordering are such that the planning horizon is over the short to medium term. There is a tendency not to look forward to the long term as individualists are motivated to “take profits and exit before the worst happens” (6, 2011, p. 91). Further, the past is not seen as a suitable guide to the future. The attitude to risk if the ordering is individualist is a willingness to accept risk if the profit potential is sufficiently attractive. That is, there is an erring toward placing profit considerations before risk considerations. There would not need to be the same justifications regarding risk diversification compared to the hierarchical ordering and nor would such careful deliberations be needed. This is not to suggest there is a naivety under individualist ordering. There is not a presumption the envisaged profits will always be acquired and there is acknowledgement losses might occur. However, the view is that losses on one venture will subsequently be outweighed by gains on other ventures.

In respect of enclaved institutions (high group and low grid) there is strong social integration and weak social regulation. Individuals are strongly bound to one another as commitment to the group is of the utmost importance. This can result in enclaved institutions defining themselves in opposition to other institutions as this strengthens group cohesion (Douglas, 1978). By comparison, roles are regulated only to a limited extent. Enclaves may need “elaborate rules for keeping themselves equal ... (and) ambitious leaders are dragged down, and often expelled” (Douglas, 1999, p. 412). Styles of thought are such that planning horizons are over the short-term. The reason they “foreshorten futures (is) to anticipate apocalyptic discontinuities” (6, 2011, p. 91) as this is a means for strengthening group unity. Likewise, the group is united by having a long memory for past events and especially where either there have been perfidious acts of disloyalty or great acts of commitment to a group cause. The approach to risk in enclaved ordering is based on the precautionary principle with the world perceived as fragile. Hence, risk is largely to be avoided and this is because new ventures are thought to have the potential to destabilise the current modus operandi. If a potential new venture is available the enclave will be more likely to worry about possible losses arising than profits, and the enclave tends to distrust experts believing they do not have the capability to identify potential risks in advance of any new venture.

The isolate ordering differs greatly from the enclaved ordering as it is low group and high grid. Social regulation is strongly controlled with restrictions on selection of social roles. Ties between individuals are weak and especially in the sense that there is a lack of shared aims.

This leads isolate institutions to be largely pre-occupied with constraints. Because it is harder in isolate settings to make use of social bonds or to appeal to common values then managing individuals in such a context is difficult (6, 2014c) and anyone attempting to manage is heavily constrained because of this. In this form of social organisation a manager can attempt to force constraints on others; but when this does not succeed then they have to get by and cope. This represents a shift from what 6 (2014c) describes as the structural despot to the structural serf. Therefore, a relative passivity arises and the institution looks to survive, if needs be soaking up losses. Relatedly, the thought style of the isolate is to look only to the shorter term and planning too far ahead is not done. The form that risk management takes is that the isolate looks to cope as best they can and hope that at some point there will be an upturn in fortunes. This has the implication that when isolate institutions develop strategies they are “especially vulnerable to perverse outcomes ... (for) once an imposition strategy is broken, isolate ordering cultivates neither rich sets of reserve preferences nor fallback negotiating positions to accommodate opponents” (6, 2014c, p. 687).

It can be seen from the descriptions of the four basic forms that the pattern of social relations in each form is highly significant as it “influences the way that people think” (6, 2014b, p. 290). Hence, there is causality between institutions and thought styles (see, for example, Douglas, 1986). What is also important to note is that these four basic types of social organisation, and the resultant thought styles, are in constant opposition. This is inevitable as the thought styles generated by the different forms of social organisation are at variance with one another. Douglas stresses in later versions of the theory that any organisation or society will comprise all four forms of institution and describes the interactions between the four types as ‘cultural dialogues’ (Douglas, 2004). Through these cultural dialogues the four affirm and sustain their particular pattern of social ordering by debating with one another which form of social organisation is to be preferred. Thus, the four forms are in constant tension with one another, although there will be times when temporary accommodations are made (6, 2014b). These temporary accommodations are, in effect, strategic alliances that facilitate an institution in achieving some part of its aims.

In its initial formation Douglas’s theory was static. However, as the theory evolved dynamism was fully incorporated and particularly through the work of Michael Thompson (see, for example, Thompson & Ellis, 1997). An important implication of the theory being dynamic is that for any organisation or society the dominant form of institution may be replaced by another form of institution becoming dominant over time. This potential for change is recognition that for any institution the existing dominant form of social organisation may become unsustainable. Consequently, the theory can explain why the thought style

in a community may alter by reference to a change in the form of social organisation. Change occurs if individuals find that the current dominant form of social organisation does not fulfil its inherent 'promises'. For example, if the dominant form of social ordering is hierarchical then this may encompass an expectation that there will be some form of safety net for individuals who are not prospering. If such a mechanism is not available, perhaps because it is withdrawn because of a lack of resources to fund the safety net, then discontent arises and individuals may look to come together under one of the other forms of institution.

This dynamism also underscores that individuals have agency. Thought style shapes how decisions are analysed as it places a frame around their reading of the problem and, further, it shapes what strategic choices will be seen as feasible. However, this shaping of strategic choices that stems out of thought styles still fully allows for individuals making "intelligible, explicable, intelligent and reasonable choices" (6, 2011, p. 35).

4. Methodology and Burmah Oil Company Limited context

In this study we undertake a historical analysis of risk disclosures for the Burmah Oil Company Limited (BOC). We review a range of sources from the BP archives where BOC records are held with the purpose of identifying the pattern(s) of social relations of the company and to ascertain whether the risk disclosures observed in the BOC annual reports are consistent with the pattern(s) of social relations identified.

BOC was selected due to its having been the subject of a financial bailout by the government in 1974. The financial bailout was an event of such significance that there was the possibility that the existing dominant form of social organisation might have ceased to be sustainable and, consequently, replaced by an alternative dominant form of social organisation. Therefore, this provided the possibility for studying whether a change in the form of social organisation shapes risk perceptions and attitudes to risk as predicted by neo-Durkheimian institutional theory.

A range of archival sources were collected for the period under investigation, 1971–1976, by two of the authors independently. The documents collected included minutes of annual general meetings, minutes of internal meetings, internal memorandums prepared by senior managers, staff development policies and practices, letters to stockholders, organisational charts, human resource policy documents and discussion documents relating to retention and recruitment of staff. The documents collected were those that related to staff interactions and human resource matters as these were appropriate for identifying the nature of social relations present in the company.

Two of the authors independently reviewed all documents to identify those parts that provided evidence of the nature of the dominant pattern of social relations. The areas of particular interest related to indications of the time horizon for planning, the risk appetite and risk attitude within the company and the extent to which the company was pro-active or reactive in its decision making; three areas which have been discussed in neo-Durkheimian institutional theory as indicators of patterns of social relations. Subsequently, the two authors compared their assessments of the pattern(s) of social relations and then discussed their findings with the third co-author. It was important a wide range of different types of documents were reviewed to improve the reliability of the findings and for triangulation purposes. Examples supporting our judgements made in undertaking the process outlined above are provided as part of the analysis later in the paper.

The risk disclosures in the annual reports were also identified by two of the researchers independently. This entailed a two-step process. First, two of the authors reviewed the entire annual reports for the period 1971 to 1976 and individually identified any discussions that might pertain to risk; risk being broadly defined following [Linsley and Shives \(2006\)](#) risk disclosure study. The two researchers then discussed their findings and agreed on the risk-related disclosures for each of the annual reports. These two authors then independently undertook a thematic analysis of the risk disclosures identifying any indicators of social relations within the annual reports. Focus was again given to the time horizon for planning, the risk appetite and risk attitude within the company and the extent to which the company was pro-active or reactive in its decision making as indicators of the social relations of the company. The findings were then discussed with the third co-author. Examples of risk disclosures supporting our analysis, and obtained using the process outlined above, are presented as part of our analysis later in the paper. A brief history of BOC and the key events relating to the financial crisis and bailout is presented in the next section.

4.1. *Burmah Oil Company Limited context*

The Burmah Oil Company Limited (BOC) was founded in 1886 when Burmah became a province of the Indian empire. The British government granted a number of oil concessions to BOC and this led to the drilling of oil in Burmah in 1888 ([Corley, 1988](#)). During the 1920s and 1930s, BOC handled about 75 per cent of Burmese oil production and 85 per cent of oil refining. In addition to being a major producer in the Burmese oil industry, BOC was a key producer in India. A time line of the key events in the history of BOC is provided in [Table 1](#).

After the Second World War, BOC's operations in both India and Burmah (which became independent states in 1947 and 1948 respectively) decreased significantly. The Burmese government nationalised oil operations in Burmah and in India BOC encountered an increasingly difficult market with increased government involvement in the activities of the company. The company therefore looked to expand activities in other parts of the world ([Corley, 1988](#)).

Table 1
Timeline of key events for BOC, 1886–1980.

Date	Event	Commentary and related events
1886	Foundation of Burmah Oil Company Limited (BOC)	The company was founded as the Rangoon Oil Company in Glasgow in 1886 by David Sime Cargill to develop oil fields in the Indian subcontinent. Burmah became a province of the Indian empire the British government granted a number of oil concessions.
1908	Anglo Persian Oil Company (APOC) formed	BOC establishes APOC as a 97 per cent-owned subsidiary (APOC).
1914–1918	British government acquires 51% of APOC	British government acquires controlling interest in APOC with BOC remaining as significant minority shareholder.
1935	Anglo-Iranian Oil Company (AIOC) formed	APOC renamed as AIOC.
1948	BOC enters into a joint venture with the Burmese government	After independence in Burmah, BOC enters into a joint venture with a 51–49 per cent partnership between the Burmese government and British private interests
1954	British Petroleum (BP) formed and withdrawal from Burmah	AIOC renamed as BP and Burmese government takeover BOC's Burmese interests.
1971	BOC expansion outside core Asian market	BOC look to expand activities in other parts of the world including the UK, North and South America, Canada and Australia.
1973	Negotiation of tanker fleet deal	BOC hopeful that international investments, particularly tanker fleet deal, will lead to BOC remaining successful and profitable.
Early 1974	Tanker fleet crisis	World economy takes a sudden downturn and world tanker trade slows down. BOC in financial trouble and may not be able to meet its creditor obligations to the American banks. BOC bank covenants renegotiated.
Late 1974 Early 1975	BOC approaches Bank of England Rescue of BOC	Approach to Bank of England for financial support and bailout. Initial and final rescue agreement between BOC, Bank of England and the British government.
1976–80	Period of upheaval	Continuing support from British government, selling of non-core assets and focus on survival of the company.

Sources: Compiled from BOC Limited Financial reports, 1970–80; Burmah Oil Company Limited press announcement, 31 December 1974; Note of meeting at Treasury, 27 December 1974; Note of meeting at Department of Energy, 6 January 1975; T.A.B, Corley, A history of the Burmah oil company, vol.II: 1924–1966 (London: Heinemann, 1988).

Part of this related to expanding its oil tanker fleet in the 1970's. BOC engaged in a large international contract to provide oil tanker services in relation to the liquefied natural gas market involving Malaysia, Japan and the United States and committed to purchasing new tankers. This deal was financed through loans provided by US banks. By 1973 BOC's tanker fleet had doubled to 38 vessels, most of which operated in the spot market in which high lease rentals could be achieved in good economic times. In 1974, BOC acquired an American company, the Signal Oil and Gas Company which gave them interests in the Thistle oil fields of the North Sea. The borrowings of BOC now totalled approximately \$650m in respect of its American investment activities.

BOC disclosed significant profits in 1973 but an unexpected downturn in the world economy resulted in a slowing of the world tanker trade. In December 1974 BOC discovered large losses were expected in its oil tanker subsidiary which threatened its survival. BOC contacted the Bank of England and the British government for assistance on Christmas Eve 1974 and a bail out was agreed. In early 1975 the Bank of England announced it would guarantee the borrowings for a period of 12 months (Burmah Oil Company Limited press announcement, 31 December 1974; Note of Treasury meeting, 27 December 1974; Note of meeting at Department of Energy, 6 January 1975). This initial agreement had to be renegotiated shortly afterwards and the final agreement included: unconditional guarantees for BOC's \$650m borrowings to be repaid by 31 December 1975, the bank to provide a standby facility of £75m charges on subsidiary companies in favour of the bank to be procured, and BOC to realise assets and restructure its business particularly the tanker fleet business (Agreement between Burmah Oil Company Limited, Bank of England and HMG, 24 January 1975; Note of meeting between Department of Energy and Treasury, 16 January 1975; Note to Bank of England from HMG on 6 January 1975; Burmah Oil Company Limited stockholders report, March 1975). After the bailout agreement the company faced retrenchment and government oversight, and in the next section we analyse the social relations and risk disclosures pre- and post-bailout within the time period 1971–1976.

5. Analysis and discussion of BOC in the period 1971–1976

In this section of the paper we identify the pattern of social relations within BOC as evidenced by archival research. This is followed by an analysis of whether the risk perceptions and approach to risk management in the annual report risk disclosures of BOC reflect the pattern of social relations identified. Our analysis suggests the form of social organisation changed over the period 1971–1976. Initially, the dominant form of social organisation is hierarchical, and this is then replaced by the isolate form of social organisation which rises to dominance after the tanker fleet crisis in 1974. We first provide a discussion of the pattern of social relations and the risk disclosures for the pre-crisis period 1971–1973, and we then turn our attention to the post-crisis period 1974–1976.

5.1. The pattern of social relations in the pre-crisis period 1971–1973

The evidence indicates the hierarchical form of social organisation is dominant in this period with both a high group and a high grid dimension apparent within the company. One aspect of BOC that evidences a high group dimension relates to staff policies as documented in internal memorandums relating to human resource issues. These indicate a clear preference for identifying staff loyal to the interests of the company and for promoting from within the company. For example, a memorandum that provides notes of a meeting on management succession and development records:

... that good men would be transferable between different companies of the group in order to serve the group's interests best. (17 May 1973, arc 180,878)

This linking of 'good men' with those who serve the 'group's interests best' denotes a strong group dimension where it is deemed virtuous to place group interests above one's own interests. The promise of eventual promotion is a common means of rewarding those who display commitment to the group; however, other forms of compensation can also be provided and within the same memorandum it is noted that:

There was discussion on the absolute need to ensure that men who accept senior positions abroad are accommodated adequately when they return to this country.

(17 May 1973, arc 180,878)

It is also apparent that internal promotion is preferred over external recruitment and this is also indicative of a high group dimension. Namely, 'insiders' are preferred to 'outsiders' who are external to the group as this preserves the strong group boundary. For example, in a memorandum from the Group Personnel department to chief executives, chief representatives, directors, divisional directors, regional and functional co-ordinators it appears external recruitment is seen as a last resort:

As it is clear from the policy directive, in order to make the best use of the human resources we have internally, all vacancies in job group II and which cannot be filled from within the resources of a particular unit must be channelled via the group personnel department before any external recruitment is done (10 January 1974, arc 180,925).

This preference for recruiting from within applies at all levels including the Board of Directors, where it is also noticeable there is a cohesion amongst board members and a reluctance to have 'outsiders' become board members. An example of a display of this board unity and an aversion to bringing in 'outsiders' occurred in 1972 when an attempt was made by two stockholders to be appointed to the Board as they wished to reorganise the company. The incumbent directors fought intensely against this attempt by two outsiders to usurp their roles.

There is also evidence that a high grid dimension existed at BOC in the period concerned. Departments and divisions are distinct from one another, and a clear organisational structure exists. The status of each member of a department is well-defined ensuring levels of authority are demarcated and the role of each member of staff is well understood. In addition, considerable time and effort is expended at BOC on detailed planning and on controlling the promotion process in a manner that reinforces regulation of roles at the company. This includes having clear procedures for identifying staff eligibility for promotion, and closely linking eligibility to company policies and practices. For example, the group responsible for management succession planning at BOC (known as MPS) identifies future senior managers through a very detailed process:

The role of the MPS is to collate information ... on ... performance, potential, career and educational background and to advise ... on staff availability and movements within the group. The information collected is then combined into a draft management succession plan for the group. This represents the present and future manning of some three hundred posts from job group II to divisional directors. (10 January 1974, arc 180,925)

Further, deference is shown towards the authority of senior managers and this also suggests a high grid dimension. For example, the authority of the chairman as the principal decision maker is indicated in the language he uses, such as when he clearly states that he is the person who sets "out the policy which the board has been consistently following during recent years" (7 December 1972, arc ref 139 806).

The reference in this quotation to 'consistency in policy' is indicative of a long-term planning horizons which is associated with a hierarchical form of organisation. This long-term planning horizon, and the associated feeling of a shared history, are present in the proceedings of the 71st Annual General Meeting when directors with long service are thanked and their histories highlighted by reference to their longstanding and loyal associations with the company. For example, one director is recalled as having had a:

... long and distinguished career with the company over a period of 45 years ... He had a very special knowledge and understanding of our interests in India, Burma and Pakistan. (9 June 1973, arc 131,425)

The importance of developing staff and of retaining them is also indicative of a long-term perspective. The emphasis on a long and shared history of managers and directors also suggests strong communal ties are fostered between staff which reinforces the group dimension.

Therefore, the evidence indicates the dominant form of social organisation at BOC in the years immediately preceding the financial bailout is hierarchical. Whether this hierarchical pattern of social relationships is reflected in the risk disclosures identified in the annual reports of BOC in the pre-crisis period 1971–1973 is discussed next.

5.1.1. Risk disclosures in the pre-crisis period 1971–1973

The tanker fleet-related risk disclosures in the 1971, 1972 and 1973 annual reports all make significant reference to Burmah Oil Tankers' (BOT), which dealt with the BOC tanker fleet and its operations. The decision to own and charter tankers is contextualised in risk discussions which appear to be aligned with a hierarchical thought style.

BOC's 1971 annual report sets out how BOT was initially created to *hedge* against risk of crude oil transportation costs in respect of the refinery at Ellesmere Port. Thus, the decision to own and charter tankers is not an outcome of the company seeking a new risky venture, but stems from a desire to mitigate risks. Hence, the risk discussions imply a hierarchical thought style where risk and reward are carefully balanced. This is further corroborated in the 1971 annual report where it is stated that uncertainties attached to the future prospects of the company because of a market depression for fuel oils and middle distillates should not be cause for concern because of "its diversification into non-oil activities" (Burmah Oil Company Limited, Annual Report 1971, p. 5). The presentation of the activities of BOT as a risk *diversification* strategy again implies a concern with balancing risks.

Further evidence of a hierarchical thought style is present in respect of the thoroughness of the appraisal of risk. Risk assessments for the tanker fleet venture have been undertaken with reference to an appraisal of the changing energy patterns affecting the oil industry. In particular, it is observed that there will be an increasing need for tankers to transport liquid natural gas (LNG) and crude oil (Burmah Oil Company Limited, Annual Report 1971):

Great changes are taking place in the energy patterns throughout the world ... Two of the most significant of these are the growing importance of liquid natural gas (LNG) as an internationally transportable energy source and the rapidly increasing extent to which the vast economies of the USA and Japan will have to rely on imported LNG, in addition to imported crude oil, in order to meet their energy requirements (Burmah Oil Company Limited, Annual Report 1971, p. 4).

That a thorough assessment of risk has been made is highlighted in the description of the negotiations BOC has been having with the Bahamas Development Corporation (BDC) to build a *trans*-shipment facility which will be leased by BOT. This will enable BOT to offer transportation for crude oil from the Middle East through to ports on the east coast of the USA. Transportation will be at attractive rates through using large tankers from the Middle East to the Bahamas and then transferring the crude oil to smaller vessels at the *trans*-shipment facility which are able to enter the USA ports. The implication is that the risk is well managed and this is also evident in similar tanker fleet risk disclosures identified in the BOC 1972 and 1973 annual reports.

In respect of BOC's 1972 annual report, the operations of BOT continue to be conveyed as counterbalancing the risks discussed in the annual report in respect of BOC's 'traditional' oil operations. The focus on how altering trends in world energy are impacting on the USA and Japan are reiterated. The comparative lack of risk in respect of BOT operations is also highlighted by statements explaining there is "keen interest" being shown in crude oil transportation contracts by "many US and foreign companies" (Burmah Oil Company Limited Annual Report 1972, p. 26). LNG transportation contracts are also under negotiation with one major contract mentioned as signed in BOC's 1972 annual report.

... stockholders will have noted in the press that a first contract has been concluded with Shell Oil for the transportation of substantial quantities of crude oil from the Persian Gulf to US east coast ports. Other similar contracts are in course of negotiation. (Burmah Oil Company Limited Annual Report 1972, p. 8).

These developments are all judged to have profit potential as they take BOT into a business area "which is still in the early stages of the growth cycle" (Burmah Oil Company Limited Annual Report 1972, p. 27). To support this view, details of orders that have been placed are provided in the BOC's 1972 annual report. There is the recognition that there is a potential risk associated with the long-term financial commitments that BOT has taken on in respect of both chartering agreements for new oil tankers and with the acquisition of LNG tankers. However, the company again perceives the risks associated with these as being well managed, stating that a "substantial part of these commitments is already matched by tanker out-charters and other long-term arrangements" (Burmah Oil Company Limited Annual Report 1972, p.45).

BOC's 1973 annual report notes that BOT contributed one-third of total profits and this was possible because of the "high rates for spot charters" (Burmah Oil Company Limited Annual Report 1973, p. 7). There is acknowledgement in the 1973 annual report that some uncertainties are starting to arise, with specific mention that spot rates in early 1974 have been lower than during 1973 and that there are political and economic uncertainties in the oil industry. However, expressions of uncertainty about the future are muted. Management state they are still actively managing future risks through "secur(ing) an increasing number of long term affreightment contracts" (Burmah Oil Company Limited Annual Report 1973, p. 9). Further agreements for the future transportation of LNG are noted in BOC's 1973 annual report, including a major order from Pertamina (the Indonesian state oil company). The risk attached to the financial commitments of chartering tankers is, as in the 1972 annual report risk disclosures, seen as being managed by being matched to a very substantial degree by income that will be derived from long-term transportation contracts BOT has entered into. Thus, the report implies that risk is being managed right through to the year 2000; twenty seven years in the future. The

long-term confidence of the management team is evident in its discussion of future prospects and long-term objectives being based on:

... planning to take advantage of the changing world energy pattern (and) (w)e are now seeing some of the fruits of the company's policies and I look forward with confidence to further progress in the years ahead. (Burmah Oil Company Limited Annual Report 1973, p. 9)

The long term planning horizon, thorough risk assessments, judicious balancing of different risks and the risk-reward balance discussions in the risk disclosures are indicative of the hierarchical form of social relations. Thus, we argue that the risk disclosures do indeed reflect the type of social relations identified as dominant in BOC during the period 1971–1973. The hierarchical form of social organisation that dominates in the company before the financial crisis and that is reflected in the risk disclosures in the annual reports of 1971–1973 is, however, disrupted by the tanker crisis in 1974. The discussion of the pattern of social relations and analysis of the risk disclosures for the period 1974–1976 are presented next.

5.1.2. *The pattern of social relations in the post-crisis period 1974–1976*

Hierarchically configured organisations are prone to assume the current order of things will continue for the long-term and when this does not happen this causes alarm. This is unlike, for example, individualist institutions that are usually less surprised when plans do not come to fruition and setbacks arise. The dramatic events associated with the tanker fleet crisis quickly resulted in BOC managers becoming concerned whether the prior loyalty they had shown toward the company was now merited, on the grounds the company was now unable to offer them security for the foreseeable future. That is, the hierarchical form of social organisation in BOC no longer appeared viable to managers as it was unable to deliver on a promise of job security because of the company's losses. In addition, previous entitlements were withdrawn:

... every element of cost should be critically re-examined with a view to curtailment or a drastic reduction in 1975 ... Business entertaining should be restricted to the bare minimum. The private dining rooms at Burmah House will be closed for the time being Travel in the UK and abroad is to be strictly confined to obvious operational necessity. Revised entitlement rules will shortly be published ... Company cars – orders for new cars have been cancelled. (13 January 1975, arc 232,532)

For those employed within BOC this led to social integration, which was previously strong, dissipating due to new personnel entering the company. To deal with the BOT problems a new Chairman and Managing Director joined BOC on 23 January 1975. In turn the new Chairman instigated a major reconfiguration of the Board of Directors of BOC and appointed a new chief executive for the tanker company on 10 February 1975. This resulted in a number of existing directors resigning. Thus, the senior management team became very different after the bailout with many 'outsiders' being brought into the company and there was no longer a prevailing view that internal recruitment was applicable. The appointment of external staff to the senior management team weakened community bonds and relationships acquired a distance not previously evident; however, the degree of social regulation remained largely unaffected with, for example, roles retaining clarity. Hence, the isolate form of organisation appears to have become dominant with its low group – high grid configuration.

Evidence from the archives indicating the isolate thought style is prevalent is noticeable in respect of attempts at managing being heavily constrained and managing for the short-term dominating. For example, in a draft letter from BOC to the deputy governor of the Bank of England (13 October 1975, arc 139,791), the Board have to request approval of their proposed actions from Bank of England and Her Majesty's Government. The letter also highlights the pressure being placed on the company by the shareholders' action group. This letter reveals the many constraints senior managers are operating under and how they are, for the most part, not able to operate pro-actively but are reacting to the views and actions of external stakeholders. A short-term planning horizon is also apparent with the focus of the letter being wholly on the short-term future of the company.

There is also evidence of coping and getting by on the part of management. For example, in a Chairman's brief to senior staff (4 December 1975, arc 138,765) he notes that "(t)he fact is that what we have got to do is to try and not lose credibility" and in this brief there is a strong indication the company feels it is dealing with factors which are hard to predict and, again, that they have little choice but to respond to situations as they arise:

The situation here is that that is a loan and we have as part of the package negotiation to decide exactly how that loan is going to be dealt with and it is a matter of what the Government will accept and what we are prepared to accept. So that the terms on which the loan is going to be continued and the price of Ninian are to an extent interlocked. And until we can have some feel for the amount we are going to get for Ninian and some concept of what we would like for the loan, quite clearly our financial planning is a little difficult to predict just at the moment but what has happened as a result of this agreement or agreement to negotiate is that now we will have to amend if you like, our plans to an extent. (4 December 1975, arc 138,765)

That the company is simply coping with events as they arise is also indicated, for example, in the proceedings of the 73rd Annual General Meeting of the company:

Ladies and Gentlemen. Among the many difficulties with which I have had to cope since taking office at the end of January ... As I have already indicated, the organisation must to some extent follow events rather than precede them. The final shape of the company will depend upon the outcome of discussions and negotiations now in progress on several fronts. (6 June 1975, arc 131,412)

Thus, we can see that the pattern of social relations at BOC changes to isolate form due to the tanker fleet crisis. The year 1974 marks a transition associated with the shock caused by the change of fortunes and the subsequent reorganisation of the company, and the changes in the risk disclosures in the annual reports post-crisis are discussed next.

5.1.3. Risk disclosures in the post-crisis period 1974–1976

The analysis of the BOC risk disclosures in the period 1974–1976 suggests they are no longer in accord with a hierarchical thought style and instead accord with an isolate thought style. In 1974 there was a loss before extraordinary items of £8 m and no final dividend was recommended by the Board of Directors. The audit report explains the accounts as prepared:

... do not reflect any future adverse effects, which could be material if computed on the basis of prevailing freight rates, that may be produced on the group's affairs by certain contracts in existence at 31st December 1974, relating to shipping operations ... (Burmah Oil Company Limited Annual Report 1974, p. 26)

The waning of the hierarchical ordering is apparent in the 1974 annual report risk disclosures that show incredulity that the careful risk planning as described in the 1971, 1972 and 1973 annual reports should come to grief through “circumstances that so unexpectedly overtook the company” (Burmah Oil Company Limited Annual Report 1974, p. 9). The 1974 loss is discussed in detail and there is significant disbelief that so many significant events could all come together at the same time and result in such severe consequences. The crux of the issue is the significant reduction in demand for crude oil resulting in excess tanker capacity and a consequent fall in freight rates.

This leads BOT to adopt a loss absorption strategy by laying up some of its tankers and allowing others to run at a loss because of the severely depressed freight rates. The discussion of how BOT has been adversely affected by a dramatic fall in freight rates ranges widely and is concerned with the constraints these events have imposed on BOC. Thus, there are discussions regarding “unilateral actions of the OPEC countries after the war of 1973” and the “many other factors” that have resulted in oil prices rising by a factor of five. For example, these other factors include inflationary effects on working capital requirements, the need for further finance to maintain developments in respect of North Sea oil and construction delays in respect of the Bahamas *trans*-shipment facility. These multiple events are all considered unprecedented. Graphics in the annual report emphasise this disjuncture between past and present with a chart clearly depicting ‘before and after’ plummeting monthly freight rates.

In BOC's 1974 annual report risk disclosures the company highlights they are looking to understand what the worst case scenario might be. They wish to estimate the “absolute maximum commitments that could arise in the worst of all possible cases over a long period of time if no corrective action were taken” (Burmah Oil Company Limited Annual Report 1974, p. 8). There is acknowledgement this is going to be very difficult. Note 36 to the accounts states that a:

... material number of vessels on charter ... cannot in present circumstances be profitably employed and it remains impossible to predict the amount of income likely to be received over the period of the commitments (Burmah Oil Company Limited Annual Report 1974, p. 39).

There is an acceptance that the outlook for the tanker market is “bleak” and that a significant proportion of the tankers are simply a burden on the company's resources. The notion that the Bahamas *trans*-shipment facility would be a great asset is fully revised and this idea is judged “invalidated by events” (Burmah Oil Company Limited Annual Report 1974, p. 8). The company is bearing the costs of constructing five tankers which it is committed to purchasing although has yet to find suitable finance to do this. In effect this is the isolate being resigned to accepting that the worst can, and does, happen in life. It is also an acceptance that all that can be done is to acknowledge the losses and look to subsist by coping as best you can. Hence, it becomes a case of keeping one's head down and getting by if possible.

The tanker fleet risk disclosures in the BOC's 1975 annual report begin in similar vein to the 1974 risk disclosures and, hence, continue to display an isolate thought style. Initially, there is reference to the “bleakness” of the circumstances that the company faced in the prior year and the world is described as being in “disarray”:

... stockholders will know only too well of the bleak circumstances ... difficult task of reconstruction ... the year 1975 was one of great difficulty ... in a world in which considerable disarray has arisen.

(Burmah Oil Company Limited Annual Report 1975, p.5).

Hence, in the annual reports of 1974, 1975 and 1976 there is a sense that the strategy is to absorb losses and survive by coping (6, 2013) as isolates are prone to do. Pre-crisis the company had been suggesting a strategy of risk diversification and now the objective is to “remain an oil-based enterprise ... (whilst) ... fighting for survival” (Burmah Oil Company Limited Annual Report 1975, p. 9). Assets are disposed of as a means of surviving and transportation contracts are re-negotiated to try to reduce exposure to losses.

6. Conclusion

This paper has examined social relations within BOC in the period 1971–1976 to assess whether the risk disclosures in the company's annual reports are consistent with the patterns of social relations identified. The study explored an important British company (BOC) during a period where a major event occurred in 1974. Drawing on archival sources and employing neo-Durkheimian institutional theory, the analyses identify the dominant pattern of social relations in the period 1971–1973 as hierarchical and in the period 1974–1976 as isolate. The archival evidence for a hierarchical form of social organisation is indicated by both high group and high grid dimensions. The high group dimension is perceptible in a preference for rewarding staff who demonstrate a commitment to serving the best interests of the group and in a preference for promoting from within the company rather than through recruiting managers external to the company. The high grid dimension is apparent in the organisational structure with roles being distinct and deference to authority occurs. The change in the dominant form of social organisation arises as a result of the hierarchical form of social organisation not being able to fulfil its promise that demonstrating a commitment to the group will result in a reciprocation whereby the group will provide for the individual. The previous expectation of job security dissipates as the tanker fleet crisis progresses and impacts negatively on the financial position of the company. External directors are brought in and communal bonds weaken resulting in the group dimension weakening, whilst social regulation remains largely unchanged. Hence, an isolate form of social relations comes to the fore with management efforts greatly constrained and planning directed towards the short-term.

The study finds the annual report risk disclosures consistent with the dominant pattern of social relations in each respective period, 1971–1973 and 1974–1976. Therefore, the study supports the view that the pattern of social relations does influence both the risk perceptions and risk attitudes of the company contained within the annual report risk disclosures. In the pre-crisis annual reports, the risk disclosures discuss how BOC management are confident in planning for the long-term and enacting a risk management strategy that balances risk and reward. By contrast, in the annual reports after the tanker fleet crisis the risk management strategy is rooted in the short-term and a relatively desperate form of coping occurs with survival the aim. Overall, the results suggest a causal connection between the pattern of social relations and the risk disclosures.

The research has implications for our understandings of risk disclosure. If risk disclosures are a function of a company's form of social organisation this assists us in understanding what is motivating managers to provide particular sets of risk disclosure narratives in the annual report. Namely, risk disclosures reflect the risk perceptions and risk attitudes associated with the dominant pattern of social relations for the company. This leads to a further implication in respect of risk disclosure policy. It is commonly suggested that risk disclosures should provide investors and other stakeholders with information regarding the most important risks a company faces. However, if it is accepted that the pattern of social relations influences risk perceptions this implies a company will be constrained from observing the full range of risks that might potentially impact on its operations. Consequently, there will be an inevitable bias in respect of the risks that will be disclosed by a company; the bias being dependent on the form of social organisation. A practical, and policy-related, implication that arises for regulators is how to overcome this problem of companies having risk disclosure bias. A possible way forward is through recognising that any company will comprise all four solidarities. If a suitable mechanism can be found within a company to enable all four solidarities to contribute to discussions regarding potential risks then this might provide a broader set of risk disclosures for inclusion in the annual report. However, this would require the dominant solidarity to recognise that value can be derived from listening to the voices of other solidarities.

A further aspect is that the study counters the tendency to assume that risk management and risk disclosure are new phenomena. Discussions surrounding risk management and risk disclosure may appear to have intensified since the end of the 1990's; however, companies have always had to contend with risk and the examination of the BOC annual reports indicates that risk information has been provided prior to the 1990s. As discussed in the literature review, risk disclosure research is still developing and prior research has largely aimed to gather insights into the principal characteristics of risk disclosures without analysing the specific and detailed subject matter that might provide an understanding of the risk disclosures. Additionally, prior risk disclosure research has largely relied upon theories that have originated in economics and management and there has not been adoption of other theories that might be better able to assess why a particular set of risk disclosures has been provided by the company. Therefore, in this study neo-Durkheimian institutional theory has been used to offer a causally-based explanation for annual report risk disclosures.

A limitation of the research is that interpretation of the archival sources and risk disclosures is required for assessing the dominant pattern of social relations. For instance, interpretations drawn regarding the managerial motivations for disclosing risk information in the annual reports may be subjective. Additionally, management may deliberately not disclose information on a specific adverse situation. Methodological limitations lie in the gaining of permission to use the archival collections and physical access. Despite advances in digitisation, the authors had to visit the archives where the collections are held and there is the possibility there are missing papers which the authors are unaware of. A final limitation lies in examining a single company in a UK context. Hence, there is a need for further case-based research that uses this theory to be undertaken to corroborate the results. The theory should apply regardless of company location and, therefore, it may be particularly helpful for further studies to examine non-UK companies. Archival research is not the only means for identifying patterns of social relations and future studies might instead opt for an ethnographic approach to identify the patterns of social relations at the case companies. Another route for future research projects is to consider a comparative study examining a range of case companies where it is likely that the four different forms of solidarity can be observed or where there are

examples of hybridity whereby two or more forms of social organisation combine to dominate in a company. These results suggest that it could also be beneficial for accounting academics researching risk disclosure to consider employing alternative risk theories from the fields of sociology and anthropology.

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Further reading

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