A Manager's Reaction to Unfavourable Budget Variances: A Psychological Insight

Erwin Waldmann*

Abstract

Freudian psychology has some interesting insights into various ego defence mechanisms that sometimes come into play when an individual is faced with a threat to their self esteem. These mechanisms include concepts like rationalisation and denial. These mechanisms can seriously interfere with an attempt by the Management Accountant to discuss and evaluate a situation and advise on possible corrective action.

This paper will discuss some of the ego defence mechanisms that often come into play and provide the management accountant insights into why they might have difficulty in discussing or evaluating unfavourable budget variances that threaten managerial self esteem.

Keywords

Freud
Delusion
Rationalisation
Budget Performance
Behavioural Accounting
Ego Defence Mechanisms

Introduction

Evaluating performance based on budget goals is much more than an exercise in variance analysis. It involves discussions and sometimes arguments with the individual who has responsibility for the cost or revenue area in question. For an evaluation to be effective from an organisation’s perspective it is necessary for the individual being evaluated to take an objective view of the situation and their role in outcomes. If an individual fails to do this then corrective action becomes problematic if the variances are unfavourable.

Unfortunately many individuals see any criticism of their performance as an attack on their self worth. This is particularly so when dealing with managers. Some managers may be too ego involved in any evaluation and resort to a number of strategies to avoid or deny responsibility (Freud, 1923/1966).

It is the contention of this paper that an understanding of Freudian psychology would help management accountants to develop a greater awareness of the unconscious mechanisms that sometimes come into play when an individual is faced with a threat to their self esteem. These mechanisms that include concepts like rationalisation and denial can seriously interfere with an attempt by the Management Accountant to discuss and evaluate a situation and advise on possible corrective action. Before any successful evaluation can take place an objective and realistic assessment of the situation must be made by the manager in question. This paper will discuss some of the ego defence mechanisms that often come into play and provide the management accountant insights into why they might have difficulty in discussing or evaluating unfavourable budget variances that threaten managerial self esteem.

Freud (1973) and his theories are widely known and have been influential in the development of many other theoretical perspectives (Lundin, 1991). It is not uncommon for the education and psychological literature to presume that the reader has a basic understanding of Freudian theory (Pervin, 1989; Liebert and Spiegler, 1987. Freud (1963/46, 1962,) demonstrated the importance of the unconscious mind on
human behaviour. Included in his theory was an explanation on how various defence mechanisms are sometimes (unconsciously) used to alleviate feelings of inadequacy when an individual is confronted with a particularly stressful threat to self esteem. If the temptation to avoid responsibility is too strong a person will sometimes resort to fallacious thinking which involves mechanisms such as rationalisation and denial. These, and other ego defence mechanisms, are used to overcome the dictates of conscience and objective evaluation and help the individual maintain a (unwarranted) positive self image.

Psychoanalysis has had a significant impact on twentieth century intellectual life influencing art, drama, sociology, anthropology as well as psychology (Lundin, 1991). As a result most management accountants are aware of at least some of the defence mechanisms described by Freud and his followers. Terms like “he is in denial” have passed into common usage. Consequently a more complete description of these mechanisms should help to provide a deeper understanding of the subtleties that sometimes underlie managerial thinking and behaviour.

A greater insight into the subtleties of human behaviour and cognitive processes can be gained by understanding ego defence mechanisms especially where a responsibility centre is being evaluated and obvious defects are identified. It is difficult for many individuals to accept a situation that threatens their self image as a competent and successful manager. This will make the management accountant’s job of analysing and advising more challenging. However an understanding of these mechanisms will also give the management accountant ways of overcoming them and allow for a more objective assessment to be made and effective action to be taken (Elliott, 1992).

Because ego defence mechanisms operate at an unconscious level, it is important to realise that the individual involved is often partially or completely unaware that they are utilising these mechanisms to guard their self esteem (Freud, 1936/1946). This can be frustrating for all parties involved in the evaluation process and makes it difficult to put remedial measures and processes in place.

The paper is organised as follows. The next section provides a critical overview of Freudian theory, and discusses those aspects of it that have relevance for the budget process and evaluation of responsibility centres. The theoretical development of ego defence mechanisms is then described, and research findings discussed. This leads to suggestions on how ego defence mechanisms can assist in the understanding of strategies often used by managers to defend themselves.

Critical Overview of Freud's Psychoanalytical Theory

Freud’s interest in psychoanalysis started with neurology. Freud was influenced by Johann Herbart (1776-1841) a nineteenth century philosopher in his use of free association as a therapeutic technique, as well as in his theoretical position on the conflict between conscious and unconscious mind. The concept of regression, the cornerstone of psychoanalysis was adopted by Freud from the writings of Schopenhauer (1788-1860) (Lundin, 1991).

Freud likened the mind to an iceberg, in which the smaller visible part represents the consciousness, and the larger mass under water represents the unconscious mind. It is in the unconscious domain that we find all the urges, passions, repressed ideas and feelings that exercise strong control over conscious thoughts and individual behaviour.

According to Freud’s theory an individual had to successfully pass through a series of psycho-sexual stages for a healthy personality to develop, and achieve a balance between the id, ego and superego. All behaviour is seen as the result of the interactions between these three forces. The id is the biological component of personality derived from instinctive impulses which Freud called the pleasure principle. The ego is the conscious component and arbitrator in the conflicts between the superego and id. The ego tries to substitute moralistic goals and strives for perfection. The superego starts to develop in early childhood at approximately age seven, and forms through identification with parents and other significant adults. It can be seen as the conscience of the individual and decides...
whether an action or feeling is morally right or wrong.

Later in his life, Freud further refined his theory of human development by paying more attention to conscious ego processes (Freud 1933) and brought the concept of self esteem into his theory. He came to believe that persons acted correctly to achieve certain ideals for themselves. Although Freud developed his theory for therapeutic purposes, his work on the superego (conscience) and threats to self esteem has value for any situation dealing with honesty both in the field of moral psychology and philosophy (Deigh, 1996).

Freud’s theory has been criticised for a number of reasons. One is that he neglected other important dimensions affecting the development of personality, for example community and intellectual influences. A major criticism is the lack of clear definitions of some of the components of his system and the inherent difficulty in testing and measuring these components empirically (Pervin, 1989).

Another criticism made against Freud is his overemphasis on the early years of childhood development. Freud believed they left an indelible mark on the individual’s personality and beliefs, a fact that is contradicted by evidence that personalities and values continue to develop later in life (Liebert and Spiegler, 1987). This belief of Freud’s has nonetheless strongly influenced the thinking of psychological, social and educational theorists, and is evident in the debate on how honesty and self awareness can be managed in a behavioural sense. (Piper et al., 1993).

Obviously the use of psychotherapy is not a practical option in the boardroom, however Freud’s theory has value for the insights it provides on the development of self awareness. Deigh (1996) contends that because of its emphasis on the development of the superego and the methods used to resolve conflicts, Freud’s psychology theory is eminently relevant to any in-depth investigation of ego protective behaviour. Moreover Psychoanalysis was primarily developed as a therapeutic technique and although its insights are interesting, its use in a business environment would be rather limited.

Nevertheless, one area of psychoanalysis which would be of interest to managers and management accountants is Freud’s theory of ego defence mechanisms. These defence mechanisms are applied to a wide range of behaviours to protect an individual’s self esteem and this would of course include situations where an individual is under threat during a performance assessment based on budget targets.

Ego Defence Mechanisms

The fact that people can deceive themselves is not a recent discovery. Demosthenes1 referred to this phenomenon in 349BC when he wrote “Nothing is more easy than to deceive one’s self; what a man wishes he generally believes to be true.” According to psychoanalytical theory defence mechanisms have the following characteristics. They deny, falsify and distort reality and they operate unconsciously so that the person is not aware of the process. In a sense we can regard the application of ego defence mechanisms as a form of self deception (which can also, and often does, deceive others). This differentiates it from lying, which is done consciously to deceive others.

The concept of ego defence mechanisms formed part of Freud’s publication on ‘The Ego and the Id’ in 1923 and was amplified in his further work ‘Inhibitions, Symptoms and Anxiety’ (1926). In these works Freud discussed the id, ego and superego. (The Id was basically seen as our innate urges, The Ego as the conscious rational self and the Superego as our moralising function).

Central to his theory was the contention that many id and superego impulses and emotions existed at an unconscious level. Freud however did not develop a truly systematic theory of defence mechanisms. This instead was provided by his daughter Anna Freud in her 1936 book ‘The Ego and the Mechanisms of Defence’. In these writings Anna Freud demonstrated how defence mechanisms protect the ego by “warding off” anxiety and guilt, thus enabling the individual to maintain a positive self image.

1 Olynthiaca, No. 3 sect.19, The Home Book of Quotations, 4 Ed, Dodd, Mean & Co., New York 1984
The initial focus on defence mechanisms was in the area of clinical psychology, where defence mechanisms were equated with pathology. However many contemporary psychologists also see ego defences as adaptive, and not necessarily a symptom of personality or mental disorder (Taylor and Brown, 1988). In short, defence mechanisms are used by all individuals to some degree and in that respect can be viewed as “normal”, provided they are not taken to extremes. The factors that are considered before a judgment is made on whether defence mechanisms are normal or abnormal, include intensity, age and balance.

A distinction also has to be made between positive and negative uses of defence mechanisms (Roth and Cohen, 1986). For example a person might rationalise failure to succeed in a sales presentation as due to an unsympathetic/biased audience, rather than their own poor social and communication skills. However this rationalisation might give the individual the strength and confidence to try again and eventually succeed. If on the other hand a defence mechanism is used to ward off anxiety because of conflicts with self esteem, as in the case of rationalising unsuccessful performance, then the defence mechanisms would obviously be serving a negative and undesirable function.

Ego defences both develop and are modified as an individual ages. For example, denial declines with age, while projection and identification increase (Smith and Rossman, 1986). A defence mechanism like denial which is quite common in childhood, would be seen as a serious disorder if it occurred in its more extreme manifestations during adulthood (e.g. denial of perceptual reality). Other research findings show that the use of denial is related to low levels of ego development, with rationalisation and projection related to high levels (Hann et al., 1973).

The defence mechanisms that would be of particular interest to a management accountant when dealing with situations that threaten managerial self esteem include denial, projection, repression, rationalisation, and reaction formation. It should be noted however that numerous defence mechanisms have been described by various researchers, and the list extends to far more than the five used here. More extensive studies are available in Vaillant (1993).

Understanding Ego Defence Mechanisms in a Business Environment

The following section describes various defence mechanisms that one can expect to encounter in the business environment especially when it comes to discussing unfavourable budget performance.

Rationalisation

One of the most common defence mechanisms observed in the justification of unsatisfactory performance or outright failure is Rationalisation. This occurs when we give ourselves (and others) some seemingly acceptable justification for our actions to expunge or lessen our responsibility. We find it manifested in statements like: *I cannot be expected to succeed when asked to achieve such totally unrealistic goals. I have not been provided with sufficient resources to achieve these goals. I have been asked to do the impossible and I am not Superman (or Superwoman).*

Of course these arguments might sometimes be true and not a rationalisation. Usually the management accountant will have enough insight into the operations of the business to know if the manager's arguments are valid. The important point is to realise that the manager might actually believe these rationalisations and argue vehemently to defend them. This can often be a conscious attempt to deceive by the manager; however, this paper is arguing that the situation is often more complicated than that. The manager may feel that they are perfectly justified in their rationalisations and fail to see them for what they are; namely and attempt by their unconscious mind to guard their self esteem. Coming up with a list of rationalisations helps maintain a positive self image.

Repression

This involves removing from consciousness painful or shameful experiences. This process
enables an individual to ‘conveniently forget’ their own undesirable or incompetent behaviour. An example would be where a manager who conveniently forgets their own role in creating a problem or not taking corrective action when it was necessary. Quite often Repression is only one of many mechanisms that can come into play and will often be supported with Rationalisation and Projection (described later in this paper) Repression need not be absolute, rather it tends to occur at convenient occasions.

Denial

Although there are similarities between denial and repression there are also important differences. Repression often involves “conveniently forgetting” past behaviour or belief (repressing conscious knowledge into unconscious). Denial on the other hand does not recognise that the feeling, belief or reality exists in the first place.

One element of denial is often the replacement of reality with fantasy. It can have various components including negation, minimising and ridicule. Denial is used to sustain the self and protect the individual from pain. Should an individual fail to sustain this mechanism and reality overwhelms fantasy, then feelings of hopelessness and despair follow. Denial will often be used in conjunction with rationalisation, for example a manager might deny that they had anything to do with the implementation of a cost cutting strategy that has turned into a disaster. They will deny being the prime mover and instead claim the role of impartial observer, who had no responsibility whatsoever. It is common for a person in this situation to use ridicule against any detractors as part of the denial process. Another common response to any threat to their denial is to resort to abuse and displays of anger.

Projection

In denial, a whole percept of mental representation is disavowed, and often replaced with wish fulfilling fantasy. Projection on the other hand represents a split, with the positive segments of a person’s feelings allocated to the inside (the self, the ego), and the negative elements projected to the outside onto other people or things. Schafer, (1954, p.179) defined projection as a process by which an objectionable internal tendency is unrealistically attributed to another person or to other objects, instead of being recognised as part of oneself.

A certain degree of awareness with projection usually occurs and need not be totally unconscious. Quite often this manifests itself by recognising that a fault exists, but blame for this fault will be projected onto somebody else; e.g. “I now can see that this was totally unreasonable, however I was misinformed/ deceived by the Sales Manager” or “I blame the Consultant (this is a favourite), Legal Department, Advertising Agency, government etc for persuading me to resort to take this course of action”. Needless to say, if the individual is aware of their culpability and responsibility while making such statements then projection is not occurring, instead they are consciously lying to shift blame.

Other examples of projection in business can be seen when a “scapegoat” is allocated all the blame for a group decision. Again this is often tied to other defence mechanisms such as denial and rationalisation. Individuals who were willing enough to be part of a dubious Budget Strategy when they thought it would succeed will resort to denying their own responsibilities, rationalising their actions and shifting blame when things go wrong and someone has to face the consequences.

Reaction Formation

This occurs when a repressed feeling or emotion is replaced by its opposite. For example an individual may have serious doubts about their abilities and competence (and for good reason) but behave as if they are the exact opposite. Behaving in an excessively arrogant way and behaving as if they are the font of all knowledge and possessed of great ability and competence. One method of detecting reaction formation is by examining the behaviour for excessively showy or extravagant components. Despite the use of this mechanism the individual’s true feelings will invariably manifest themselves in numerous ways because in reality these individuals are filled with self doubt that they cannot face up to. This behaviour will appear
as a puzzling contradiction to strongly expressed beliefs unless it is seen for what it is.

Summary

Most management accounts tend to concentrate on objective assessments when dealing with budget variances. However they soon discover that this exercise involves dealing with the feelings and attitudes of the manager concerned. What this paper attempts to demonstrate is that cognitive processes do not necessarily fall into neat, logical patterns when stressful situations are involved. Most perceptive management accountants could recount from their own experience numerous examples of the defence mechanisms described here.

Understanding these mechanisms will provide greater insight and understanding of the behaviours they are bound to encounter.

References


Freud, S. (1962), Two Short Accounts of Psychoanalysis, Penguin Books Harmondsworth, Middlesex:


