

Wicked problems: how so?

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The notion of ‘wicked problems’ was introduced in the recent debate in the Netherlands about the auditing profession, audit market, audit firms and auditors (the auditing sector) by the ‘Monitoring Commissie Accountancy’ (MCA). The MCA was created by the NBA (Koninklijke Nederlandse Beroepsorganisatie van Accountants; Royal Netherlands Institute of Chartered Accountants: the auditing profession) in 2015, to annually monitor the implementation of 53 measures developed by an NBA committee in 2014. These measures are intended to ‘solve’ problems thought to exist in the auditing sector in the Netherlands. Creating such a monitoring committee was in fact one of the measures proposed.

To date the MCA has reported twice: in November 2016 (MCA1) and in May 2018 (MCA2). The reports are not available in English. The MCA has promised to publish its third report in the Fall of 2019.

I write this column in English. Discussions about the state of auditing currently also take place in the UK, US, Australia and in Brussels (in the European Commission and the European Parliament). There is a risk that the MCA’s suggestion that the notion of ‘wicked problems’ is useful in a debate about the auditing sector may spread.

I use the term ‘risk’, because the MCA did the debate about auditing in the Netherlands a disservice by introducing the ‘wicked problems’ notion the way it did. It makes discussing the state of auditing in the Netherlands needlessly more difficult. I will explain why and I will also speculate about the reasons why the MCA did this.

To begin with: the auditing sector that we, and the MCA, observe is the following. Dutch companies (mostly corporations) produce periodic financial statements. The financial statements are ‘quality tested’ by an auditor, using an audit methodology or process, before they are published. This provides assurance to users with regard to the quality of financial reporting (FRQ). The quality of a statutory audit (Audit Quality: AQ) will affect FRQ. In the Netherlands there are 21K corporations and non-corporate legal entities that have to have their financial statements audited. There are some 280 audit firms in the Netherlands registered with the AFM (Autoriteit

Financiële Markten), that oversees the auditing sector. There are some 1800 auditors working in the 300 audit firms who can act as engagement (statutory) auditor. The 21K Dutch entities that require an audit ‘buy’ an audit, a service, from the 280 audit firms. This the Dutch audit market, or ‘auditing sector’.

The MCA explains its background in the introduction of MCA1. It states that in recent years societal trust in the auditing sector, in the 280 audit firms and the 1800 statutory auditors and their teams, in the Netherlands, has been harmed. That has led to the NBA 53 measures report (Werkgroep Toekomst Accountantsberoep 2014) and to the MCA monitoring the implementation of the 53 NBA measures. Both the NBA and the MCA set out to repair the perceived damage to societal trust.

I want to make this basic observation. That there exist serious quality problems in Dutch financial reporting (i.e. serious FRQ problems) and in Dutch statutory auditing (AQ problems), causing less societal trust, is debatable. Indeed, both Dutch FRQ and AQ are fine by international standards. I wrote about this in this journal before (Buijink and Dassen 2015, section 2.3). Somehow the MCA does not see this, nor does the NBA for that matter. Both the MCA and NBA want reforms. The MCA adds substantially to the NBA’s reforming zeal: surprisingly so for a monitoring committee.

Much of its reforming zeal of the MCA is ‘colored’ by its use of the notion of ‘wicked problems’. ‘Wicked problems’ is a notion originally introduced in the Design Methods research literature underlying Industrial Design, Architectural and Urban Planning. It has since migrated to the Organization Design research literature. Note that indeed, e.g., the auditing process is a service that was designed and redesigned over time by a large number of participants. A process that is now streamlined in the Netherlands by the International Auditing and Assurance Standards Board (IAASB) via the NBA. Looking at the auditing sector through a design lens makes sense (on the designed nature of financial accounting and auditing, see my 1992 inaugural lecture: Buijink 1992).

The MCA introduces ‘wicked problems’ in MCA1 and uses it extensively in MCA2. It identifies, this is my count, 10 auditing sector wicked problems in MCA1 and MCA2 combined. The notion has caught on in the debate about the auditing sector in the Netherlands. And now politicians, policy makers, the media and the AFM also use it.

The following is the disservice that the MCA did to the auditing debate. The MCA uses ‘wicked problems’ in a wholly inappropriate manner.

- 1) The term is needlessly used untranslated in MCA1 and MCA2. ‘Wicked’ is read in the non-English speaking The Netherlands as ‘bad’ (‘boosaardig’ in Dutch), whereas in English it also means ‘mischievous’, or ‘ondeugend’ in Dutch.
- 2) MCA2 claims (p.64, item 90) that the ‘wicked problems’ literature tells us that these cannot be solved by using careful scientific research, thus implying that academic auditing research cannot help solving Dutch auditing’s ‘wicked problems’.
- 3) MCA2 in fact is very close to claiming that ‘wicked problems’ are unsolvable (also p.64, item 90).

About 1), if the MCA had translated ‘wicked’ correctly, as intended by the originators, as ‘ondeugend’, that would have changed the tone of the debate for the better. MCA claims 2) and 3) are not at all what the originators of the notion intended.

The notion of ‘wicked problems’ indeed originated in the (industrial and architectural) design methods research literature. It was introduced into that literature by Horst Rittel, at the time a Professor at the Ulm Design School (Hochschule für Gestaltung Ulm). The context, around 1970, is the question of what are good workable methods to design products and buildings or urban environment. Rittel and a number of other academics joined the debate about this question, were at the time invited to do so, in a number of design schools in the world. The group to which Rittel belonged consisted of mathematicians, both pure and applied (operations research). When these mathematicians started to apply their methods to actual product and urban design problems, they discovered that these problems were much more ‘tricky or wicked’ than their own ‘tame’ purely mathematical problems. Ritter c.s. did in no way mean ‘bad’ or ‘fundamentally unsolvable’ by ‘wicked’. Phrased differently: here they, Rittel included, saw problems that were even for a mathematician, the top of the academic pecking order, surprisingly difficult to solve. These were ‘mischievous’ problems for them.

Ritter c.s. also did not argue that scientific research could not help solve their/these wicked design problems. When faced with a design problem, a product, a building, a service such as auditing, or even an audit firm, a design team can use various, creativity enhancing, de-

sign methods and approaches (collectively forming ‘design thinking’) to arrive at a solution for the problem: the design. The creation of the design itself is not scientific research or an exercise in mathematics. But in the process of designing, for example, a part of the auditing process, research (e.g. economic or psychology research, e.g. mathematical logic) can very well be used to help develop proposals for the design. Afterwards evidence needs to be gathered and analyzed (statistics; econometrics) to investigate, check, the effects of the design choices. It would be foolish not to recommend the use of research here and Rittel c.s. did not do so. This is also of course why in the curricula of respectable Schools of Design sciences, social sciences, hard sciences and research are routinely taught to students. About the development of design school curricula in the world, in which Rittel makes an appearance, see the recent book of Davis (2017, chapter 1).

Moreover, in applying the ‘wicked problems’ notion to the auditing sector, the MCA lacks the subtlety to see that the setting there is different from ‘physical’ settings in which a product, or a building, or an urban area, needs to be designed. In designing, say, the legal format of an audit firm, a social construction within which the economic agents involved interact to produce audits, is under consideration. In such a setting behavioral science, e.g. economics, can actually be directly used to help design the legal format (with follow up research testing the effects of the design).

So, MCA2 uses of the ‘wicked problems’ notion wrongly. Why? One conjecture is this: ignorance about its origins and precise meaning. I conjecture as a second reason that the MCA uses the ‘wicked problems’ notion as a rhetorical weapon. It does this by leaving the notion untranslated and by interpreting it to mean that problems in Dutch auditing are near-impossible to solve and certainly cannot be solved with the help of carefully used theory and carefully collected effects evidence. Why would the MCA use rhetoric here? The reason I can see is that the MCA in fact ‘knows’ that there are no serious unsolvable problems in the Dutch auditing sector. But, in its reforming zeal, it has decided to attempt to create a feeling of crisis in the auditing sector by using the conveniently ominously sounding notion of wicked problem. Note that if this conjecture is true this would also not look good for the MCA.

In any case, all this is very unhelpful to all parties involved in the debate about the Dutch auditing sector. Using their central ‘wicked problems’ notion wrongly disqualifies the MCA and both its reports. Given that there is now a new ministerially appointed committee active in this area (the Commissie Toekomst Accountancy Sector: CTA), there is no need for a third MCA report.

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