Mary Douglas, Risk and Accounting Failures

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Abstract

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

Keywords: Mary Douglas, Anthony Giddens, Ulrich Beck, risk, cultural theory, grid-group, trust, accounting failure

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Accounting researchers have found it beneficial to draw on other disciplines to analyse and evaluate accounting issues. For example, Macintosh and Baker (2002), McGoun et al. (2003), Lewis and Unerman (1999) and Carpenter and Feroz (2001) utilize perspectives derived from linguistics, theatre and philosophy in accounting-related papers. The two related fields of sociology and anthropology have made significant contributions to the study of risk (Freudenburg and Pastor, 1992) and provide valuable perspectives on a topic that has received much attention lately (Power, 2004). Consequently accounting academics have been influenced by “the work of people such as Beck and Giddens” (Hanlon et al., 2006, p.270) and have used their ideas within different accounting contexts. For example, Green (1999), Jones and Dugdale (2002), and Froud (2003) employ the ideas of Beck and Giddens to examine audit practices, activity-based costing and health accounting respectively.

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

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

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

1. Criticisms of Giddens

Unerman and O'Dwyer (2004) base their analysis of the implications of Enron and Andersen accounting and audit failures upon Giddens' (1990) proposal that the reorganization of social relations on a global, rather than a local, basis is progressed through two types of disembedding mechanisms; symbolic tokens and expert systems of technical and professional expertise. Whilst non-experts trust that experts have created systems incorporating tolerable risk levels, they begin to contest expert knowledge when events occur that undermine those systems. This re-evaluation of expert status and knowledge is a product of reflexivity. Reflexivity in modern society is concerned with our propensity for analysing knowledge and modifying our perceptions of social systems and social activities as new information arises. Unerman and O'Dwyer (2004) contend that the events that unfolded at Enron and Andersen caused employees, and other external lay persons, to question the reliability of accounting and audit systems with non-expert actors reflexively modifying their opinions about the trustworthiness of these abstract expert systems. Consequently, through the process of reflexivity, non-experts developed increased sensitivity to levels of risk in stock market investment and stocks, which are symbolic tokens, also became vulnerable to a withdrawal of trust. They conclude by positing that this loss of confidence and trust in the two disembedding mechanisms may have potential ramifications not just for the status of experts and the capital markets but also for the continuation of the capitalist system on which modernity is based.

In his conception of reflexivity and risk Giddens assumes that scientific knowledge consists solely of propositional truths with the outcome that his distinction between expert and lay knowledge is unconditional (Wynne, 1996). That is, in the context of reflexivity, there is the implication that the risk meanings created by experts have primacy and lay individuals merely react reflexively to the experts' view of risk rather than creating their own risk meanings (Lupton, 1999; Taylor-Gooby and Zinn, 2006). Thus if there is disagreement amongst those possessing expert knowledge then lay actors need to decide which expert to trust; but if the experts concur upon an issue then the lay actors can accept this expert view without needing to make any decision (Wynne, 1996).

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

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

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

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

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

2. Douglas and risk

2.1 Douglas and the social construction of risk

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

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

Figure 1 about here

If the social structure of the group to which a person belongs is categorized as individualist then this denotes a low grid-low group culture. In this type of society individuals are free to transact with any other individual, but there will be a propensity to collaborate with other individuals when gains can be made from such alliances. Individualists are pro-competition and consider a free market environment the most appropriate configuration (Douglas, 1982). Self-regulation is espoused (Lupton, 1999) and American entrepreneurs would be a typical example of this cultural type

(Rayner, 1992). This society demands people perform to a high level and, consequently, is a stressful society. It would be unrealistic to expect support from another individual if failure occurs and ill-health, for example, would be seen as a weakness. Consequently, Wilkinson (2001) perceives this culture as supporting "social institutions which enshrine the goal of personal acquisition as their supreme value" (Wilkinson, 2001, p. 5). The individualist worldview of risk is that it is not to be regarded as exclusively negative as there is also an upside to risk that resides in the market opportunities it can present. This entrepreneurial acceptance of risk-taking is also present in the individualist view that self-regulation of risk is preferable to external regulation.

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

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

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

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

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

Because Douglas' cultural theory seeks to explain why certain risks become politicised there is a moral aspect to the theory. As Ericson and Doyle (2003, p. 5) explain, "(Risk) is used … to mobilize moral communities for dealing with danger in particular ways, and to force accountability." In the past the moral dimension of risk would be invoked through the language of religion with potential wrongdoers being reminded that transgressing society's boundaries was 'sinful' or 'taboo'. Douglas perceives the word 'risk' a secular substitute for 'sin' in modern Western society but performing the same fundamental function of imbuing individual actors with the sense that they have a moral responsibility not to disturb the societal order. As a consequence risk is also interlinked with notions of blame in Douglas' cultural theory.

For example, in hierarchical societies blame will be ascribed to those who transgress internal or external boundaries and appropriately harsh penalties will be applied as punishment for endangering the group.

2.2 Criticisms of Douglas' cultural theory of risk

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

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

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

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

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

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

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

3. Analysis of accounting and audit failures

3.1 Enron as an individualist concern

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

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

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

These descriptions of Enron accord with Douglas's depiction of the worldview of the individualist society as "an accommodation to the harsh experience of competitive society. The individual …. (is) under continual threat of withdrawal of support … Society is an unremitting source of worry as well as rich prizes. … continual selectivity in the social environment … demand(s) the highest standards." (Douglas, 1982, p. 211-212).

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

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

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

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

3.2 Marketing a vision

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

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

The low grid-low group culture of an individualistic society *suggests*, although it does not actually create, a democratic arrangement that has an inherent appeal because of the message it communicates. Moriceau (2005) notes this equivalence between democracy and markets in the context of Enron, and the significance of this is that the individualistic society *implies* an equality of opportunity exists for anyone wanting to pursue success in an individualistic society or organization. For in an individualistic society the opportunity to acquire wealth and 'get on' is seemingly available to *anyone* willing to commit themselves to pursuing success.[1]

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

Chabrak and Daidj (2007) have suggested that a supplementary strategy developed by Enron's managers to influence opinion and market a vision was to construct a rhetoric

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

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

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

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

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

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

The significance of these quotations is that the intensity of emotion apparent in the former employees' use of religious phraseology implies that a highly compelling vision had been created with Lay attaining a "Great Man persona" (McLean and Elkind, 2004, p. 96) and Skilling "sound(ing) like a visionary" (McLean and Elkind, 2004, p. 233). Jobs at Enron became highly coveted (Watkins, 2006) and it successfully differentiated itself from other firms in a number of respects including: the nature of its business model, the manner in which human capital was employed and the many business accolades it had received such as six times winner of the

Fortune 'Most Innovative Company in America' award from 1996-2001 (Kaminski and Martin, 2001). Thus Enron's managers were successful in convincing employees, potential employees, and others external to the organization, that it provided a unparalleled opportunity for self-advancement that was not available to the same extent elsewhere and hence Enron was identified by recruits as a "once in a lifetime opportunity … to be part of a mighty mission (… an intoxicating "in" group)" (Trinkaus and Giacalone, 2005, p. 239).

3.3 Enron, risk and Douglas' cultural theory

Within an individualist culture economic threats are a central concern. There is a heightened sense of the significance of personal possessions and the risk focus is upon issues such as sustainability of economic growth, albeit with an acceptance that it is not possible to have a completely risk-free society (Dake, 1992). Therefore Enron's senior executives would have been attentive to the size and historical pattern of the earnings figures disclosed in the financial statements. This is because the earnings figures provide fundamentally important information about the company's current and future economic prospects (Coffee, 2004) and, in the context of an individualist culture, any vulnerability in earnings would be construed as a sign of a possible risk or danger to the wealth of stockholders, employees and other stakeholders. Manipulation of the financial statements by senior executives resulted in the firm's earnings being disclosed as growing until a third quarter loss of $618m was announced in October, 2001. Once it had been announced that Enron's earnings were negative, a risk to personal wealth was exposed and this commenced the process of the disintegration of Enron as the severity of underlying issues became apparent (Gordon, 2004). Accordingly, the declaration of the third quarter loss was interpreted as a warning sign and in due course led to Enron filing for bankruptcy on December 2, 2001.

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

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

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

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

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

One employee who did become aware of the earnings manipulations in 2001 was the 'whistle blower' Sherron Watkins. She had some awareness of the accounting problems but was reluctant to voice her concerns outside the company for fear of losing her job at Enron (Watkins, 2006). This is to be expected for overt dissent would have been unlikely because of the strength of this desire to remain an employee of Enron (Froud et al., 2004). Consequently, it is unsurprising that her memos have not always been perceived as true whistle blowing, but rather have been portrayed as "opportunistic … (reading) partly as her pitch for a new job as the vice-president" (Froud et al., 2004, p. 903). Further evidence of her behaviour seeming to conform primarily to an individualistic worldview that is inherently short-sighted, largely self-interested and has limited support for those who fail is her having sold $47,000 of stock after sending the memos. When questioned about this action during a BBC Radio Programme she explained that, whilst in retrospect she was not terribly proud of the action, her family were dependent upon her income and "after 9/11 and stock market jitters I was just trying to get as much cash as possible" (Watkins, 2006).

3.4 Accounting, auditing and the issue of margins

There is, of course, an expectation that the external auditor (Arthur Andersen in the case of Enron) will forewarn the wider investment community of any accounting and earnings-related risks as their principal function is to act as a gatekeeper[2] verifying, and vouching for financial reports (Coffee, 2004). This notion of 'gatekeeping' is

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

also significant in the context of cultural theory having a correspondence with Douglas's ideas concerning 'margins'. The crux of Douglas' cultural theory is that social structure shapes a society's perception of risks and dangers. Douglas (1966) explains that margins are those points in a society that are particularly vulnerable to risks and dangers. Consequently margins "mark and straddle boundaries, … are ... dangerous, (and) require(e) high levels of policing and control" (Lupton, 1999, p. 41). Previous papers discussing Enron have emphasized the great significance of agency-related problems at the firm (see for example; Arnold and de Lange, 2004; Cullinan, 2004; Gavious, 2007; Reinstein and McMillan, 2004). In an individualistic culture, where managers have a greater propensity to act in their own interests rather than in the best interest of investors, this agency issue is amplified. Therefore the financial statements represent a vulnerable point in individualistic societies where there is an increased risk of managers engaging in earnings management and, consequently, the gatekeeping role of the external auditor assumes an especial importance. Additionally, because it is not possible to create a classification system that can prescribe accounting treatments for all potential transactions (McSweeney 1997; Mouck, 2004) this 'danger at the margin' is further exaggerated as it provides managers with the option of adopting accounting treatments that suit their purposes and yet technically still remain within the rules. The boundary between adopting an accounting treatment that is within the spirit of an accounting standard and adopting an accounting treatment that is technically within the rules but has been chosen to achieve a desired outcome is ill defined as evidenced by Enron's manipulation of earnings using mark to market accounting and Special Purpose Entities (Baker and Hayes, 2004). Accounting standards can be revised as new and unforeseen situations arise, but these re-classifications will inevitably still leave anomalies that can be exploited (Evans, 2002)[3]. It is for this reason that accounting requires the use of professional judgement (McMillan, 2004).

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

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

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

firm and its clients and, therefore, firm-client relationships will tend towards the formal. To ensure that the strong group aspect is not threatened (this form of society does not want to set group members in opposition to one another) the firm's goals will be less clearly defined than in an individualistic organization. Consequently the goals are likely to be more modest as this assists group members in attaining targets but without needing to resort to undue competition between group members.

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

If Arthur Andersen is considered then prior to the 1980s the firm was noted for being independent of clients, following internal processes diligently and upholding professional standards in client audits (Clarke and Dean, 2007; Sridharan, 2002). Substantial resources were devoted to instilling a very strong group ethos through training sessions for new recruits in St. Charles (Andersen's dedicated training venue) that not only embedded the importance of adhering to firm policies but also addressed much broader issues such as how to dress and behave as an Andersen employee (Hechter, 2008). Systems existed for employees to inform management of any colleague deviating from firm procedures (Wyatt, 2004). All employees had to pass the CPA examination and promotion to manager was impossible without CPA status (Wyatt, 2004). Technical accounting skills were also an important determinant of further advancement in the firm (Wyatt, 2004) and Andersen was considered a model of a public accounting firm (Clarke and Dean, 2007). Partners were willing to disagree with a client's interpretation of an accounting standard and central to its ethos was the notion of professionalism and trust (Wyatt, 2004). Therefore, prior to the 1980s the culture at Andersen was strongly hierarchical (Hechter, 2008). Andersen commenced offering consulting services in the early 1960s and this part of the firm grew rapidly. The high revenue earning capacity of the consultants, who were largely non-CPAs, gave them power in the firm and they demanded greater levels of remuneration (Wyatt, 2004). This eventually resulted in profitability becoming the central measure of success (Wyatt, 2004) with each office having clear financial goals and operating as independent "profit center(s) and … a significant portion of partner compensation (was tied) to own-billings or office-billings" (Gordon, 2004, p. 325). Promotion became predicated upon the ability to produce increased revenues rather than technical ability, and self-interest became more prominent (Wyatt, 2008). Demarcations between audit and consultancy were removed as services were cross-sold and this altered the nature of client relationships causing a loss of independence (Coffee, 2004; Sridharan, 2002). The existing culture was also weakened as consultants were not obliged to attend initial training in St. Charles (Hechter, 2008) and many were recruited from other consulting firms rather than as new hires. Therefore, during the 1980s and 1990s Andersen was gradually changing to an individualistic culture with a more entrepreneurial focus.

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

These issues associated with an individualistic culture can be observed in respect of Andersen's interactions with Enron. For example, at Andersen's Houston office a client services team focused upon developing innovative products they could sell to Enron and hence enhance firm earnings (Weber et al., 2002). There was no boundary delineating Andersen from Enron with staff assigned to the Enron audit being provided with permanent offices at Enron, wearing Enron branded shirts and having social lives centred on Enron events (Sridharan et al., 2002). Andersen was partly engaged on some of Enron's internal audit work and it was common for Andersen employees to become Enron employees (Weber et al., 2002; Gordon, 2004). Procedures for internally reviewing decisions on accounting treatments could be over-ridden (Gordon, 2004). When Carl Bass, the Houston member of Andersen's Professional Standards Group, questioned the accounting treatment of Special Purpose Entities at Enron he was reassigned and had no further oversight brief in respect of Enron (Fuerman, 2004; Sridharan et al., 2002). Consequently, Andersen was ineffectual in its scrutiny of Enron's disclosures (Chaney and Philipich, 2004). Critically, however, the case of Andersen and Enron is only one instance of how this individualistic culture at a public accounting firm can affect their gatekeeping abilities. Andersen was involved in other audit failures during the 1990s (Chaney and Philipich, 2002) and the cultural change at Andersen during the 1980s and 1990s was mirrored at other public accounting firms (O'Connell, 2004; Wyatt, 2004). For example, when Coffee (2004) discusses the very significant increase in the number of earnings restatements in the 1990s and notes that the "overall experiences of the Big Five accounting firms suggests that Andersen was not significantly different from its peers and experienced the same, or even a lesser, rate of earnings restatements" (Coffee, 2004, p. 338) this is to demonstrate that there were gatekeeping issues in respect of all the Big Five firms and not just Andersen. Thus the rise of the individualistic culture at the public accounting firms appears to have had the effect of diminishing their effectiveness as auditors.

3.5 Responses to the accounting and audit failures

In an individualist culture where risk-taking is acceptable then failure is also seen as possible. Consequently, had the accounting and audit failures at Enron been of a lesser magnitude it may have been possible that the demise of Enron would not have been deemed a risk to the perpetuation of the individualist culture. However, as Douglas notes, the individualist has a great "fear (of) any threat to the exchange system" (Douglas, 1982, p. 96) and the scale of the accounting manipulations and associated audit failures that led to Enron being the largest bankruptcy in US history (Benston and Hartgraves, 2004) were sufficient to bring about a crisis of confidence in the effectiveness of the gatekeeping mechanisms that are expected to protect investors and other stakeholders. This threat to the individualist culture was further compounded as accounting irregularities were uncovered at other companies.

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

That this hierarchical response to an individualistic risk event appears to be paradoxical can be explained through reference to Douglas and Wildavsky's (1982) discussions relating to the 'Center' and the 'Border'. The power and influence that is held by the hierarchical and individualistic cultures places them at the 'Center' and there is a mutual dependency between these two cultures that is succinctly described by Douglas in the following terms: "… competitive market individualism needs a political base to assure its basic security (and) … the hierarchical culture needs an economic base[4]" (Douglas, 1990, p. 12). These two cultures must collaborate to some degree if they are to support and sustain their differing worldviews. Thus, although the individualist culture has a preference for self-regulation and would normally consider additional regulation an impediment to the efficiency of market operations, the business interests that comprise the individualist culture understood that following Enron self-preservation entailed co-operating with the state if public confidence in the market was to be restored. The state also had a vested interest in ensuring the

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

economy did not become harmed and, being hierarchically organized, was predisposed to implement additional legislation as the means of re-establishing confidence.

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

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

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

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

To avoid “a major populist backlash” (Nussbaum, 2002, p. 40) with individuals becoming susceptible to recruitment by ‘Border’ activist groups the ‘Center’ had to be seen to be responding vigorously and robustly to the Enron fallout. Consequently, the hierarchical legislative response of enacting the Sarbanes-Oxley Act was supplemented with a hierarchical form of blaming. The perpetrators of the corporate frauds were subjected to severe criminal sanctions, signalling that harsh punishments would be meted out to future transgressors. For example, Ebbers (WorldCom) and

Skilling were sentenced to 25 years and 24 years in prison respectively (Teather, 2005; Clark, 2006). The language of news headlines was also hierarchical when discussing blame. For example, 'The Betrayed Investor' and 'Paying for the Sins of Enron' appeared as BusinessWeek headlines on 25 February, 2002 and 11 February, 2002 respectively, and emphasize the deviant nature of the behaviour of Enron's senior managers. It is unsurprising therefore that when Ken Lay died before he could serve his prison term there was widespread anger as it was felt he had escaped rightful punishment (see for example, McLean and Elkind, 2006).

4. Conclusions

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

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

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

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

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

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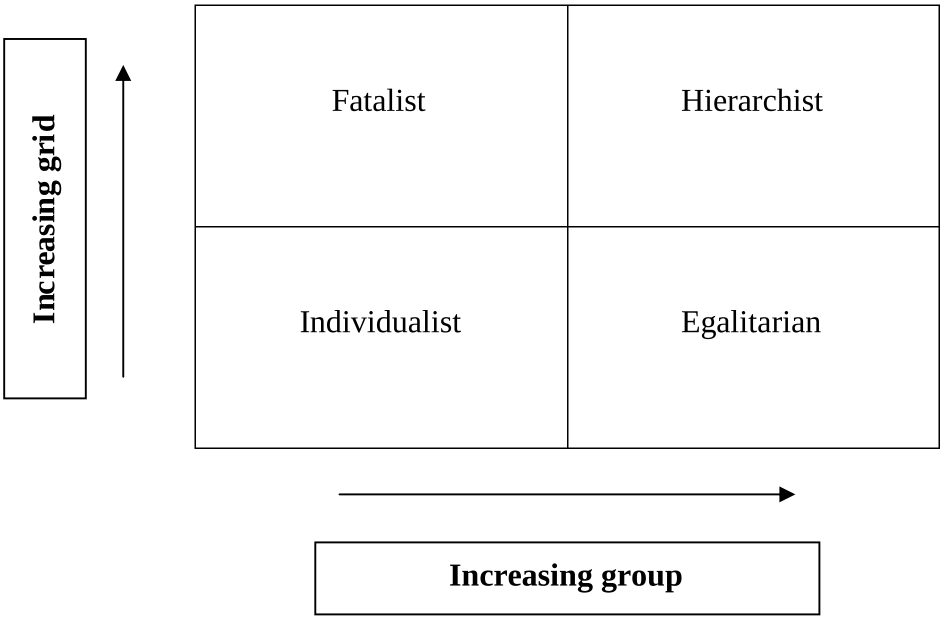
Figure 1: Grid-group model



Adapted from Douglas (1982)