



## In Praise of Doubt: Accounting as a Maieutic Machine

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When at the end of a sumptuous dinner a delicious dessert is offered, it's hard for someone with a notorious sweet tooth to decide between yes or no. Economists might expect a rational choice, but that's unlikely.

(Peter Berger and Anton Zijderveld, *In Praise of Doubt*)

Is knowledge knowable?

If not, how do we manage to know this?

(Woody Allen, *Getting Even*)

Accounting research in the last thirty years has ventured into new realms which have moved away from conventional views of accounting as a functional, economics-driven, representationalist practice. This paper reflects on this move and takes this speculative attempt further. It explores the possibility of developing alternative forms of accounting drawing on the constructivist turn.

There is no doubt that accounting research, inspired by perspectives “other” than traditionally economic ones, has added a great deal to our understanding of how practices of accounting work in organizations, economies, and societies. However, it is also true that there is a certain general unease evidenced in recent scholarship concerning the seeming lack of impact these new approaches have had on how accounting is actually regulated, practiced, and applied (see, for example, the case of green accounting, Gray, 2010). I too have noticed tendencies by scholars to leave the perilous waters of constructivism to return to the realism that has long characterised empirical and market-based research in accounting. As some col-

leagues have commented ad vocem, constructivism and relativist perspectives, in general, are going out of fashion. I will argue that rewinding the tape to return to realist beginnings is not the right way to move forward.

The reasons for the failure to embrace constructivist approaches are many. In this paper, I will address only one, but one that I feel is important: alternative approaches have so far failed to provide feasible working alternatives to mainstream practices. Critical accounting scholarship has preferred to present perspectives on how accounting can be thought of to offering actual examples of alternative accounting practices. The new research has been subtly qualified by being labelled under headings such as “the sociology of accounting,” “the politics of accounting,” or “the history of accounting,” where the preposition “of” denotes that the critical point of view comes from somewhere else (sociology, politics, or history) rather than from within the procedures, institutions, and culture of accounting itself.

The Parmalat scandal of 2003, in which accounting played a very large role, gives us the chance to consider the advantages of accounting methods underpinned by non-representationalist epistemologies. The roles played by actors in the Parmalat scandal simply do not fit with the roles of stakeholders as depicted by mainstream accounting frameworks. This scandal seems a particularly interesting theoretical space for reflection given that what accounting is and should do is now largely taken for granted in practice (and in some research traditions in accounting). I will argue that this state of things in fact creates the conditions for accounting scandals.

If things were representable they would not need to be represented: there is no need for representing what is visible. Rather one needs to re-present things for they are constantly absent and thus one needs to make them present again: a sign always re-presents the world in its absence (Latour) and accounting is full of things which are never visible (e.g. a cost) and thus in need of being made present. Assuming the impossibility of representation (of faithful testimony, Levi, 1986) is the only way representation is thinkable, possible, and indeed, is the only reason it is sought and needed. Assuming that representation is impossible makes accounting necessary, not the other way round. If these are valid statements, accounting needs to be rethought.

If accounting always refers to something which is intrinsically absent, to a lacuna, then it is from this empty space that we need to begin to think of new forms of accounting and accountability: from the absence made present by this lacuna rather than from the presence of a fact.

I do not want to offer a new definition of accounting and define, for example, what the interest pursued by shareholders is and therefore in need of being safeguarded by accounting numbers. This would reduce the enormously complex nature of the problem. Instead I want to leave this notion undefined and argue that it should remain so and thereby become the object of a continuous questioning without closure. It is from instilling doubts, rather than from delivering alleged truths, that accounting can regain a central ethical role in economies and societies. Accounting needs to be rethought as a maieutic machine, an instrument which, as much as Socratic maieutics, seeks knowledge through a constant interrogation and dialogue concerning what is right and what is wrong without ever reaching any final ground. If such ground were claimed, we would be back to falsely imposing a view of reality based on signs' ability to embody truth.

14.5 billion Euros. This is the hole that Parmalat left in the financial market when it became clear that it was insolvent in December 2003. How could this happen? How was it possible to dig a hole as big as 1% of Italy's GDP? If you open a textbook on financial accounting, chapter 1 will very likely provide you with a representation similar to Figure 1. Figure 1 shows various stakeholders with interests in financial reporting. Typically the textbook will list the stakeholders in the following order: shareholders, managers, banks and financial institutions, government and



other authorities, customers and suppliers, auditors and rating agencies, workers, and other investors. Financial reports, the textbooks maintain, contribute to the transparency needed for the efficient and effective functioning of financial markets. Let's look at what happened in with the case of Parmalat.

**Shareholders.** Parmalat's main shareholders were Calisto Tanzi and his family. Mr. Tanzi had a dream that is difficult to fulfill without huge financial resources: to build a big multinational corporation by buying and selling milk, a product with relatively low margins and returns. As long as Parmalat stayed within its core business (i.e. until the end of the 70s) things were not going badly and margins were as high as 9%. However, with the expansion into other non-core businesses such as bakery products (biscuits, snacks, etc.) and as far away from the core as TV, tourism and sport, things became problematic. Mr. Tanzi was also driven by objectives other than those conventionally described in economics, finance, and accounting textbooks. Mr. Tanzi enjoyed close relationships with politicians, and other powerful people from elite sectors of society, including members of Opus Dei, and was rumoured to want to please them all. Parmalat's drive for expansion was driven as much by these relationships as by the pursuit of profit. Expansion provided a rhetoric and rationale to sustain the growth of debt: expansion needs cash. Mr. Tanzi had in his CFOs able collaborators with creative ideas on how to raise it.

**Managers.** One man played a key role in creating the system by which continuously expanding debt could be sustained. His name was Fausto Tonna. Fausto Tonna became Parmalat's Managing Director in 1987 and then CFO in 1991. Under his administration Parmalat's debt rose from 164.32 million Euros, in 1987, to 6,340.15 million Euros in 2002. Key to the whole scandal was the fact that cash and liquidity grew at a similar pace: from 8.95 million Euros in 1987 to 3,363.56 million in 2002. Cash and liquidity jumped substantially in 1990, when Parmalat was quoted on the Borsa di Milano, the Italian stock exchange. The question that many analysts asked themselves in all of those years of growing debt was: why did Parmalat rely on financial markets (through the recurrent issue of various kinds of bonds) and pay an increasing interest rate when it could have slashed its debt by reducing this enormous liquidity?

The answer was always that Parmalat wanted to be ready to take buying opportunities on the market and thus needed liquidity for these eventualities. This

could have been a convincing answer in the first years of the expansion but not when the level of debt rose to unsustainable levels. Merrill Lynch analysts were the first and only ones who looked with suspicion at this liquidity and suspected that it was fictitious. They were right, but unfortunately, it was too late. Mr. Tonna and his collaborators had devised a series of techniques to boost revenues (faking invoices of powdered milk sales to Cuba), increase assets (through the sale of not existent intellectual properties and technologies among off shore subsidiaries) and decrease losses and debt (by shifting uncollectable receivables, sometimes artificially created, to off-shore subsidiaries in the Cayman Islands and other fiscal havens where accounting controls were virtually not existent). These are only a few examples. The actual list is much longer. Parmalat was growing debt to repay its debt. In the absence of a sufficient cash flow generated by genuine sales, the only way to repay the debt was to generate other debt. This continued from the early 90s' with no one raising doubts until early 2000.

Banks and financial institutions. Many of the most important world banks had business relationships with Parmalat (Citigroup, Morgan Stanley, Deutsche Bank, Bank of America) and of course all of the main Italian ones (Banca Intesa, Capitalia, San Paolo-IMI, Unicredito). Some of these banks were overexposed and tried to reduce the credit extended to Parmalat. They had to have been in a position to know Parmalat's true situation. Despite this, they endorsed Mr Tonna's plan to keep buying Parmalat bonds and resell them to an unaware public. Banks, just as any organization, are a coalition of different agencies, and it could therefore happen, for example, that the same bank (Banca Intesa for example) was trying to reduce the exposure towards Parmalat in one office and buying Parmalat's bonds in another. There were simply too many institutional and personal interwoven ties of interest to allow Parmalat's irregularities to emerge into view before it was too late. These relationships did not exclude politicians and members of all the various governments in power during the long period of the Parmalat saga.

Similar historical detail could be given for all the other players in this story: governmental and regulatory authorities, customers and suppliers, auditors and rating agencies. The people whose welfare is not measured in the representation of relations represented by Figure 1 are those it nominally is supposed to protect above all others: the unaware small investors. But they, along with workers, are the ones who are paying the real social cost of the scandal. The forecast is that only 4 out of 100 small shareholders and bondholders will get a partial refund.

The absurd mismatch between our accounting models and what transpired inside Parmalat challenges us to notice such mismatches everywhere. Accounting never works as an answer machine that truly represents the financial situation of a company. The transparency which representation aims to achieve is, in fact, impossible to achieve. The tyranny of transparency, as it has been described, is quite ubiquitous in contemporary societies. inside Parmalat challenges us to notice such mismatches everywhere. Accounting never works as an answer machine that truly represents the financial situation of a company. The transparency which representation aims to achieve is, in fact, impossible to achieve. The “tyranny of transparency,” as it has been called, is quite ubiquitous in contemporary societies. So we live in “orgies of calculations” all directed to make our actions auditable and to make us accountable. But these attempts work backwards. They assume what needs to be represented and account only for the limited range of possibilities permitted by those assumptions.

We therefore must learn to view accounting, accountability and governance as instruments which, rather than giving answers, raise questions about what is not known, about the logics which drive shareholders and managers that do not fit within the dynamic of maximising profit alone. They have to be seen as maieutic machines in homage to the Socratic practice of producing knowledge by asking questions rather than giving answers. This would alert us to the possibility of actions beyond those of maximising profit and to the range of motives that can be at work--but at cross purposes with--the assumptions our accounting procedures create with their measures.

Creating accounting methods and governance systems based on the idea of the impossibility of representation will force us to ask for more knowledge--and more revealing knowledge--than we now have. Out of such knowledge will come the applied alternative practices of accounting that the constructivist turn still has the potential to make good on.

Note: This article draws on arguments made in Norman Macintosh and Paolo Quattrone, *Management Accounting and Control Systems: An Organizational and Sociological Approach*, Second Edition (Wiley, 2010).