



## Reshaping accounting research: Living in the world in which we live

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### ABSTRACT

This paper is derived from my participation as a faculty guest of the University of Wollongong's Faculty of Commerce 20th Annual Doctoral Consortium. Consistent with the theme of "paradigm, paradox, and paralysis?", I argue in this paper that accounting practice and scholarship suffer from paralysis created by the imposition of a neoclassical economic paradigm. Starting from the premise that accounting is foremost a practice, I argue that accounting cannot be limited by any one type of understanding. A human practice like accounting is simply to multi-faceted and complex to be sensibly "modeled" in any one particular way. The "flight from reality" (Shapiro, 2005), that occurred because of the empirical revolution in accounting, should be abandoned in favor of a more problem driven approach to accounting research and practice.

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### 1. Introduction

The University of Wollongong's Faculty of Commerce 20th Annual Doctoral Consortium adopted the theme, "Research in Accounting and Finance: Paradigm, Paradox and Paralysis?" to which this special issue of *Accounting Forum* is devoted. I was very privileged to be one the three faculty guests invited to speak at the consortium. The paper I presented to the consortium is one titled "Making Imaginary Worlds Real: The Case of Employee Stock Options," which I have coauthored with Professor Sue Ravenscroft (Ravenscroft & Williams, 2008). Though the paper is focused on a specific accounting issue, it is about a grander issue of the increasing incoherence of accounting discourse in both the academy and in practice. In that paper, using the case of SFAS 123R, Sue and I attempt to demonstrate that accounting in practice is indeed as intellectually incoherent as West (2003) argued it is. In this paper I intend to discuss some of the implications of our analysis of stock option reporting for our behavior as accounting scholars, particularly with respect to "paradigms." In order to provide context, the next section of this paper will be a brief synopsis of my contribution to the consortium, followed by a discussion of the implications of our basic argument for accounting research in general; the final section will be a brief conclusion.

### 2. Making imaginary world real

Beginning in the 1960s academic accounting underwent a radical change. Beaver (1981) labeled this change a financial reporting revolution. This revolution fundamentally altered the way academic accountants understand the accounting function. In our paper, Sue and I argue that the fundamental organizing principle of accounting throughout its history has been "accountability." Reiterating the arguments of Ijiri (1975), we claim that the basic structure of accounting, with its empha-

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sis on transactions, recording, authorization, recognition and verification through audit makes little sense unless the basic purpose of accounting systems is consummating accountability relationships (Ravenscroft & Williams, 2008).<sup>1</sup>

The financial reporting revolution provides accounting with a different organizing principle. ASOBAT (1966) provided the U.S. academic community's imprimatur to this principle and it was codified by FASB (1978) as the first principle of accounting policy formation. This principle is that of "decision usefulness." Thus, for nearly 50 years the official rationale for the function of accounting and financial reporting has been providing information useful for economically rational decision making. Now standard-setters, whether FASB or IASB, rationalize policies of corporate reporting by reference to how new accounting standards will provide useful information to investors with little to no genuine concern for the factuality essential to accountability. The move to "fair value" accounting epitomizes the triumph of "information" over "accountability", "usefulness" over "factuality" as rationales for accounting policy.

The financial reporting revolution altered quite profoundly the discourse of the accounting academy and of accounting practice. Accounting as an academic discipline was transformed into an empirical science. Beginning in the 1960s, notably with the publication of Ball and Brown (1968), the academic literature in accounting increasingly was forced to resemble that of the social sciences, notably neo-classical economics. As Reiter and Williams (2002) argued the academic discipline of accounting was transformed from a fairly autonomous discipline informed mainly by practice into a sub-discipline of financial economics. Thus, academic accounting became largely an exercise in doing empirical work of little significance to finance theory.

We (Ravenscroft & Williams, 2008) make the historical case that the reporting revolution was not a scientific one but an ideological one. The transformation of the accounting academy was part of the transformation in most of the human sciences that Shapiro describes as the "flight from reality" (Shapiro, 2005). It is the domination of the human sciences by a neo-classical economic view of human nature affected to no small extent by the larger neoliberal political triumphs epitomized by Ronald Reagan and Margaret Thatcher.

Accounting research and scholarship has since become the conducting of experiments framed by neoclassical economics inspired theories. Capital Market Theory and Principal/Agent Theory (Williams, Jenkins, & Ingraham, 2006) today dominate how we understand (or misunderstand) accounting. But as Sue and I argue, these theories that structure our understanding of what is accounting are theories about an imaginary world constructed out of empirically false premises and assumptions.<sup>2</sup>

This neoclassical discourse has crossed over from the academy into the formulation of public policy.<sup>3</sup> The stock-option standard (SFAS 123R) is an archetypal case of how this neoclassical discourse has contributed to the incoherence West (2003) argues is endemic to today's system of financial reporting rules. SFAS 123R is a standard that moves accounting from mark-to-cost beyond mark-to-market to a policy of mark-to-model, which Sue and I argue is an attempt to make real the imaginary world of modern finance theory constructed out of the unreality of neoclassical economics.<sup>4</sup> SFAS 123R, rationalized as it is by the imaginary world created by neoclassical ideologues, is the archetype of an accounting discipline Chambers (1999, p. 249) assessed, thusly: "Yet the vast bulk of the textbook material which is to guide novices in the understanding of their art, most of the academic discourse which expected to lead to refinement of teaching and practice, and the whole of the professional dicta and of the enforceable utterances of accounting-standards authorities, proceed by edicts to the effect that what *cannot* be done *shall* nevertheless be done."

My participation at the 20th consortium was to present the arguments, summarized above, that accounting practice is incoherent and has been made so by the understanding of accounting in the academy affected by the financial reporting revolution. However, not only has accounting practice been made incoherent by the reporting revolution, accounting scholarship has been rendered impotent, as well. The problem with accounting scholarship is the subject of the next section.

### 3. Making accounting scholarship matter

The financial reporting revolution was an ideological one. By the early 1970s in the U.S. at least, the way to do scholarship in accounting was to mimic social sciences by adopting their methodologies and theories. When I attended the American Accounting Association Doctoral Consortium in 1974 most of the students in attendance were already doing some kind of information content study. At that consortium we were assured that Efficient Market Theory was to revolutionize accounting scholarship because it provided a rigorously scientific way to approach accounting problems. Instead of the air-headed normative approach to accounting that characterized much of accounting academic discourse, EMT provided a structure

<sup>1</sup> This is quite obvious when one considers accounting in the realm of public sector accounting, i.e., governments and not-for-profits. The very concept of a "fund" is an entity created for accountability purposes. In the U.S. the Government Accounting Standards Board (GASB) was created in 1983 to promulgate standards for state and local government reporting. In spite of its avowed aim of making government accounting more closely resemble the private sector (i.e., business is the appropriate analogy for government organizations), GASB has not been able to expunge accountability and control from its rationales so completely as has FASB.

<sup>2</sup> I refer the skeptical reader to our paper (Ravenscroft & Williams, 2008) where we elaborate upon, based on the economics literature itself, the dangerous unreality of neoclassical economic theory.

<sup>3</sup> The recent collapse of large U.S. financial institutions leading the U.S. government to, in essence, nationalize the financial industry, is indicative of how dangerous these theories can be when attempts are made to shape the real world in accordance with them.

<sup>4</sup> Accounting is still largely understood as paradigmatically double-entry bookkeeping. The first accounting course every student takes is one in which the first part of the course is to learn this most basic structure that separates accounting apart from other "information systems." Ironically, SFAS 123R does not require the existence of such a system. It mandates an "accounting" disclosure that does not require there be an "accounting" system.

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