13 A Pragmatic Constructivist Perspective on Sensemaking in Management Control

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Introduction

In a famous story told by Weick (1995), a small military unit got lost in the Swiss Alps. As panic set in they found a map which calmed them down as they plotted a route back to their base. Finding that the map did not match land marks and obstacles, they used other information such as advice from villagers. When they eventually got to their base camp, they discovered that the map was of the Pyrenees and not the Alps. But, as Ancona put it: "When you're tired, cold, hungry, and scared, any old map will do" (2012, 6). Building on this story, this chapter deploys a pragmatic perspective (PC) to critically examine the notion that "any old map will do". We consider that the map metaphor may be actually be a very useful way of conceptualising a management control package just as it can be for explaining the role of theoretical models in social science for as Joan Robinson (1962, 33) so famously put it: "A model which took account of all the variegation of reality would be of no more use than a map at the scale of one to one." Similarly, a management control package need not try to represent the totality of organisational detail even if we knew what that was. We also find that the map metaphor has a number of different aspects: how are maps made; how are these used; and what constitutes a 'good map'? But drawing on the PC approach, we also find that the map metaphor has limitations in comparison with a multi-dimensional perspective based on facts, logics, values and communication (Nørreklit et al. 2006; Nørreklit 2011; Cinquini et al. 2013).

In the next section we review some of the key insights of sensemaking that have influenced the management accounting and control literature. In the following sections we use pragmatic constructivism to point out some of the weaknesses of the sensemaking concept and how pragmatic constructivism can contribute to the use of sensemaking in a management control context.

Some Possible Contributions of Sensemaking and Sensegiving Methods to Management Control and Accounting

In sensemaking, members of organisations extract cues to action from the changing environment in which the organisation finds itself. What is

seen as significant will vary, and is influenced by previous experiences and underlying values. The action that occurs as a result of these cues, will, in turn, change the environment within the organisation and will play a part in determining which cues are noticed in future. This process is circular. In other words, the beliefs that people hold about what their role is, will determine which cues they notice in the world around them; this in turn will determine how they behave. How they behave will change the environment in which they are working, and will affect which cues they notice in the future as well as their beliefs about their role. As Arbnor and Bjerke put it:

> Sensemaking is a process where people try to *make sensible explanations* of experienced situations. It is concerned with the future, but is retrospective in nature, and is based on earlier sensemaking in an *ongoing flow*.
>
> (original emphasis 2009, 403)

According to Tillmann and Goddard (2008), the concept of sensemaking has been extensively discussed in diverse organisational fields, but relatively rarely in the accounting literature. Tillman and Goddard's (2008) paper explores what is meant by sensemaking and how management accounting is used to assist that process. Earlier researchers argue that accounting is "one of the major formal sets of symbols available to organisational actors for ordering and interpreting their experience" (Boland and Pondy 1983, 224). Serving "as a bridge in the establishment of a common interpretive scheme" (Jönsson 1987, 290), accounting texts "give meaning to an organisation and its history, but they also use them to give meaning to their own selves and worlds" (Boland 1993, 140). In their study, Tillmann and Goddard (2008) used a case study methodology to demonstrate how management accountants were called upon to assist an organisation to understand a situation and to make it more transparent when faced with a decision of a strategic nature—in other words accounting was perceived as an important sensemaking tool.

One of the key insights of sensemaking is that effective managerial action does not necessarily depend on accuracy of management accounting information. Swieringa and Weick (1987) argue that management accounting academics can over emphasise the analytical and decision-making aspects of management accounting to the neglect of cognition, motivation and commitment. One result of the traditional focus is that researchers may underestimate the effect on action in creating order. Arguing that order may be constructed by managers if, by acting *on a presumption of order* "action implants the rationality that was presumed" (304). As Swieringa and Weick put it:

> Biased, incomplete analyses may mobilize strong action which, because of its strength, may often change situations so that they, in fact, eventually validate the incomplete presentation that first stimulated the action.

> Self-validating action stimulated by relatively crude accounting approaches may be a common though neglected pathway by which management accounting affects organizations.
>
> (1987, 293)

Swieringa and Weick use ROI to illustrate their argument. It is not the theoretically best method of either appraising investments or monitoring divisional performance (Seal 2010) but it may have better performative properties especially if *non-accountants* in the organisation accept and understand it. In short, ROI has the capacity to *give* as well as *make* sense.

Gioia and Chittipeddi (1991) combine sensemaking and sensegiving as a way of understanding an organisation undergoing strategic change. They see the relationships between action and cognition as taking on a cyclical nature as shown in Figure 13.1. The diagram evokes different phases of convergent and divergent thinking and action. Initially, sensemaking draws on a number of organisational members to help leaders gain an understanding the issues. The final, implementation phase represents the diffusion of the resulting plan to organisational members. These cycles need not be a one-shot phenomenon and there may involve several iterations. Alternatively, if as Mintzberg (1978) argues, strategy is inherently emergent, then the cycle will just go on continuously as an organisational routine.
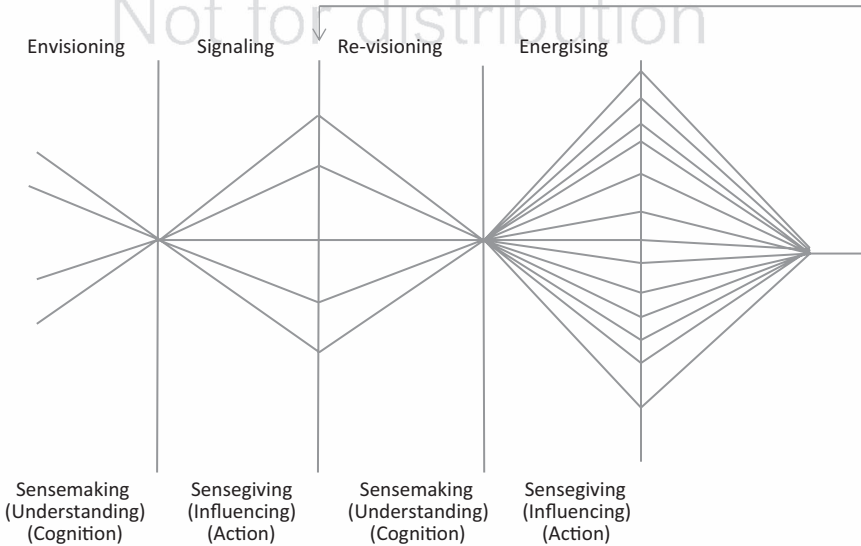

Figure 13.1 Strategic Initiation and Implementation: a Sensemaking and Sensegiving Perspective (Republished with permission of John Wiley and Sons, Inc. from Strategic Management Journal, Gioia, D. and Chittipeddi, K., 12, 433–448 (1991); permission conveyed through Copyright Clearance Center, Inc).

Some Limitations to the Map Metaphor from a PC Perspective

In our introduction we deployed the famous 'map story' that has been used to illustrate some key aspects of sensemaking. We may also use the map metaphor as a way of comparing and contrasting PC with sensemaking. In the latter, the key concept is not the map *per se* but the *process* of cartography. As Ancona puts it:

> Maps can provide hope, confidence, and the means to move from anxiety to action. By mapping an unfamiliar situation, some of the fear of the unknown can be abated. By having all members of a team working from a common map of 'what's going on out there,' coordinated action is facilitated. In an age where people are often anxious about their circumstances, mapmaking becomes an essential element of sensemaking and leadership. In a world of action first, sensemaking provides a precursor to more effective action.
>
> (2012, 6)

If actors find themselves in unfamiliar circumstances, such as managing a new business, they will tend to draw on explanations and plan actions based on their experience in different but nevertheless familiar business settings. Yet, as with our military unit, their organisational 'map' may actually be a map of a different mountain range and, although enabling initial action, will have to accompanied by a capacity to react to obstacles that were not marked on the map. The soldiers had a map, but it was clearly an illusion, because it was not a map of the Alps, it was a map of the Pyrenees. The soldiers were also reflective actors, because they started to realise that something was wrong, and they started to look for new possibilities through communication with the villagers.

These issues can be conceptualised using the PC framework because, unlike a two-dimensional map, the defining characteristic of the PC approach is that it construes empirical material in a framework constructed out of a *multi-dimensional organisational reality* (Nørreklit et al. 2006; Jakobsen et al. 2011). More specifically, managerial reality is constructed through a synthesis of logics, facts, values and communication (Nørreklit et al. 2006). In their original exposition of PC, Nørreklit et al. (2006) used the dimension of *logics*, arguing that these were the basis of individual and organisational *possibilities*. Nørreklit, et al. argue that there is no set of general principles that integrate their four dimensions of reality, rather it is a question of finding "a company-specific *topos*, where *topos* refer to the concepts and arguments applied in a specific setting" (2006, 43). The basic PC model is illustrated in Figure 13.2 below. Although for each organisational setting the dimensions and the modes of integration will be very specific, the basic structure of the model remains the same. As we shall see later, this stability

of structure enables us to compare different organisations and to search for possible innovations.

The PC model is essentially a heuristic device. The map metaphor is also a heuristic device, but it has some other significant limitations from a management control perspective. A map is depicting some directly observable empirical phenomenon of the world, whereas a management control system such as an accounting system is a logical conceptual model (Nørreklit et al. 2010) which cannot be verified or tested as easily as a map.

But PC is not just a way of modelling organisational settings or researchers' reality. It is primarily a way of developing good managerial practice or, more specifically, creative governance based on the criterion of practical validity (Nørreklit 2011; Nørreklit 2017, Chapter 2, this volume). A management control approach which fulfils the criterion of practical validity is characterised by a management approach which tries to avoid the possible illusions of management control. Dermer and Lucas argue that the illusion of control "fosters the belief among managers that conventional controls such as operating standards, profit targets and budgetary criteria accurately
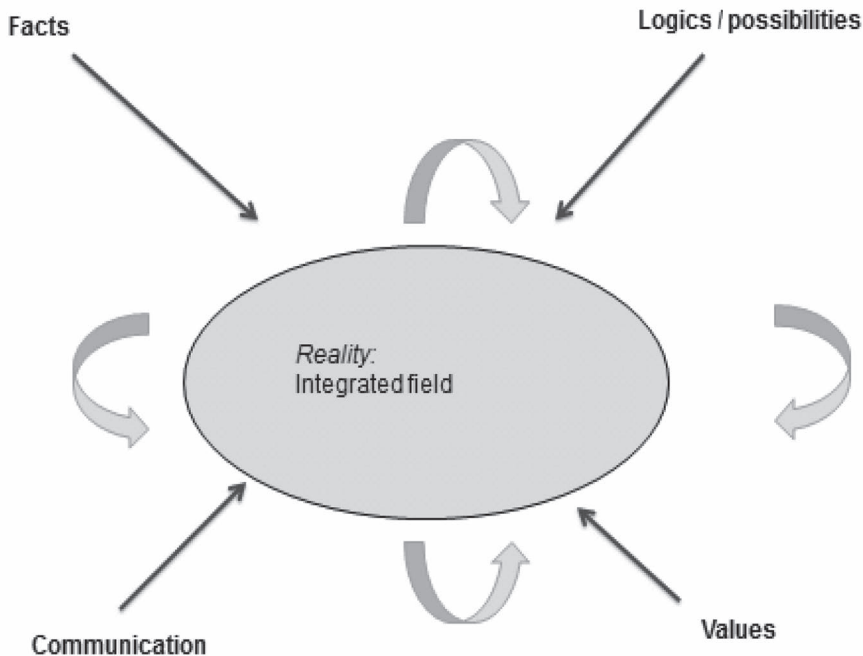

Figure 13.2 Pragmatic Constructivism (Reprinted from *Management Accounting Research*, 17 (1), Nørreklit, H., Nørreklit, L., and Israelsen, P. "The validity of management control topoi: Towards constructivist pragmatism", 42–71, (2006), with permission from Elsevier)

and validly measure, and thereby control behaviour" (1986, 471). According to PC, managerial control illusions may be avoided by the construction of a valid organisational *topos* that follows an actor-based approach to management. The PC framework argues that a successful management control *topos* will succeed because it is based on reality rather than illusions—it has *practical validity*. In PC, a concept of organisational/management reality is based on the Germanic premise of *wirklichkeit* or reality is 'that which works' (Nørreklit 2011). Although it shares a constructivist ontology with sensemaking, PC rejects extreme forms of social constructivism which deny the existence of an external objective reality. In PC, facts are a dimension of reality and are constructed through a relationship between the actor and the world. In short, PC has an empirical dimension which offers a way of checking the validity of constructions such as a management control model. In PC, fictions may play a role in the construction and communication of a management control *topos* but they must, at least in principle, be checked against a reality that, although a construction, has some basis in an external world (Nørreklit 2011).

Making a Better Map: Pragmatic and Pro-Active Truth

The appeal to facts may suggest that PC has a less forgiving attitude to management control packages than sensemaking. In other words, the specific characteristics of the organisational *topos* may be subject to a more careful scrutiny than it might under sensemaking criteria. Or to reprise the famous story, any map may be better than no map *but some maps are better than others*. As a way of evaluating management control models/organisational maps, PC proposes a concept of pragmatic truth. For example, the London Tube map may have a very poor correspondence with reality but it meets the criterion of pragmatic truth (Mitchell et al. 2008) in that it has enabled millions of passengers to successfully navigate their way around the London tube system. A map is quite easy to test by comparing it with easily observed empirical facts. In comparison, a management control system based on accounting principles is much more ambiguous and much more difficult to interpret and test. For this reason, PC proposes that action be based on a pro-active concept of truth. As Nørreklit et al. point out:

> A problem with this pragmatic concept of truth is that one can only know the truth after events have proven whether the expectations were met. Since it is absurd to wait for ex-post testing of all statements and especially of strategic statements, a concept of preliminary truth, pro-active truth similar to the correspondence notion of truth, is needed to provide a basis for action.
>
> (2008, 21)

Nørreklit et al. have set out the processes by which actors create a practical valid reality in terms of a pro-active truth as follows:

> in order to apply the pragmatic notion of truth one needs an idea of truth based on the present. This is *pro-active truth*. This pro-active truth is then subject to a continuous process of improvement which identifies and diminishes the difference between the pragmatic truth as the outcome and with pro-active truth.
>
> (2008, 21–22)

The difference between pro-active and pragmatic truth opens up the possibility that actors can engage in a learning process termed the "pragmatics of truth" (Nørreklit et al. 2007, 197). Over time, organisational actors compare pro-active truth claims with actual outcomes, that is, with pragmatic truths in order to test whether their expectations perhaps based on theories derived from their institutional and organisational environment accorded with their experiences in their own organisation. As we shall see below, case study respondents engaged in these sorts of learning behaviours as they did not just reflect on the pragmatic outcomes of their existing management control systems, but checked to see whether the systems could be improved on the basis of orthodox but, as yet, untried accounting principles. With a pro-active truth perspective on management control, the map metaphor begins to show some limitations as creating a map is not the same as planning a journey. Here, PC is undoubtedly more productive with its stress on integration between values, possibilities, logics and communication. The PC framework for creative governance (Nørreklit 2011) promises to go beyond retrospective sensemaking by offering a recipe for the future, an approach that enables strategic performance control (Mitchell et al. 2013; Seal and Mattimoe 2014).

In sum, PC proposes that new business models may be developed by closing the gap between pro-active and pragmatic truth. Pro-active concepts may be based on prior experience and/or by drawing on existing theories in the management literature. This process may be illustrated empirically in case 1. As the discussion of co-authorship in case 1 shows, recommendations based on PC derive their power from a holistic approach to managerial problems with an emphasis on empathy rather than direction. Change comes through greater awareness and understanding by organisational members, which enables better integration between the dimensions of their management control *topoi*. The notion of management change as therapy and empathy is also consistent with sensemaking which sees this process change as an ongoing and recursive accomplishment. PC emphasises *learning* rather than sensemaking, in particular closing the gap between pro-active truth and pragmatic truth. Nørreklit et al. argue that:

> the learning perspective becomes the objective of installing management accounting systems. The deviation is information about differences

between the reality of the firm and the observed and controlled firm. Analysis of the control system should lead to improvements in the control system. The dynamics of the world will always tend to make proactive and real truth drift apart. The implemented learning process counters this problem.

(2007, 213)

The learning perspective on management control is also illustrated empirically in case 2 below, which, in contrast to case 1, describes a long-established and successful business model.

Case 1: Countryhouse Hotel

The *Countryhouse* hotel was based around a country house set in attractive grounds. It had been used as a conference centre but had recently been acquired by a local company whose background was in car repairs. In short, the new owners and their accounting staff had no previous experience in running a hospitality business. As well as re-furbishing the hotel on a piecemeal basis, the owners were keen to build it up as a wedding venue. They had had some success but they were troubled by the seasonal and in-week variation in bookings. There were two key features of the *Countryhouse* case. First, it was a very new business and, consequently, they did not have much of a database or experience with which to plan. Second, the senior management and owners did not have a background in hospitality and thus illustrates learning processes rather than examples of best practice. As a part-qualified management accountant, the financial manager was very aware of what might be regarded from a generic perspective as good practice. For example, she had considered activity-based costing, but was unsure about its operationality in a hotel context. Most of the accounting was based on their car repair rather than a hospitality business. Recognising the need to close the gap between the accounting system and the different facts and logics of the hotel business, the financial manager was keen to draw on pro-active concepts from other hotels and from other outsiders, such as visiting researchers.She also found that the hotel staff could contribute to a co-authored management control model based on closing the gap between pro-active and pragmatic concepts. For example, a dynamic pricing system could theoretically help to fill the rooms away from the wedding dates, but the data for such a system took time and experience to develop.

Case 2: Coastal Hotel

Coastal Hotel contained 37 eco-friendly bedrooms and was situated in a spectacular coastal location in a part of Southwest England particularly popular with holiday makers. The hotel derived most of its revenues from accommodation as it was a very popular destination for families. Special

entertainment for adults and a dedicated area and entertainment for children was always provided which proved a very positive selling point for a mid-market, family clientele. The domestic family market comprised approximately 75 percent of total revenues and business conferences and weddings comprised the remaining 25 percent. The hotel always sold a package to include dinner, bed and breakfast.

The management accountant had developed the budgeting and cost control in two ways. First, she had introduced a special package for rostering labour, which had been very successful in reducing labour cost and in avoiding unauthorised overtime. Second, whereas in the previous year, the hotel had moved to monthly budgets from a full year's budget, it had been decided that weekly budgets were the most important. These changes reflected the realisation that the key features of the overall reporting system were simplicity and timeliness. Reflecting her enthusiasm for innovation and best practice, the FC stated that she was not entirely happy with the model and that she wanted to develop a more sophisticated customer profitability analysis. This analysis would establish how profitable conference and banqueting clients were to the hotel, especially during the busy season, where some rooms could have been sold to non-conference/non-banqueting clients. Overall, the Coastal case indicated a close alignment between the business model, the management control framework and the material factors in the case, notably the location of the hotel. Given the settled nature of the hotel's business model, the management accountant seemed to have considerable capacity for both sensemaking and sensegiving. In other words, if a significant change in the business environment affected Coastal, then we would expect the hotel's leadership to recognise the new problems and mobilise the organisational actors in an effective manner. There was also evidence of a high level of social integration whereby accounting data was both understood and authored by non-accounting actors. Action was stimulated through accounting-based cues, such as the flash reports. This latter property was the outcome of a successful process of sensegiving in which the management accounting reports played a key role.

Comparing the Cases

In *Coastal*, with a settled business model and a routinised management control framework, the accountant drew on rationalistic sensemaking. At the other extreme, in *Countryhouse*, the accountant was trying to make sense of her role through reflecting and conversing with external actors. In the latter case, there was a sense of the unexpected as the new hotel and new managers sought to survive and grow the business. In *Coastal*, the financial manager anticipated few surprises and saw innovations such as customer profitability analysis from an almost playful perspective.

The main weakness in the sensemaking approach is that it focuses on the relationship between cognitive processes and action, but lacks a comprehensive

and robust model with which to compare *all* the issues affecting the success of the businesses. In contrast, the PC framework offers a rich and robust structure into which business specific data may be inserted. 'Brute facts' (such as the location and the architecture of a hotel) are important in the PC interpretation but the concept of management control *topoi* captures far more than just physical features. The PC framework acknowledges both the socially constructed nature of reality and the impact of discourse on the selection and omission of facts. Furthermore, values and communication are also part of the hotel's *topos*. Values are not assumed. A hotel may pursue profit but this goal has to be empirically established and cannot be assumed on some notion of *Economic Man*. Similarly, a budget may be seen as an important form of communication in a particular *topos* (Nørreklit et al. 2006), but it can also be interpreted as a mechanism for *constituting* rather than just representing 'business facts'.

Unlike some of the general mechanical models often advocated in the management accounting literature, the PC approach argues that a successful management control *topos* has to be business specific and co-authored with contributions from participants both inside and outside the organisation. Sensemaking and PC research methodologies both encourage reflexivity in which the researchers explicitly explore not just the positions of their interviewees but their own position and reactions. The creation of business knowledge is seen as a co-production between the researchers and the researched as they share concepts and reflections during the field work process. The PC framework has the considerable merit in that it is not laden with pre-conceived values or specific logics. It is open to different values and to a variety of different theories that may emerge both from the other texts and from the empirical findings. In this respect, the framework allows the empirical work to 'speak to' researchers. The metatheory of PC is based on a multi-dimensional view reality. In contrast, the prescriptive theories that are applied abductively are both abstract and intentionally reductivist with a focus on the factual and logical dimensions of managerial reality. In PC, management control practices are evaluated on the criterion of practical validity which is premised on an ability to differentiate between fact and fiction. In contrast, in sensemaking research, the main criteria is to assess whether the management control package generated individual and organisational action and enabled actors to reflect on their actions.

Conclusions

Overall, it would seem that in terms of the production of management control knowledge, PC and sensemaking have many overlaps and complementarities. Yet, when it comes to the linking of theory and data and the production of valid management control knowledge, the PC approach provides a vital set of criteria against which we can evaluate the stories of practitioners on the basis of 'does it work?' Given the ambiguity of what constitutes

organisational success, it may be hard to test that a particular management control framework does not embed illusions of control; we should at least prefer a research framework that urges us to try see that not only does the management control package promote organisational action but that action should be evaluated according to some notions of organisational success. Any map may work in the sense that it overcomes despair and lethargy, but with PC we are urged to explore the characteristics of a good map.

As we argued earlier, sensemaking focuses on cartography—the process of mapmaking. In contrast, we submit that PC has a set of concepts with which a specific map can be evaluated in detail. For example, it can be used to ask fine-grained questions concerning the relationship between the actor and world in the construction of facts. The PC concern with facts can be used to ask critical questions about the completeness of specific performance indicators. PC does not expect a map to represent some notional reality, but it can be used to analyse the technical basis of representation.

Yet, it would be wrong to present PC and sensemaking in some sort of notional competition. Although they focus on different aspects of management control and accounting, they both share an interest in performativity. In short, both approaches either explicitly ask: how is a map used and how does it relate to individual and organisation action? In sensemaking the great fear seems to be inaction induced by organisational paralysis; in PC, the great fear is not organisational inaction but concern that actors, particularly senior managers, are suffering from the illusion that the system of control that they impose on an organisation necessarily enables successful outcomes.

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