ACCOUNTING FOR TRUST: SOME EMPIRICAL EVIDENCE

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Abstract

The purpose of this study is to enhance our understanding of how trust relations affect and are affected by the way accounting information is used. Two case studies illustrate action-reaction chains, that is to say how trust relations are violated and produced depending on the way accounting information is actually used in different situations. The focus is on the accountant's part in such situations. We draw on 'old' institutional economics, which provides us with a helpful heuristic tool for explaining the significance of trust/distrust when new accounting routines are introduced. In contrast to those who claim that accounting information serves as a control tool for ensuring improvements in organisational performance, our research presents no such clear relationship. Our conclusion is that accounting information can be used to increase the level of control in the organisation. More importantly, our study showed that accounting information could be used to increase the level of trust, which in turn was found to be decisive in improving organisational performance. The following study has potential implications for future research, for example to explore how the way accounting information is used can affect the construction and confirmation of the self as autonomous and responsible.

Keywords: accountant, performance evaluation, accounting information, trust

1. Introduction

Over the last few decades there has been a surge of research that seeks to understand and explain accounting in action (see Hopwood, 1983). It seems fair to say that this has had some effect, in that research within the area of ‘accounting in context‘ has clearly increased. Nonetheless, voices can still be heard calling for more, and researchers are being recommended to ‘Relate management accounting to managerial work` (see Jönsson, 1998). The situation is thus regarded as unsatisfactory, for which state of affairs the use of an inadequate framework is blamed. Hence, a shift from a systemic to a managerial perspective is called for.

The idea for this paper came from reading an article by Andrew Ross (1994). In his study Ross uses factorial analysis to examine the relationship between performance evaluation styles, trust and job-related tension, and describes the effects of the trust felt by subordinates for their superiors. He concludes with the following words:

> Further research could be undertaken to enhance our knowledge of what role trust can play in improving the use of accounting information and in the overall design of accounting information systems. (Ross, 1994, p. 634)

On a basis of empirical evidence from two studies in Swedish companies the present paper aims to explore these dimensions, and thus to enhance the current understanding of the nature and role of trust in the use of accounting information. Our principal finding is that, under the assumption of trust, accounting information can be used to improve organisational performance. This runs counter (c.f. Puxty, 1996), to the conventional perception of accounting information as a basic performance-evaluation tool for improving organisational performance, and the idea that individuals cannot possibly be expected to improve organisational performance on their own.

2. The quest for trust - an institutionalist perspective

Over the last decade interest in institutional theory has expanded considerably in the social sciences. Burns and Scapens (1999) identify three main streams of institutionalist approach that have appeared recently in accounting research, namely: ‘new’ institutional economics (NIE), ‘old’ institutional economics (OIE) and ‘new’ institutional sociology (NIS). These three approaches differ in their origins and their intellectual roots, for example in the way they define ‘institution’. The theoretical framework adopted in this paper owes much to Scapens (1994) and the way that OIE is used there in the interpretation of management accounting.

OIE originates in the work of Thorstein Veblen (e.g. Veblen, 1898, 1919), in which it is opposed to the ‘static’, rational-actor theorising in the works of neoclassical economic theorists. It emphasises the need for a better understanding of the complex and unfolding nature of life’s processes over time. The aim of OIE is to elucidate and explain *why* and *how* in the course of time things become what they are - or are not. In so doing the OIE literature talks about the importance of ‘institutions’ - that is to say taken-for-granted ways of thinking and doing, underpinned by habits, rules and routines - in shaping the day-to-day processes of life (see below).

There are notable overlaps between OIE and NIS, although there are also significant differences. One is that OIE theory stresses the emergence, the continuity and the changes in institutions over time, while NIS tends to assume that institutions are 'given' (Burns, 1999). Another is that NIS focuses more strongly on institutions existing (rather than necessarily reproducing) at the macro societal level, while OIE places as much emphasis on institutions at the micro/organisational/individual level (see Scapens, 1994; Burns, 1997).

Veblen (1919) defined the institution as 'settled habits of thought common to the generality of men', although a more typical definition amongst advocates of OIE might be 'a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people' (Hamilton, 1932). According to Burns (1999) institutions are settled ways of thinking common to a community, for example the members of an organisation. Routines, on the other hand, comprise 'programmatic' rule-based behaviour, which is grounded in the repeated re-enacting of such rules. Over time, routines become underpinned by the tacit knowledge that individuals acquire through the reflexive monitoring of their past behaviour. Routines are thus the habits of a group and the 'components' of an institution (Burns, 1999 p. 10).

Further, whereas habits are personal, routines can involve groups of individuals. It is important to stress, however, that the emphasis on habits and routines does not mean that people cannot generally give reasons for particular behaviour (Burns and Scapens, 1999). OIE provides us with a focus for intra-organisational studies of the way accounting practices evolve over time (Scapens, 1994), thus providing a useful heuristic tool for explaining the nature and significance of trust/distrust when new accounting routines are introduced.

The production, reproduction and disruption of habits and routines – the quest for trust

Trust plays an important role in the 'cohesion' of an organisation, by reducing uncertainty and creating stability. Although the concept of trust is regarded as complex and elusive, and is approached and defined in different ways in various disciplines (Huemer, 1998; Blomqvist, 1997), there is some agreement on the characteristics generally attributed to it. Mayer, Davis and Schoorman (1995, p.715) offer a proposed model of trust in which three central elements in the process of trust production are discernible: trust, risk-taking and outcome. See figure 1.

The propensity to trust a person is affected by the ability, the benevolence, and the integrity exhibited by the person in question. The degree of perceived trust would in turn affect the risk that we - the trusting ones - are prepared to take, and accordingly the level of vulnerability that we accept. If the outcome is positive - the person is found to be trustworthy - our trust will increase, which means that we will exercise less control over the relationship with that person in future, and so on. The process can also go the other way: the outcome may be negative, our trust may weaken and we will find it necessary to be more controlling.

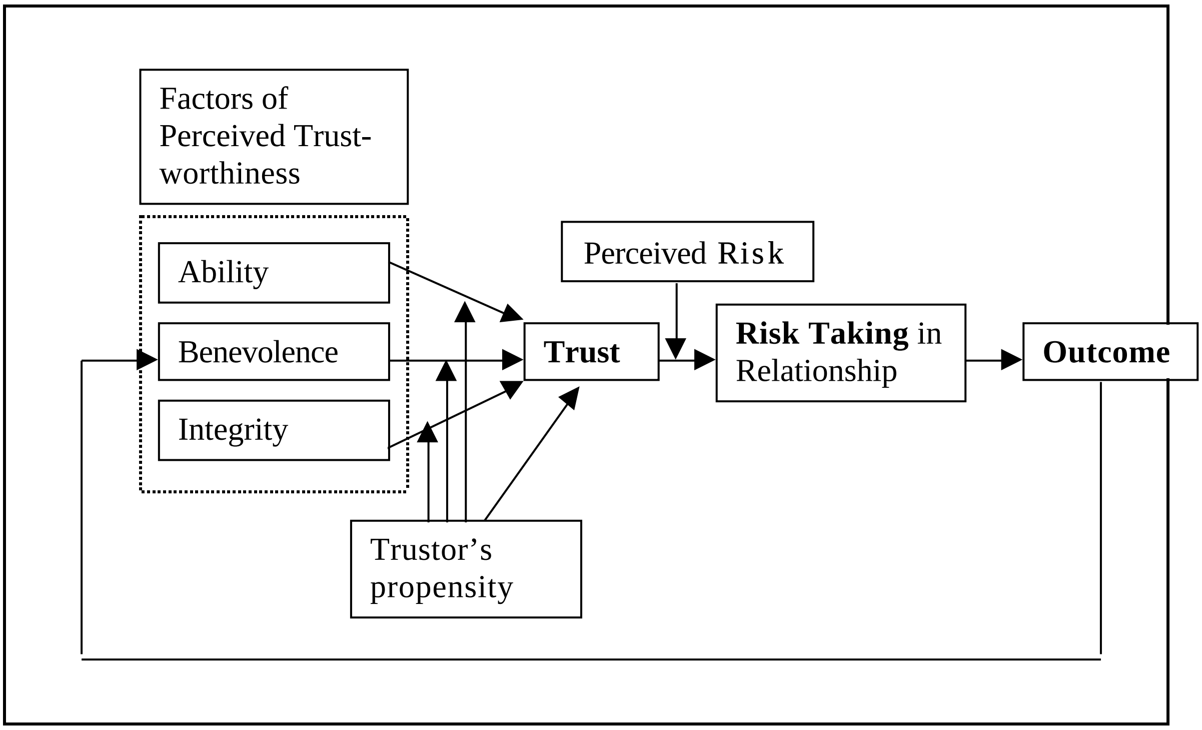

Figure 1. Proposed Model of Trust (Mayer, Davis, Schoorman, 1995, p.715)

The concept of trust can thus be used to explain how routines and habits are produced, reproduced and disrupted. Let us start by looking at organisational routines. Accounting routines are often found to be highly formalised. Accounting information is produced for many reasons. There are laws regulating its production for use by external actors (e.g. shareholders and tax authorities), and there are internal rules concerning budgets, performance evaluation etc. Other less formalised routines concern such things as ways of working. Whether it is highly formalised or partly heuristic, trust is both a condition for the routines and a consequence of them. Trust is an important concept in our understanding of institutional dynamics, since the making and breaking of trust relations is the driving-force behind the transformation of organisations, i.e. the emergence of new norms - rules, routines and habits.

Turning to the level of the individual, we find many personal habits, geared to the reduction of uncertainty. Adopting a new institutional sociology perspective means focusing on the importance of organisation as a means for granting identity to individuals, and vice versa (drawing on Arendt, 1958). This assumes a specific role for trust in the organisational context. Jönsson (1996) discusses the difficulty that would confront both individuals and organisations, if trust were not such a basic value in our society, and he looks at what happens when trust is violated. In their actions, individuals display their identity to other organisational members, thus exposing themselves to reactions that could express approval but that might also prove disappointing. This risk can be accommodated by two diametrically opposed strategies: (1) dominating the environment and controlling any reactions, or (2) avoiding any action at all. Both alternatives are self-defeating. In the first case dishonest reactions are likely to occur, provoking a distorted self-view in the individual concerned. The second precludes the possibility of reaction, which means in turn that the individual is unable to build up an identity. The answer to this dilemma is courage and trust! Only those who entertain a feeling of trust towards others, and who are reciprocated by trust from others, have the courage to act and to receive honest reactions. From this it follows that only those organisations whose norms and routines support the projects of individual members to forge a personal identity, will achieve a stronger identity within their environment. Organisations differ fundamentally in this regard, i.e. in the degree to which their organisational culture is supportive, and the degree to which trust has become institutionalised in their specific organisational setting.

Using management accounting information
Organisations differ when it comes to the role they ascribe to accounting information. It can be regarded as an analytical tool for rational calculation, as a social practice displaying and affecting emotions and trust relations, or as a combination of both (Boland, 1983). Performance evaluation is a social activity, involving three parties: the person who evaluates, the person who is evaluated and the person responsible for the management accounting information. It is then assumed that the accounting information influences the behaviour of the subjects being evaluated. Evaluation is in progress all the time, however, and the use of accounting information is only one of numerous business practices aimed at improving organisational work and performance. There is a broad line of research , in which it is argued that:

> Accounting systems only infrequently contribute to the rational co-ordination of enterprise activities, and frequently have dysfunctional consequences. (Mouritsen, 1994, p. 194)

Hopwood (1972) is an early study investigating the dysfunctional effects of using accounting information in the evaluation of performance. Job-related tension and manipulation of the accounting figures were frequently found when a ‘budget-constrained‘ or ‘profit-conscious‘ style of evaluation was being used. The evaluation of performance based on accounting information thus emerged as an extremely delicate social activity, and the relationship between the use of accounting information and high performance was called in question.

Otley (1978) is a similar a study made a few years later, but it was not able to reproduce these results. Recent research, however, has aimed to resolve conflicting results of this kind (see Brownell & Dunk, 1991). There is thus prevailing agreement about the relationship between the extent to which accounting information creates tension, and the extent to which dysfunctional behaviour may arise. If job-related tension can be reduced, the propensity for organisational members to engage in dysfunctional behaviour could be reduced. In order to investigate the effect of trust on just this relationship, Ross (1994) adopted the same approach as Hopwood (1972) and Otley (1978). His findings indicated that when trust is low, any alteration in the way an organisation evaluates performance is unlikely to affect the level of job-related tension. On the other hand, when trust is high, it will affect the job-related tension - but only in the case of the budget-constrained or profit-conscious styles. This suggests that there is no difference between the effects the two styles have on job-related tension, irrespective of the level of the trust. Further, this is consistent with results reported in Otley (1978), which did not show any relevant relationship.

The studies mentioned above suffer from certain limitations, for example the use of self-rating instruments and the lack of random sampling in selecting the organisations to be included. More relevant to the present study, however, is the nature and role that they ascribe to trust. Nonetheless, we have started from a different viewpoint.[1] Rather than assuming that accounting information serves a useful role by providing opportunities for the accountee to control the accountor, we investigate the assumption that accounting information can contribute to the development of trust. Hence we assume a role for trust in getting things done, not merely in reducing any dysfunctional effects of control activities. Opportunistic behaviour is possible when the relationship between the accountee and the accountor is characterised neither by contractual agreements nor by trust. Accordingly we examine a number of action-reaction chains to see whether opportunistic behaviour prevails and what the potential effects on trust-relations may be. Following Lukka (1998) we place the accountants (those responsible for the accounting information) in the frontline of the analysis. Further, we aim to explain how accountants affect the management and the employees within an organisation.

3. Methodological considerations

Over the last decade the notion of trust has emerged as a topic of considerable importance and interest on the academic agenda. Since it can be perceived as an elusive concept, many attempts to define it have been made in different directions, ranging in the literature from narrow definitions used in instrumental survey studies to the broader definitions used in interpretative case studies. The two case studies presented here were undertaken in rather different settings when it comes to institutionalised trust. One is a small consulting firm and the other one is a small manufacturing company.

The consulting firm gave us an opportunity to collect useful material for our study between 1991 and 1995. Three rounds of different types of interviews were held, and a video recording was made of one meeting. Twelve members of the firm were also asked to draw sociograms[2] around the following question:

> How much do you trust each separate member of the firm to contribute to its development?

Every member was given the same initial structure on a computer screen and was able to make changes in order to position other members of the company around him or herself as a point of reference (Johansson, 1999). By measuring the distances that emerged, it was possible to visualise how much each person trusted all the others with respect to their ability to contribute to the company's forward progress. The members of the firm also made taped comments on their graphs as they drew them.

We do not profess to be offering an 'objective' measurement of something that is by nature rather difficult to comprehend (Dorriots, 1992). However, sociograms do provide insights that can be interesting if they agree with data from other sources (interviews, field observations, video-taped conversations).

The second case study (the manufacturing company) was designed as an action study. One of the authors remained with the company for over a year, observing and participating in real-life situations. However, action research is more than observing and participating: it also requires the researcher to influence processes or start new ones. In this case, the researcher took part in deriving modifications of the accounting system. Jönsson (1996) describes the essence of action research as follows:

> Somebody said that if you want to find out how something works, try to change it. Action research does just that. The researcher goes into a situation in order to start processes, which can be observed. The experimentalist does the same thing, except that in the perfect experiment only the variables under study and the dependent variable are allowed to vary. Everything else is under control – *ceteris paribus* as we usually say. But in real-life organisations everything else is seldom under control. On the contrary, it is changing or even playing against our intentions. (Jönsson, 1996, p. IX).

Action research offers one way of gaining access to everyday situations, and by engaging actively in a company's reality and by 'going native' we can penetrate the surface and achieve deeper insights than would be possible otherwise.

Jönsson and Macintosh (1997) noted that trust is a difficult concept around which to build research. The difficulties derive from a discursive conception of trust, and these authors argue that trust can only be described in terms of examples and discourse since it relates to internal apprehensions of responsibility, competence, roles, expectations and sincerity. One way of capturing the multiplicity of the trust concept, however, is to use the device of narrative as Czarniawska (1998) has suggested.

> A narrative, in its most basic form, requires at least three elements: an original state of affairs, an action or an event, and the consequent state of affairs. (Czarniawska, 1998, p. 2)

From the context it is possible to create meaning. According to Czarniawska the narrative requires a plot to make it into a meaningful whole, and the easiest way to achieve this is by introducing chronology. This is the approach adopted in the remainder of the present paper.

4. Empirical evidence - stories from within

The two cases reported below represent two series of events taking place over the same period of time. This period was characterised by financial crisis, which in turn affected the dramatic changes within the two organisations. Another thing in common between them is that both their accounting systems were found to be unsatisfactory. In the first company trust was found to be under threat, in the second distrust was prominent. We argue that the two case studies capture the dynamics of trust relations, and illustrate how trust and lack of trust can influence the way accounting information is used and how its use can create or violate trust.

One case of trust and one of distrust

The first case is based on observations in a small consulting firm, founded in the mid-1980s by three men and two women. According to the members' accounts the organisation was built on a basis of mutual trust. There were few formal routines and a weak formal hierarchy

> …the only routine I know of is that we have to deliver a working report every fortnight (a time report). (Consultant)

At the beginning of 1991 the MD and the vice MD (two of the founders) described the role structure of the organisation in an interview as follows:

> The formal structure of… is not very advanced. There is a formal board, there is an MD - that's me - and there is a person who takes care of the administration at the operative level, and we have someone who has the more overall financial responsibility [the vice MD and one of the founders] and someone else who takes care of personnel issues… (MD)

> […] we have not established any structure… any formal structure of the organisation. (vice MD)

Limited use was made of accounting information except for the information necessary for tax purposes etc. The individuals' freedom to decide how to work and their role in the organisation was almost unlimited. From the outset, the same individual was responsible for general administration in addition to reporting accounting information. However, many of the consultants were dissatisfied with the accounting system and procedures.

> …the internal procedures [routines] are not well handled… I don't know how many times we have said that we'll change our accounting system, but nothing seems to happen… (Consultant)

From the start and up to 1991 the business had grown steadily. There was no shortage of assignments, and no time available for developing an accounting system. Moreover, management felt it could be assumed that all employees accepted the requisite responsibility, so no control instruments were necessary. The MD explained that they had never used the accounting information to appraise the individual consultants.

> No, never to evaluate and definitely not to compare them. We're not looking at the figures to compare one [consultant] with another. But obviously we know approximately how much each one invoices […] I don't look at the figures to discuss what this depends on, you know how it is. […] We don't use the figures in that way…
>
> … we have less control over people's invoicing and profitability, and more over group and task orientation… [our] invoicing per consultant still lies considerably below our colleagues [competitors] in the industry. How do we explain that? Well, we employ one more than they do! (MD)

The comments illustrate the nature of the review process as it remained for years. And it was not until the firm faced financial problems in the early 1990s that the basic idea for developing the firm was seriously questioned. Between 1986 and 1991 members of the firm continued to perceive the organisation as a 'family'. Trust relations were never questioned, since they were as evident as they were tacit.

In our second case study[3] the situation was pretty much the opposite. This company, a small manufacturing outfit, had a history of financial crises and big cuts in its workforce. In 1992 a new MD was brought in to explore the possibility of developing new business avenues or closing the company down. He decided it was worth trying to continue to run the workshop, and began a broad restructuring programme. This programme was reasonably successful and sales figures began to rise. The company's losses were still alarmingly high, however, and the owners began to demand further explanations for the poor results. The MD felt that his restructuring program had achieved the expected outcome, since compared to previous years1992 was fairly successful.

Downsizing and cost-cutting were important elements in the restructuring programme. It was decided to close down the accounting function, at the time employing three people, and to hire accounting services on a consulting basis instead. As a result the accounting function became more or less invisible, so that many members of the organisation didn't quite know what to do about their figures. The MD's idea was that accountants and/or accounting information couldn't do anything to help him restructure the company or to make it profitable. To him accountants were simply:

> ….paper-carrying shadows who did nothing but produce long lists nobody understood. (MD)

In the third quartile of 1993 the company reported a substantial loss, and the disadvantages of the negative attitude towards accountants and accounting information became more obvious. With the available accounting information it was difficult to trace the losses back to particular orders, because on the whole costs were not allocated to specific orders. The question being asked was: who was responsible for incorrect allocations and consequently for the frequent late discovery of losses? The MD often publicly proclaimed his concern about the salesmen's neglect of their duties. He claimed that their lack of enthusiasm and passive attitude would make it impossible to turn the company round. The salesmen allegedly claimed that they were not getting the relevant follow-up information. They also felt they lacked sufficient control over the production process to be able to follow up cost developments, and they found this very frustrating:

> I can't use something I haven't got. I know there is some kind of order analysis around, but I never get to see it. The MD throws out some bits and pieces now and then. But that's all I get from him. I have my bid, and I talk to the foremen on a daily basis. So I know what's going on. I know when we need to put in an extra shift to be able to deliver on time. I know when we have quality problems. What I don't know is what it costs. Only if I make mistakes do I get to know about the costs. I'm not sure whether the MD does this intentionally, but it sometimes feels like it. (Salesman)

When the accountants started producing new monthly sales reports, which included analyses of individual orders, the salesmen where sceptical about it. Their scepticism stemmed from the way such information had been used in the past. The accountants had reported exclusively to the MD and had assumed that he would forward the information to those (the salesmen and foremen) who were held responsible for the figures. What he actually did, however, was to pass on part of the information only, and in particular such sections as he believed would serve his interests. This gave the salesmen a sense of insecurity about the conditions for their work. When they could not relate the fragments of information emanating from the MD to their own context, they ignored the information altogether.

From these two cases we might conclude that accounting information is not a necessary condition for organisational success. In both companies the use of accounting information was almost nil, the identity of the accountant/accounting department was very weak, and the practice of accounting was not institutionalised. And yet the consulting firm was successful and the manufacturing company unsuccessful. It therefore seemed more likely that the situations could be explained by the lack of external pressure (competition) and by elements in the organisational culture such as the level of trust or distrust.

We begin our analysis at a time when there was no external pressure, so the need for a sophisticated accounting system (control system) was almost non-existent. Why the owners of the manufacturing company (the state) didn't do anything despite the heavy losses over several years, is not easy to explain - the fact remains that there was no external pressure even in this case. The 'cohesion' in the organisations sprang from trust in the case of the consulting firm and distrust in the case of the manufacturing company (as regards both people and the 'system'). The concepts of routine/habit and identity are very useful in helping us to understand *what* had happened and to describe the present situation. Since we are interested in understanding *why* the situation had occurred, and thus the dynamics of the process, we have to look at the micro-level of the organisation and to explore the action-reaction chains that affect trust relations and consequently identities, habits and routines.

The change - new demands and new accounting routines

In 1991-92 it became more difficult for the consultants to get new assignments and management sought to increase responsibility in general and responsibility for getting assignments in particular. The number of consultants working for the firm had now increased to fourteen. At the beginning of 1992 management held a meeting[4] to address the issue of getting assignments on an individual basis. The meeting was a total failure. Far from mobilising the workforce, management seemed to lack any ability to inspire action. After the meeting the participants explained its outcome in different ways. The MD suggested that the lack of enthusiasm, the wait-and-see attitude and the evident reluctance to assume responsibility were perhaps connected with trust, and that people were perhaps reacting against the way the meeting itself had been managed. However, our enquiries indicated a deeper distrust of management than this suggests. The explanation was found to be that the consultants had been taken by surprise by the new demands for responsibility, and management discovered that it was no longer possible to take responsibility on the part of all the consultants for granted.

The financial crisis changed something important, or at least made it visible. Suddenly the accounting information was no longer trusted, and the producer of such information was not trusted either. The MD explained later:

> Our accountant [responsible for producing accounting information at the time] didn't reflect a trustworthy way of handling things. People perceived that some things were not correct, and they were probably right. (MD)

The accountant was probably not unaware of what was going on. During an interview she commented:

> I have to have my own routines. I don't want them to come down here… as they all pick on me. 'You shouldn't complain about being pressed for time since you do lots of unnecessary things', some of the young consultants once told me. (Accountant)

As a result of this, the accountant left the company in 1992. The consultants then jointly managed the accounting system until a more permanent solution was found. The weak financial control system was replaced by a stronger version. Management began to discuss bonuses and developed a type of accounting report that displayed the monthly invoicing of each consultant relative to budget. This new type of report was distributed to all the consultants. The vice MD was one of the advocates of these changes. At this point we found that the MD was regarded among the consultants as much more trustworthy than the vice MD. The main reason was that the consultants believed the vice MD withheld information from them.

> This year [1991] is the first time we've presented a financial (income) report to everybody, and asked them to comment on it…. There are some secrets about the financial situation. (The accountant who left the firm)

However, none of the members of the management team, not even the MD, had much trust in the group as a whole. In sum, the original strong self-evident trust within the organisation was now threatened. Some members even suggested that those who had left the firm had done so because they felt their colleagues didn't trust them and that their own trust in the other consultants was weak.[5]

In 1995 three people were responsible for reporting accounting information. One of them administrated the registration of transactions as well as the cash flow reports.

Another, a controller hired from outside, was responsible for consolidation reports, while the third was the vice MD. The report showing how much each consultant had invoiced was no longer distributed, since it had created a lot of tension in the organisation and reinforced the consultants' feeling that they were not trusted.

> We've learnt that it's not possible to be completely open when it comes to financial information. (MD)

The vice MD believed that accounting reports showing how much each individual consultant had invoiced and distributing this information to everybody would make people more conscious of the financial situation. But instead of improving financial results, the attempts to introduce tougher controls led to confusion, tension and protests mainly because the vice MD's intentions were not sufficiently clear to the others. They simply suspected him of having harmful intentions, for instance that the figures might be used to decide who was to stay and who was to go.

To calm things down, each consultant now received a report that showed only his or her own figures.

> […] we present a monthly report, and each quarter the consultants get a report showing all the transactions that they are affected by. […] Everyone knows what's been invoiced, so that's no problem […] we don't have any regular bonus on top of salaries. (MD)

However, the vice MD pointed out that the consultants were rewarded if they managed to invoice over budget. He admitted that he believed in stronger control but - (representing the owners) – added that he had not perhaps 'marketed' the benefits of control successfully enough to the other consultants. His perception of their failure to assume responsibility contributed to his conviction that stronger control was the only solution. The different attitudes towards the use of accounting information are quite clear here: the MD had been consistently sceptical about using the information to control the consultants.

In sum, this case illustrates how the use of accounting information in a situation of financial crisis can exacerbate the threat to established trust relations. Below, we will illustrate the opposite process, whereby trust was transformed from a state of almost total absence to become one of the elements that affected organisational routines and the employees' customary way of doing their work.

The accounting system in the manufacturing company had been unsatisfactory for many years, and the company had failed to produce financial reports that satisfied the owners. This had been frequently pointed out both by the owners and by the accountants, and during 1992 the owners stepped up the pressure to get the problems properly solved. The MD decided to make some adjustments in the accounting system in order to meet the owners' requirements.

> […] we had no control whatsoever over our finances […]. It became clear that it would be impossible to continue to run the company without improving the accounting information. (MD)

As a result of the improved system it even became possible to supply the salesmen with sales figures and sales cost on a weekly basis. The only report they had received previously was one showing their own individual contribution to sales. To ensure that the salesmen would get the information they wanted they were involved in the design of the reports themselves. They were now going to be measured in a way they were not used to, and it was important that they understood how it was being done. But instead of distributing the new reports to the salesmen, the MD kept the information to himself, and then used it now and then to draw attention to the salesmen's (even the foremen's) failures in front of the other members of the organisation. It was not until one of the new accountants was employed on a permanent basis that he became aware of this situation.

> Comments on the reports from the salesmen were conspicuous by their absence. This surprised me, since the figures simply cried out for explanation every month. So I started asking them about the orders, showing them how much we were earning or losing on each one, and asking them to clarify things like machine hours or material use, and thereafter explaining my calculations. (Accountant)

The MD and the accountant disagreed about whether the sales reports should be distributed to the salesmen.[6] The MD felt the salesmen would find it difficult to interpret accounting information, since they had never been given such information before. This was frustrating for the accountant, who believed in openness and maintained that accounting information could improve performance. And anyway the salesmen were frustrated by the situation, and several times asked the accountant to let them have the information. It is important to note here that the salesmen never went direct to the MD to say that they were interested in seeing the reports. The general feeling of insecurity in the company was a major obstacle in relations between the MD and his employees. At this stage the accountant decided to bypass the MD and to distribute the information to the salesmen himself. The salesmen were aware of the MD's disapproval in this matter, and the accountant's actions increased the trust they felt for him and for the information he produced for them.

> He took a risk when he gave us the reports. He takes time to explain them too. And, yes, I do use them. I get the order analysis once a week, so I can see straight away if one of my orders is going by the board. (Salesman)

The salesmen probably recognised the risk the accountant was taking much more clearly than he did himself. Although they aired their reactions to the way the information was used by the MD in front of the accountant, none of the salesmen ever took the step of discussing the matter with him. Paradoxically the MD's trust in the accountant also increased after these events. Because he demonstrated his own integrity, the accountant became trusted as a person, and this trust extended to the information he produced. After only a few weeks the consequences of giving the salesmen the reports were obvious. The salesmen started to follow up their orders actively, since no one wanted 'red marks' on their reports. They discussed the figures with the accountant and did not always agree with his calculations. They looked into the differences, worked closely with the foremen, and sometimes discovered that a mistake had been made (perhaps machine hours incorrectly allocated). With this information, mistakes could be corrected at an early stage. As a result sales margins rose substantially and there was less room for unwanted surprises.

In this case we can see how distrust hindered the salesmen from demanding information about their sales. When the accountant supplied this information, he created trust for himself as a person and consequently for the information he provided.

5. Accounting for trust – concluding remarks

The accountant as an impartial judge
In this last section we will look further at some of the empirical evidence and try to understand more clearly how accountants participate in the production, the reproduction and the disruption of routines. We would like to start by saying something about the two accountants and the two managing directors involved in our organisations. Who are they? What do they do and how do others look upon their doings.

In the consulting firm the vice MD/accountant[7] became the target of much of the criticism about the way the organisation was managed during the crisis. But was it the accountant who was to blame for everything? We suggest that he felt he had little choice. He gave the impression of believing that the only way of dealing with the uncertainty was to get a clearer picture of the situation and to make everybody aware of it. What he did not allow for was that the other consultants were taken totally by surprise by this new way of working. Nor did he consider the possibility that the others might not trust him as much as was necessary if he was to be successful. This meant that he came to 'dominate' the reactions of the others in order to keep his own uncertainty under control, but in doing so he only increased the uncertainty of the others. The MD, on the other hand, stands out as a person who trusted the others to learn what they needed to know. In this way he had an opportunity to learn a great deal about himself, and about how to improve the way of working in the organisation.

What about the others? What could they have done? Since they were so surprised and scared by the change in the approach, there is no reason to believe that they could really have done anything to move the process in another direction. When even the MD appeared uncertain about the vice MD's suggestions and seemed prepared to accept stronger controls, everybody felt very confused. Why didn't anybody tell the vice MD or the MD how they felt about the change in policy? The consultants tried to tell the MD about their concern, but since relations between the MD and the vice MD was very close, they didn't dare express themselves strongly enough. Even though the MD was aware of much of the criticism, it wasn't possible for him to take full account of what the others said, because of his long friendship with the vice MD.

In the manufacturing company the accountant was the one who started the process of trust-building. It was not a conscious decision on his part, although he was aware that the others felt some distrust towards him. That he understood the importance of winning the strong personal trust of the other employees was probably more a matter of intuition. He became dedicated to the task of convincing the other members of the organisation about the usefulness of accounting information in a variety of situations.

His way of creating a sense of security by supplying the salesmen and the foremen with information meant that they made more use of the information in their day-to-day work.

The MD represented the opposite view about how accounting information could be used usefully/meaningfully in the organisation. He saw it solely as a control tool, and possibly even as a tool for exercising power over his employees. Rather like the accountant in the consulting firm, he tried to dominate his environment by controlling not only the accounting information itself, but also the way it was used. He was probably not aware that his management style affected his employees' performance negatively, nor was he aware of the distrust it created. By using the figures to 'punish' individual employees the MD created tension and distrust around the information. And by withholding information he actually obstructed the employees from using it to enhance their performance. The accountant had a more humble attitude towards the employees. His own integrity and the expectations he perceived from those around him forbade him to use the accounting information for exercising power or punishing people with it.

Both case studies provide important pointers to what is needed in order to create trust. Our findings indicate in line with Sotto (1983) that an 'impartial judge' is necessary. We suggest that the accountant can serve as such a one. We do not claim, however, that the accounting information is impartial, nor that it offers the one and only way of representing operations. Thus, for the accountant to act as the 'impartial judge' would not mean producing a true and fair picture of the state of affairs but would be a question of infusing trust into the organisation. The two cases also show that accounting information and the way it is used can provide a base for building 'institutionalised trust', if and only if the accountants are able to inspire personal trust. This means that 'personal trust' will always precede 'system trust' (Luhmann, 1979).

Full disclosure of the intentions behind performance evaluation

The above illustrations show that our images of 'identity' – our own and other people's – limit our way of acting and reacting in social interaction, and shows just how difficult it is to break our habits - including those that work against us as individuals or as part of a group. It has also been shown that awareness of the trust dimension in organisational life helps us to act and react in more appropriate ways. By adopting the model of trust proposed by Mayer, Davis and Shoorman (1995), we have been able to highlight and describe what happened in the consulting firm when the consultants sensed a deterioration in the benevolence of the accountant and his integrity vis-à-vis themselves, which also meant that their trust in him was impaired. If the MD had been able to discover what was going on, and if he had been more aware of the negative consequences of violated trust, he might have found it wiser to reject the tougher control suggested by the accountant. It is possible that he considered the option of discarding it but decided nevertheless that it was more reasonable to try it and watch out for the reactions. His split attitude was grasped by the others, however, which led to even greater confusion about the intentions behind the changes.

When the accountant in the manufacturing company began working for the integration of accounting information into the routines of the salesmen and foremen, there was a lack of ability, benevolence and integrity. Although his competence as regards producing figures was not questioned, his competence in understanding operations was. And since it was accountants who had provided much of the information on which arguments in many distressing situations - such as reducing the workforce - had been based, his benevolence towards the employees was doubted. And finally his integrity was also questioned, due to the way the MD - the only person the accountant answered to - had been using the accounting information. The distrust of accountants and accounting information had its origins in the history of the use of this sort of information in the company. The accountants had been fairly anonymous, and the users (or in this case the non-users) of the information were always suspicious that the figures did not represent the actual outcome of the company's operations. This was obviously a very difficult situation for the accountant: he was mistrusted by practically all the people around him who were supposed to use the information that he produced.

The accountant confronted this by taking two simple but immensely important steps. First, he made the design of the accounting information meaningful and easy for the non-accountants who were supposed to use it to understand. Secondly, and more importantly, he supplied the accounting information to the users, discussing it openly with them and explaining the figures. He did this despite the MD's disapproval, since he believed that understanding the figures and their sources was the only way to inject financial awareness successfully into the company. He used the information to give decisions meaning, and he successively created trust around himself and the accounting information. He gave the employees an idea about how they could use the information to change the poor financial situation of the company, thus improving their own situation as well.

Although the MD did misuse the accounting information, it was probably because he thought this was a reasonable way of achieving better results for the company. With long-term losses and no sign of improvement, he probably found the employees' indifference to the negative outcome very frustrating. Nor was his point of departure an attractive one either. After all, he was initially hired by the owners to close down the company.

In contrast to the suggestion in Ross (1994) that in certain circumstances trust can buffer the tension arising from performance evaluation, our findings indicate that performance evaluation can threaten trust relations - for instance, if there are reasons for being suspicious about the use of the accounting information, if the members of the organisation are frightened that the figures will be used 'against' them, and could lead to immediate dismissal. Conversely, when it is evident to the people involved that the accounting figures are needed for their own 'self-adjusting' activity, i.e. the accountee is actually trusted by the accountor, then the figures can be used to make operations more efficient.

The main proposition of this paper is that, under the assumption of trust, accounting information can be used to improve organisational performance, which contrasts with the widespread idea of accounting information as a simple tool for control purposes aimed at increasing organisational performance. The latter approach (accounting for control purposes only) presumes a lack of trust in the ability of organisational members to improve organisational performance. Our conclusion is that if the accountor is to use the accounting information in order to improve organisational performance, trust in the accountant or the accounting department and in the accounting information is necessary.

The prospects for creating trust in the accounting information are intertwined with the trust that the accountant or accounting department have managed to win from the others. However, accounting information plays a minor role in improving organisational performance when trust between the accountor and the accountee is strong. When there is no mutual trust, the accountant can help to compensate the lack of trust by imbuing the figures with ‘objectivity’, as happened in the manufacturing company. In the consulting firm, the situation was more delicate. The lack of trust between the accountant and the accountors was partly compensated by the MD, but not enough to change their habit of waiting for new assignments passively (see Huemer, 1998, for the concept of ‘compensatory trust’).

Both case studies illustrate action-reaction chains, or how trust relations are violated or protected depending on the way accounting information is actually used in different situations. The study carries potential implications for future research, which could explore for example how the use of accounting information can affect the construction and confirmation of the self as autonomous and responsible.

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[1] We have also adopted an approach that pre-empts any criticism of survey studies.

[2] This is a type of social network analysis. The basic structure in our case consisted of a circle with the respondent at the centre. Other members of the organisation were placed on the circles beyond. The respondents were asked to place the most trusted person closest to themselves and the least trusted person furthest away.

[3] A detailed description of the case is available in Baldvinsdottir, 2000.

[4] A detailed analysis of the meeting is available in Dorriots and Johansson, 1999.

[5] This was revealed by the trust-sociograms in 1995.

[6] The stories about the foremen and the salesmen are very similar.

[7] In this paper we focus on the vice MD's involvement in the accounting process. From now on, the label 'accountant' is used to refer to the vice MD.