Rules, complexity and emotions

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References

A shorter version of this chapter will appear in a Swedish book for promoting critical discussion of current roles for auditors. (WWW.SNS.SE – Center for Business and Policy Studies, Stockholm)
1. Introduction

A study of thought patterns in Swedish auditors revealed that they preferred to give little attention to tasks which they thought clearly important, as for instance evaluating the quality of CEO’s forecasts for the company. Such tasks require holistic thinking, and the auditors preferred to concentrate attention on what they clearly regarded as less important tasks which require a more format, piecemeal and analytic approach as for instance “bad receivables”. Ohman’s chapter has a penetrating discussion of this somewhat disturbing discrepancy, and concludes that it is insufficient to just blame the auditors for being short sighted. We rather have to take critical look at the complex structures surrounding the work of the auditors. The aim of the present chapter is to give a broader framework for Ohman’s conclusions.

The primary background for emphasising limitations of formal procedures is the growing complexity of modern society. A key consideration here is that it is insufficient to counter increasing complexity with ever thicker and more elaborate rule books. Complexity implies uncertainty and lack of predictability. This is illustrated by drawing on the literature on “complex operating systems”, especially the nuclear power industry which may be prone to “normal accidents” (Perrow, 1999) Analytic processing is likely to get stuck in a particular frame and wider, holistic approaches are necessary to counter such tendencies. More positive approaches to “whistleblowers” than customary practices may also be called for!

The second point of departure for this essay is the relation between “emotion” and “reason” in evaluating information and decision making, the topic for section 3. Recent developments in psychology have emphasized a distinction between holistic - emotional vs rational, analytic modes of processing,

Traditionally “reason” has been regarded as a higher faculty which often is in danger of being “invaded” by the “lower” emotions. There are many signs of giving emotions a more honorable place, yet there is still much emphasis on how e.g. “affect heuristic” can undermine sound judgments. While recognising shortcomings of emotional processing, I want to underline a growing importance of emotional processes in the sense of intuitive, holistic processing, and the ubiquity of such processes in evaluation and decision making.

The holistic nature of emotional processes allows for a broad conception of validity and may be a signpost for going beyond simple adherence to rules to a concern beyond “doing things right” to “doing the right thing” to mirror Ohman’s excellent phrasing.

2 Judgment and principles vs structure and rules

The distinction may be summarized as below:

<table>
<thead>
<tr>
<th>Judgment</th>
<th>Structure</th>
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<tbody>
<tr>
<td>Principle oriented, using discretion</td>
<td>Rule oriented</td>
</tr>
<tr>
<td>Expert intuition</td>
<td>Formalisation</td>
</tr>
<tr>
<td>Qualitative</td>
<td>Quantitative</td>
</tr>
<tr>
<td>Organism</td>
<td>Mechanism</td>
</tr>
<tr>
<td>[not algorithmic]</td>
<td>Aims at algorithmic knowledge base</td>
</tr>
</tbody>
</table>
There seems to be a great debate going on where ‘deep metaphors’ (organism vs. mechanism above), and the basic issue of legitimation and control of audits are involved. However,

‘the structure-judgment problem, was, and remains the academic articulation of an issue which goes to the heart of professional practice and identity’

while

‘The large firms continually adjust their audit processes and try to balance a formal, defendable and economic...structure for the audit process with the autonomy of auditor judgment’ (Power, 2003).

While it seems eminently plausible that in practice both judgment and structure approaches are necessary I have not seen any models of how the “balancing” should be carried out. A view from Braithwaite (in press) and Westerdahl (chapter x) may inspire a fresh input to the debate by exemplifying how rules should be “balanced” by higher order principles.

2.1 Braithwaite’s view on principles and rules

Braithwaite (in press) discusses principles and rules and models for combining them. Rules can be unequivocally applied whereas principles call for discretion. Applying rules thus (roughly) corresponds to the structure approach while applying principles correspond to the judgment approach. A major point is that for simple situations (e.g. traffic regulation) a rule based approach is sufficient, but not for complex situations where principles may be a preferred approach. Braithwaite’s own empirical research in this area largely deals with inspection nursing homes for the elderly. A comparative analysis of the regulatory frameworks in Australia and in US is revealing. In Australia principles like ‘respect for integrity’, ‘provide a homely atmosphere’ etc. dominate. Braithwaite shows that such – seemingly vague – principles can still be reliably applied. In the US inspectors are swamped with hundreds or thousands of ‘concrete’ rules in such abundance that it is simply not possible to attend to all of them. This leads to – more or less arbitrary – selection of rules and lower reliability.

While Braithwaite is careful to restrict his argument mainly to lower reliability of the rules approach the tenor of his argument leads me to suspect lower validity (well-being or ‘quality of life’) as well. What is more important: Providing ‘homely atmosphere’ or going by the rule that there should be pictures on the wall (with the consequence that personnel paste up clippings from weekly magazines just before inspection). Braithwaite encountered arguments such as ‘homely atmosphere can’t be evaluated’, whereupon he points out that if this is not a possible task most hotels would not prosper!

I had a doctoral student, Britt Slagsvold, who did a careful study of nursing homes in Norway where she evaluated ‘rule-based’ criteria and strongly argued that many rule-like quantitative measures lacked validity. A briefer version of her work is available in English, Slagsvold (1997). One may for instance think that having arrangements with children present is a plus, but there are cases where the inmates are happier without having children around. Other examples which have an equivocal relation to ‘quality of life’: mortality rate, consumption of sedatives, catherization etc. In Norway it is usually taken for granted in public debate that single room is a mark of quality. Slagsvold points out, however, that ‘the relationship between single/shared rooms and resident’s well-being do reveal ambiguous results, some do even positive effects of sharing rooms’. Her work illustrates Braithwaite’s main point:
In complex cases non-binding rules should be backed by ‘higher order’ binding principles.

Whether the rule-based reflective guidelines are related to well-being demands a careful consideration of the wider context. Simple rules can not be applied in isolation but demand attention to whether overriding principles are honored or not.

As an example of how this point may apply to the economic sphere Braithwaite considers insider trading. He points out that broad prescriptions against this phenomenon is likely to be more efficient than just a patchwork of specific rules that defines, say, A, B, C, D, E as insider trading. According to just a rule book another form of insider trading, F - which the legislature had never thought of - might then be argued not to be insider trading. Haggling over F might be a bonanza for lawyers but scarcely seems “rational” from a broader societal point of view.

Westerdahl (chapter xx) has an in depth discussion of an interesting case concerning an international Swedish firm. If they should be going by the rule book salaries of international chief officers should be reported for each relevant country. This might, however, have created undue envy. In the present terminology, the higher order binding principle of not hurting the company was invoked, the position of the chief officers was “redefined” to branch manager and their salaries were lumped together in one overall sum.

2.2 Complex settings: Nuclear plants, an ‘organic’ view.

If it can be argued that a mechanistic view is inappropriate in a ‘machine’ environment as e.g. nuclear power plant it would seem that such a view would be even more inappropriate in a ‘human’ environment (schools, hospitals etc.) Braithwaite (in press) notes that:

“the Kemeny Commission on the Three Mile Island [TMI] nuclear accident diagnosed the problem to be that the nuclear plant operators had been educated by the regulatory system to be rule – following automatons. They had come to rely heavily on the rules for guidance to the neglect of systemic understanding of the complex safety problem they were managing. They gave insufficient emphasis to principles.”

HAMMLAB may be seen as an offshoot of ameliorative policies instigated after TMI. First of all it should be emphasised that the simulation studies have special relevance for complex environments, perhaps less so for ‘simple’ environments.

One of the problems identified was that usually automatic systems did not give a ‘feeling’ for the operations. Simply to view such complex systems as ‘mechanical’ was inadequate. This was labelled mental isolation, and this metaphor guided construction of different types of displays with the aim of reducing mental isolation. Inspired by the work of the philosopher Daniel Dennett operators were encouraged to adopt the intentional stance. Dennett’s favourite example is that when he plays against a chess program he views the program as an

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1 Last year I was assigned the task of evaluating and discussing a doctoral dissertation by Gyrd Skraaning on simulation of operator performance inn nuclear plants. The methodology has also been applied to other complex operating systems, especially airport control centers. This section further draws on conversations with Gyrd and Asgeir Drøivoldsmo from Halden Man-Machine laboratory, HAMMLAB.
intentional agent. This is contrasted with a design stance which may be appropriate for ‘mere’ mechanical contraptions. ‘Mental isolation’ and ‘design stance’ are clearly incompatible with any mechanistic view!

When operationalizing performance it might seem ‘evident’ that a fast reaction time to a critical alarm indicates good performance. However, just as there is no simple relation between nr. of single-room residences and well-being, there is no simple relation between reaction time and quality of performance. While there of course are situations where a fast reaction time is called for, there are other situations where fast reaction time may indicate that the operator has not understood the seriousness of the situation! Mirroring our earlier reference to studies of quality of nursery homes evaluations must be seen in relation to the wider context.

The distinction between two kinds of errors – inspired by cognitive psychology - leads to perhaps even more far-reaching perspectives. ‘Automation slips’ correspond to simple errors, and such errors are contrasted with automation mistakes where the system correctly executed an inadequate algorithm (strategy malfunction). The plant – and operators - may perform exactly as the designers had intended but there may still be unanticipated effects, e.g. after some time decrease in plant safety. An analogical example from the exclusively human realm may serve to illustrate mistakes. A person with a certain illness may – according to the best available medical knowledge – faithfully stick to a prescribed diet. Yet it may turn out that after perhaps several years a variety of strange symptoms appear which can be traced to the diet. (Widespread use of amalgam in tooth cavities might be a possible example of this kind of ‘mistake’, but apparently there is as yet no clear consensus as to whether the plethora of symptoms some patients attribute to amalgam really do stem from amalgam ‘leaking’ into the body or whether the symptoms have other causes.)

TMI proved a major inspiration for Charles Perrow’s important book “Normal accidents”. He has a major distinction between “component malfunctions and “system accidents”. Component malfunctions roughly correspond to automation slips, and system accidents to automation mistakes. System accidents are consequences of high complexity, and are difficult if not impossible to predict. Typical for system accidents is that the whole plant – not just single units or subsystems – is hit. What typically happens when system accidents occur is that minor abnormalities spawn overriding breakdowns. This is due to unexpected interactions of small failures. Such interactions may occur when seemingly remote parts of the system are tightly interconnected and interdependent. Systems which are vulnerable for system accidents are especially nuclear plants, also chemical plants and recombinant DNA technology.

When accidents occur, however, there is a major tendency to search for “operator errors”, e.g. failure to follow a prescribed procedure. Such failure may further be seen to be the cause of subsequent breakdown of plant production, or the “operator error” may be construed as an inadequate reaction to signals of component malfunctions.

A major message in Perrow’s book is that the dominant search for operator errors in the wake of accidents reveals inadequate understanding of complex systems. Since unanticipated interactions may occur no rule book can be sufficient. Exclusive emphasis on rules is likely to limit awareness of complex interdependencies. The HAMMLAB emphasis on overcoming “mental isolation” to avoid “automation mistakes” clearly points away from a strict rule
orientation, and thus in a more healthy direction than training operators to be “rule following automatons.”

While the story of nuclear plants after TMI may not be all rosy one beneficial consequence has been increased attention to “fresh input”. It is interesting to note that when the TMI accident occurred the operators shut off the emergency cooling pumps because they thought too much water was going into the cooling system. The crew seemed locked in a limited view of the state of the system, but fortunately a new crew was able to entertain a quite different perspective.

A more general lesson to draw from TMI is suspicion of strict hierarchical command systems. Such systems may further “linear thinking”, which may be at odds with cultivating a feeling for complex interdependencies.

Since “trust in the system” is one of the variables which was evaluated in the simulation studies a comment on “trust” is here appropriate. From the point of view of the possibility of automation mistakes it seems to follow that we should think in terms of an optimal level of trust in the system. If the level of trust is too low the operators may be inclined to react too frequently to alarms, over-reaction, (a large proportion of alarm signals can safely be ignored). If on the other hand the level of trust is too high there is the risk that the operators ignore signals which may be cause for concern, under-reaction.

This point also has implications for reaction to whistleblowers. Whether there is a danger of ‘under-reaction’ or ‘over-reaction’ will probably be related to the extent of hierarchical, authoritarian relations in the organisation. Perhaps the major danger is a highly authoritarian regime, which may discourage pointing to suspected dangers and malfunctions. Fortunately it seems that a beneficial effect of TMI is a greater openness towards unsolicited warnings and attempts to avoid hierarchical, and perhaps macho oriented culture which seemed to dominate at TMI.

It as highly ironic that whereas there is a trend to decrease mental isolation in complex operation environments it is not difficult to find studies in the accounting and auditing field which points in the opposite direction. Chua studied a model - imported from US - for quantifying and comparing costs for a special diagnostic system in a hospital setting. This system is seen to ‘colonize people’s decision-making powers’ (emphasis added here) and ‘embody a managerialist fetish of calculation’. Power. is also concerned about “colonization” and argues that audits may participate in creating new mentalities and ultimately set the stage for ‘fatal remedies’.

I agree with Power in his critical attitude concerning heavy reliance on quantitative performance measures, and want to draw attention to a formulation which further elucidates this. This comes from Donald Campbell who more than anyone else has contributed to shape and promote the use quantitative and experimental methods in social science in the last century. His deep knowledge of such methods made him keenly aware of misuse, and he formulates this in two laws:

‘The more any quantitative social indicator is used for social decision making, the more subject it will become to corruption pressures, and the more apt it will be to distort and corrupt the social processes it is intended to monitor.’
An implication of this account is that auditing safety procedures at complex operating environments - as for instance a nuclear plant - involves much more than checking whether the rule books are followed. The problem is that this is not sufficient for a “bill of health” since the complexity in such plants may lead to dangerous contingencies which can not be dealt with by ordinary procedures! In other words, it is necessary to have operators who have a deep feeling for how the system works, such that they can deal intelligently with the unexpected, even to the extent of “violating” prescribed procedures. This also requires assessing whether the organisational climate permits/encourages independent problem-solving by the operators – lest the plant falls victim to “rule following automatons” in critical situations. Furthermore would whistleblowers be welcomed rather than ostracized?

3. Dual psychological processes: Holistic-emotional and analytic-ruleoriented

The previous sections have highlighted a distinction between holistic vs rule-oriented approaches which in the auditing literature is labelled the “judgment vs. structure approach”

This distinction is closely related to a dominant theme in current psychological theory, “dual process theory”. One influential formulation (Epstein, 1994) uses “Experiential system vs. Rational system” as superordinate description. Some key features of the two systems are:

<table>
<thead>
<tr>
<th>Experiential</th>
<th>Rational</th>
</tr>
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<tbody>
<tr>
<td>Holistic, embodied</td>
<td>Analytic, disembodied</td>
</tr>
<tr>
<td>Affective; pleasure pain oriented</td>
<td>Logical; reason oriented</td>
</tr>
<tr>
<td>Associationistic connections</td>
<td>Logical connections</td>
</tr>
<tr>
<td>Encodes reality in concrete images, metaphors and narratives</td>
<td>Encodes reality in abstracts symbols, words and numbers</td>
</tr>
</tbody>
</table>

To set “rational” as contrast to “experiential” is, however, somewhat unfortunate in that it could imply that “experiential” generally is not rational or even “irrational”, and I have preferred to use “analytic” vs “holistic” as general terms. This is in line with our view that in some cases the experiential system implies a broader, more encompassing form of rationality than the analytic system (“cool reason”).

On the other hand it is not difficult to find examples where the experiential system does lead to clearly irrational forms of behaviour. A strong example is provided by those who are afraid of flying in aircraft, even though they know that their fear is irrational. They may drive great distances to avoid air travel and paradoxically feel safer in the situation they intellectually know is more dangerous.

Fear of flying fits well with a dominant theme in Western thinking, that “emotions” represent primitive processes which must be curbed by the higher, more noble processes where reason can reign.

During the 1990s it has, however, become increasingly evident that the classical split between reason as the divine spark in humans, and the ‘lower’ emotions is untenable. Perhaps the most quoted evidence pointing to the necessity of jointly considering both is Damasio’s (1994) studies of certain kinds of brain damage. Damasio illustrates how some types of brain damage may leave analytical reasoning intact, but make the person practically incapable of making any decisions. This strongly indicates that emotional processes are necessary for...
Damasio talks about “somatic markers”, bodily oriented signals which in some ways are related to “pleasure – pain”, cf. table above. Metaphorically: Such markers provide necessary “compass directions”, and without such directions decisions are seriously impeded.

One way of emphasizing the necessity of both cognition and affect is due to Silvan Tomkins: (perhaps the foremost proponent of the importance of affect)

**Cognition without affect is lame, affect without cognition is blind**

While there are examples where one of the processes dominate typically both processes are involved. Since the experiential system is faster it may dominate early in a decision making process, and the more deliberate analytic system may be involved in later processing, e.g. checking preliminary intuitions. At its higher reaches the experiential system is a source of intuitive wisdom and creativity. Braithwaite’s view, see section 2.1, on the relation between rules – principles may be seen as epitomizing how the two processes ideally should be coordinated. “Non-binding rules” may be evaluated by analytic processes but whether they should be honored – whether they conform to higher order binding principles - requires wisdom conferred by the holistic, experiential system. Likewise the accomplished operator in a nuclear plant will have an “embodied feeling” for plant operations which transcends analytic, disembodied knowledge. Enlarging on Ohman’s excellent formulation: The analytic system allows the auditor to “do things right” whereas the experiential system would need to be ascendant for “doing the right things”.

The above scheme, however, does not capture how experiential, affective processes encroach upon the analytic system which presumably reign as far as encoding reality in e.g. numbers are concerned. A prominent area in present day psychology is the study of a variety of “heuristics” used in daily life. Heuristics are seen as intuitively based shortcuts which may obviate more cumbersome formal, algorithmic procedures. In the present context the “affect heuristic” is particularly relevant.

In a review of studies illustrating the ‘affect heuristic’ by Slovic et.al. (2002) the series of studies which illustrate how evaluation of numbers depends on affective processes is of special interest. One group of subjects was asked how much they would give for a dictionary of musical terms which contained 20000 entries, but a torn cover was a defect. This group would not offer as much as another group who was offered a similar dictionary but with 10000 entries, and no defects. When, however, a third group was asked to compare the value of the two dictionaries they clearly preferred the one with most entries. This study shows that an important attribute, number of entries in a dictionary, may not be utilized unless it can be translated into affective terms. Another way of putting this is that “decontextualized” numbers carry little, if any meaning. Most people do not have any background frame for evaluating whether 20000 is “high” or low”. Consequently the torn cover receives a prominent weight. When, however, 20000 can be compared with the alternative 10000, it clearly is “high”, and this falls under the regnant metaphor “more is “better”, see Lakoff & Johnson (1999) for a penetrating discussion of metaphors and their embodied nature.

From a variety of studies Slovic et.al. concluded:
‘We cannot assume that an intelligent person can understand the meaning and properly act upon even the most basic of numbers … unless these numbers are infused with affect.’

where “affect” implies a context readily translated to an evaluative frame.

We can now take a look at how affective processes are regarded in field studies of auditors at work.

### 3.1 A new look at how emotional processes are treated in field studies of auditors

Power (2003) has reviewed the few field studies of auditors he could find and finds a study by Pentland (1993) especially significant. These articles feature the following contrasts:

<table>
<thead>
<tr>
<th>Emotional processes</th>
<th>Intellectual processes</th>
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</thead>
<tbody>
<tr>
<td>Expressive model of human (auditing) agency</td>
<td>Cool, deliberate calculation, cognitively oriented research</td>
</tr>
<tr>
<td>Gut feel</td>
<td>Rational thought</td>
</tr>
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This is basically the same division as between analytic-ruleorientated and holistic-emotional. Power finds Pentland’s emphasis on emotional processes “brave” and welcomes a contrast to the dominant cognitively based research.

I find Power’s bifurcation of two kinds of research unfortunate and want to argue that progress, such that audit research can go beyond ‘academic articulation’, cf.section 2, and have a real impact, must draw on models which recognize the pervasive interaction between emotional and cognitive processes and thus includes both in a more comprehensive framework.

By taking a closer look at Pentfield’s study I hope to show that the ironic, ritualistic perspective is not warranted, and that this opens for a broader perspective.

In the conclusion Pentland (1993, p. 619) writes:

‘The ritual perspective suggests that a fuller sense of meaning that includes affect as well as cognition is critical to an understanding of auditor judgment.’

I have been at some pains to point out that both affect and cognition must be included, not only to understand auditor judgment but to understand all forms of judgment. Furthermore any ‘ritual perspective’ is not necessary for such understanding.

‘Comfort’ – a term used by the auditors themselves is central in Pentland’s analysis. He quotes for instance (p.610) the question one auditor may pose to another:

‘Do you have adequate coverage in these receivables to be comfortable’?

and comments:

‘From the perspective of audit judgment or decision making these observations raise some provocative question’

and he then contrasts ‘gut feel’ and ‘rational thought.’
He relates this to ‘the basic problem in auditing is that numbers don’t speak for themselves.’ (p. 609). This ‘basic problem’ is not unique to auditing but characteristic for all numbers in all contexts. Recent research as mentioned above shows that numbers never speak for themselves but require a wider context in order to be evaluated!

It is thus perfectly ‘rational’ to search for positive affect, e.g. ‘comfort’, in order to affirm the numbers. The other side of ‘comfort’ is ‘uncertainty and risk, even chaos’ and on p. 611 Pentland gives an illustration of this:

‘A savings and loan association was quite close to the statutory limit on capital reserve’

and

‘the senior responsible for valuing these securities was clearly very anxious about it: “It’s really difficult to get comfortable with this kind of situation”’.

It is perfectly natural that a situation fraught with risk evokes negative affect! This is in line with using negative affect as a signal that more work needs to be done in order to arrive at a ‘safe’ conclusion.

The search for ‘comfort’ may thus be seen as a perfectly natural way of placing the numbers in appropriate contexts.

Pentland bases his analysis of ‘interaction ritual’ on frequent communications within the auditor team concerning ‘comfort’. However, in situations fraught with uncertainty it is a perfectly normal process to consult other persons to clarify the situation!

What Pentland finds ‘provocative’ can in an alternative framework be regarded as perfectly normal processes. What I, however, do find ‘provocative’ is the ironic slant in his article. First, his contrast emotion (which he finds dominant) vs. cognition rests on the implicit premise that emotion basically is somewhat ‘lower’ than reason. Furthermore (p. 613) ‘signature is a sacred symbol for the auditor. It is like the talisman’. This may evoke associations of a primitive tribe, and the frequent use of ‘ritual’ supports the imagery of a primitive bunch of people not understanding what they are really up to, cf. also Pentland’s contrast between the ‘manifest level’, the ‘frontstage’ vs. concern with ‘deeper levels’, ‘backstage’. Power comments this as follows: ‘..bringing in the messy backstage of audit practices seems to undermine the front stage which auditing presents to the outside world.’

The Pentland – Power position serves to solidify an unfortunate “rational” vs. “emotional” dichotomy instead of promoting a unified “both – and” thinking. “Messy backstage” does not necessarily imply “primitive rituals” but may with no less justification be seen as a round about way of describing general problem of giving meaning to numbers.

The fascination with the “messy backstage” may be related to Powers proclivity to lean towards the “strong programme” in philosophy of science. This refers to a variety of studies sharply critical of any naïve belief that science is steadfastly working its way to the truth. Campbell (1986) - quoting much the same authors from this ‘school’ as Power does (e.g. Collins, Latour, Bloor) - finds such studies invigorating, refreshing and important, but stops at the strong version, exemplified below (p. 509):
Harry Collins… in a triumphant summary of … the achievements of his school … asserts that “the natural world has a small or non-existent role in the social construction of scientific knowledge”

Power seems to flirt with the strong position when he brings forth another quote from Collins:

‘treat descriptive language as though it were about imaginary objects’

To me the strong programme seems to come close to carrying an implicit either/or premise. Either we can take audit reports/scientific knowledge at face value or it is just fabrications. I see the emphasis on “rituals” as turning attention away from the more important question of identifying both validity enhancing and validity detracting factors. From this point of view what Pentland draws attention to may or may not be relevant.

This is not the place to delve into the murky waters further analysis of the above positions may lead to. I will rather put forth a pragmatic argument for the Campbellian both/and stance.

Power mentions that it is difficult to get access to organisations to do ethnographic/sociological studies. To the extent that the researchers (explicitly or implicitly) convey an adherence to a ‘strong’ programme this is not surprising. An ironic attitude as found in Pentland (1993) may also be quite aversive. This ironic distance may stem from the heavy influence of Erving Goffmann, who cultivated this attitude to an unequalled art. In contrast to such a stance I have put forth arguments that an attitude of love and indwelling may be a vantage point from which to start a study. However that may be, it would seem that an attitude of getting at both strength and weaknesses may more readily open doors as this may be of immediate value to the organisation, and readily lead to fruitful dialogues.

4. ”Social responsibility” and concluding comments

A quotation from Bakan (2004) about a large US energy company may serve to highlight the importance of a broad conception of “rationality” and validity enhancing/detracting factors:

(p. 57-58)

Each year the company produced a Corporate Responsibility Annual Report, the most recent one vowed to cut greenhouse-gas emissions and support multilateral agreements to help stop greenhouse-gas emissions, and support multilateral agreements to help stop climate change. The company pledged further to put human rights, the environment, health and safety issues, biodiversity, indigenous rights, and transparency at the core of its business operations, and it created a well-staffed social responsibility task force to implement its social responsibility programs.

The astute reader may at this point have guessed the irony in the above quotation, it refers to Enron’s “unfortunately last” annual report. It is, however, conceivable that such a report could have been stamped with an auditor’s “health certificate”, and it is an interesting thought experiment to entertain the possibility that the auditor(s) might well have operated “rationally” within the confines of a restricted rule bound world. Hopefully this example serves to drive home the importance of a broader, holistic view of rationality. It is not just a

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2 I became aware of this book through a UK documentary which was scheduled to coincide with the book
question of “purifying” what goes on at a “messy backstage” as Power is concerned with. Rather the question is to reveal if the “backstage” really deserves our trust or whether this is infested with blatant falsehoods.

It is well known that a primary validity detracting factor is the frequent confounding of consulting and auditing services. This implies that securing independence of auditors will be an important validity enhancing factor. Bakan, however, points out that US post Enron attempts in this direction scarcely amounts to more than window dressing. What is at stake is the increasing power big corporations have at the governmental level and how this sets the stage for a limited “rationality”, and in spite of some constructive suggestions, Bakan paints a rather pessimistic picture of the corporation’s “pathological pursuit of profit and power”.

We might, however, also entertain a more optimistic view. Enron would not have produced nice sounding words like “human rights, the environment” etc. if there had not been any general concern for such issues.

It is here important to take notice of a fascinating recent development in the International Organization for Standardization, ISO. Starting with standards for “nuts and bolts” (ISO 9000) - in the seventies, moving on to “quality management” in the nineties (ISO 14000), ISO is now about to develop standards for “social responsibility”, SR, (ISO 26000). After preliminary work and conferences the main body of this work is projected to take place from 2005-2008. The preparatory work is well described by Kristina Tamm Hallstrøm from Stockholm Centre for Organizations Research.

It is promising that a NGO as Amnesty is quite favorably disposed to this ISO initiative and not difficult to understand that industry by and large is quite sceptical, fearing extra tasks but still seeing the initiative as the “lesser of two evils” (what else might be imposed?). The enthusiastic endorsement of the new ISO initiative by consulting and auditing firms is not difficult to understand. Such firms envision a bonanza of new opportunities for profit and expansion!

Can we hope for a world where SR standards by their very existence (and acceptance!) would prevent a firm like Enron to try to dupe the world? If they still subjected a report like that quoted above to an audit, could we then hope for a deep look at whether the statements faithfully reflected reality? Could such standards further foster a climate which would give an edge to auditing firms not succumbing to temptations of “backstage” catering for fat consulting contracts?

If, however, SR gets bogged down in thick rule books which gives little room for discretion and informed over-all judgments I fear that Bakan’s pessimistic views will be vindicated. Nothing in this essay should, however, be seen as downplaying the importance of rule books. Auditors should of course be thoroughly familiar with them - so that they can know when they are insufficient! It is not only in the field of nuclear plants that it is necessary to be open for unexpected, highly dangerous contingencies. In other words we hope for a culture where broader humanistic values can be allowed to inform conclusions and “social responsibility” in a broad sense prevails.
References


