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M. Gaffikin
University of Wollongong, gaffikin@uow.edu.au

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Michael Gaffikin

School of Accounting & Finance
University of Wollongong
Wollongong NSW 2522
Australia

Tel +61 (2) 4221 3718
Fax +61 (2) 4221 4297
eMail george@uow.edu.au
www.uow.edu.au/commerce/accy/

The Critique of Accounting Theory

Michael Gaffikin*
School of Accounting and Finance, University of Wollongong, NSW 2522

In previous papers (Gaffikin 2005a, 2005b, 2005c, 2006) the discussion has examined accounting as a science, with attempts to employ a scientific methodology; as a purely technical expression of economic theory, heavily dominated by research in finance; and as part of "law", albeit law (regulation) heavily influenced by dominant economic and political ideology. That discussion revealed that all these perspectives have suffered from severe shortcomings. Fortunately, there are other perspectives on accounting which may prove more fruitful and some of these will be discussed in this paper. A common element in many of these alternatives approaches is to view accounting as a *social* science.

Social Science

A few hundred years ago there were disciplines referred to as natural philosophy and moral philosophy. The former evolved into the natural sciences, the latter into the social sciences. However, like so many of the terms we use regularly, the term social science is difficult to define precisely and has been the subject of much debate. Essentially, social science is the study of aspects of human society. It has, over the last two hundred years, been heavily influenced by positivism with the underlying assumption that the study of societies can be undertaken scientifically. Closely associated with this, then, is the intention that it will apply the methods of the "natural sciences" to study human society. Sometimes the term has been taken to mean the discipline sociology but in a broader sense, the term includes a variety of specific disciplines that have evolved very differently and remain so. Thus, while collectively the term may be used to imply the use of scientific methodology, several other methodologies have been promoted.

Accounting can be included with those disciplines concerned with aspects of human society because, clearly, it is a "system of thought" designed by humans to assist human decision making and influence (human) behaviour. Therefore, a social constructionist ontology, rather than a realist ontology, would seem to be a more appropriate basis for conceptualising accounting. Consequently, rather than attempting to recreate the methods of the natural sciences, it is more appropriate that accounting turn to the methods that recognise the human aspects of the discipline rather than claim an intellectual status akin to the natural sciences. Unfortunately accounting theorists and researcher have been very slow to recognise this as is evident in the heavy involvement in the neo-empirical research programs over the last fifty years. There is some truth in the view that accounting is a fairly "young" intellectual discipline and has yet to demonstrate the maturity of self reflection and understanding. To date it has been happy to accept the position of being a sub-discipline of (and consequently inferior to) economics. As a result

* E-mail: gaffikin@uow.edu.au

it has relied heavily on economic theories and methodologies. This is not to suggest for one minute that it is not closely associated with economics because it largely deals with economic phenomena. But, it deals with such phenomena from a very different point of view (otherwise it *would* simply be part of the discipline of economics). While some would argue that accounting is the "handmaiden of capitalist economics" this merely reflects a conservative and overly deferential viewpoint because there are several aspects of accounting which are very separate from simple economic analysis, for example control systems, information processing and behavioural considerations.

The Development of Alternative Accounting Theories

Several different approaches to developing an accounting theory have been discussed in the previous papers. These have included the works of individual theorists such as Chambers and Mattessich. Their works, and that of others, emerged from the desire to employ rigorous research methods and logical analysis to stated assumptions and propositions as to the purpose of accounting, especially the production of general purpose financial statements. As was explained above these works were classical modernist works in that they advocated the appropriateness of an essentially hypothetico-deductive scientific method to achieve intellectual rigour in accounting. Many of the major works of these theorists were published in the 1960s but there were several similar major works on accounting published prior to this decade, for example William Paton's *Accounting Theory* (1922), John Canning's *The Economics of Accountancy* (1929) and Stephen Gilman's *Accounting Concepts of Profit* (1939).

Also discussed above were the attempts by various professional bodies to develop a theoretical basis for accounting: initially the search for generally accepted accounting principles, then accounting standards and a conceptual framework on which the standards can be based. At first these attempts were represented by commissions to individual (or groups of) accounting theorists, the best example of which is Paton and Littleton's, *An Introduction to Corporate Accounting Standards* first published in 1940 but reprinted very many times until the 1980s. Later, these attempts developed into commissions to committees and then officially designated research divisions of the professional bodies to develop "guidelines for theory development" and later to independent organisations specifically charged to develop these "theoretical statements". As these attempts changed there was a change in the function of the published pronouncements; there was a change in their authoritative scope. That is, the pronouncements became parts of a system of regulation which has expanded from recommended statements of best practice for members of professional bodies to a complex international system of required practices. Regulation has been substituted for theory – it has become the "required theory" underlying accounting practices.

In the latter years of the 1960s decade there were several factors which coalesced to change the face of accounting research and theorising. These included the development of doctoral programmes in accounting where students were given rigorous training in quantitative research methods, neoclassical economic and finance theory and the use of new information processing technologies (especially the use of computers). Coincident with this was the growing availability of large scale stock market data bases initially

funded by the business community with a demand for business research to be directly related to extant business practices. Out of this background emerged the seminal articles by Ball, R and P Brown "An Empirical Evaluation of Accounting Numbers" (1968) and Beaver, W H (1968), "The Information Content of Annual Earnings Announcements" which were discussed in Gaffikin, 2005a. From here the "floodgates opened" and neo-empirical research in accounting, including positive accounting theory, was born and became the dominant form of research publications in the accounting literature. As indicated above this research was embedded in a neo-liberal ideology and unshakeable belief in the power of the market to solve almost all of societies' problems.

At the same time there were major changes in attitudes to research in the social sciences. There was a growing acceptance of the belief that positivistic scientific epistemology was inappropriate for the social and human sciences. Because these disciplines involved human and social aspects, a belief in the possibility of objective, value neutral research methodologies was held to be impossible. Thus, there was a rejection of the long held modernist belief that methods described as those employed in the natural sciences, and held to be the highest standards of intellectual rigour, could be universally applied to all disciplines. Alternative methods were sought which had underlying ontological and epistemological positions different to the positivist programme that had dominated Western thinking for so long. There was a greater awareness that understanding the processes of knowledge required, in turn, an understanding of language and cultural and societal factors which had previously been disregarded in the process of theory development.

Neo-empirical accounting research emerged from a conservative business school environment typically found in the USA. It is steeped in the neo-liberal ideology in which the rights of individuals and the market mechanism are fundamental beliefs. That is, neoclassical economics, which is central to this ideology, seeks to explain the actions of independently minded individuals interacting with one another only by means of market competition; the rights of individuals are supreme and their interaction is achieved through the operations of the market mechanism. The only constraints are provided by nature. Therefore, there is no need of social institutions or government intervention – no form of externally imposed regulation. This implies the individual or decision making unit has full knowledge of what is best for her, him or it. Neoclassical economics is a cornerstone of the monetarism espoused by Friedman which came to dominate what is referred to as Chicago School (The University of Chicago) economics in which almost all of the early neo-empiricist accounting researchers were trained. These acolytes spread this belief to other institutions as they took up academic positions in them. So effective were they in doing this that it has become a dominant style of research in accounting which has been enforced by business schools (on their students and new colleagues) and many journal editors (despite being contrary to the underlying tenets of the movement – individual choice!). This dominance has led to it often being described as *mainstream accounting research*.

Accounting as Social Science

As indicated above, accounting can be regarded as a social science. Lowe and Tinker, some time ago, clearly agreed with this:

> Accounting as a discipline and accountancy practice should . . . be regarded as integral parts of social science and social behaviour. (1989, p 47)

So did Hopwood:

> Accounting is coming to be regarded as an interested endeavour. Rather than being seen as merely residing in the technical domain, serving the role of neutral facilitator of effective decision-making, accounting is slowly starting to be related to the pursuit of quite particular economic, social and political interests (1989, p 141)

The social nature of accounting had been recognised much earlier. For example, in the 1930s the unusually named DR Scott had published a book (1931) which stressed the historical and social character of accounting. Scott argued that society and its institutions (including the economic) constantly change and if accounting is to be a useful in providing an understanding of "economic realities" then accounting should be considered from a much broader (than a merely technical) perspective. Scott developed his argument on the basis of an economic theory different to most others of the time – the institutional economics espoused by people such as his colleague, economist Thorstein Veblen. [†]

Since that time there have been many others who expressed similar views. In an article published in *The Accounting Review* one of the co-authors of one of the most significant auditing monographs[‡], Mautz (1963), argued that accounting met the accepted defining criteria of a social science. Therefore, educators and researchers needed to re-evaluate their approach to the discipline to recognise the rigorous demands of social science and practitioners could then make more use of research results.

Accounting has understandably been predominantly concerned with the financial reporting of corporations as they are the primary form of business organisation in most societies. There have been many who have demonstrated the significant changing nature of the corporation over the last two hundred years. Perhaps one of the most well known early works to address this issue was *The Modern Corporation and Private Property* by Berle and Means[§]. Ladd argued that these changes had resulted in a "new orientation of business responsibilities and new concepts of appropriate business activities and objectives" (1963, p 2). This re-orientation meant that the responsibility of corporate management went beyond the satisfaction of stockholders' interests to include a much

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[†] Institutional economics concentrates on the social systems that constrain the exchange and use of scarce resources. In doing so it explains the emergence of alternative institutional arrangements and their influence on economic performance through controlling access of economic actors to resources by various means. Over the years it has been championed and debated by many very important economic theorists who have continued to try and develop a theory of economic institutions.

[‡] Mautz, RK and H A Sharaf (1961), *The Philosophy of Auditing*, Florida: American Accounting Association.

[§] Berle, A A and G C Means (1932), *The Modern Corporation and Private Property*, New York: Macmillan Co. Both authors have also written several other subsequent works individually and with other co-authors.

greater social responsibility yet "accounting concepts and procedures are firmly based on the premise of the paramountcy of the ownership interest" (p 2). To Ladd, accounting had clearly not kept pace with business developments partly as a result of "inertia – from and unwillingness to change procedures which have worked in the past" (p 31). He cogently argued for a change in accounting method to reflect that very great changes in the nature of the corporation and its activities. This included the added dimension of corporations as "good citizens" (in societies).

Another person to argue for the need for a fundamental change in accounting was the English accounting theorist, Trevor Gambling, described on the dust jacket of one of his books as someone who had "earned the reputation as an awkward and original thinker in a field where original ideas are not much expected". In his *Societal Accounting* he attempts to reconcile traditional accounting theory and practice with broader economic accounting such that accounting could be used to signal wider social issues and concerns (based on accepted social indicators). Gambling's major contribution to accounting thought has been to draw attention to the limitations of traditional narrow accounting thought. In many respect, like some of the others discussed above, he was ahead of his times as it is only recently that many of his ideas have been seriously taken up by other accounting researchers and theorists. There are many other than those mentioned above who recognised the need for a change in the way accounting is perceived if it is the properly serve the needs of a more broadly defined set of users.

One thing that becomes clear is that accounting, as a social science, has to reflect the changed ontological, epistemological and methodological assumptions that occurred in the other social sciences. As reflected in the Hopwood quotation there has been a growing realisation that accounting is not merely a neutral, technical endeavour but reflects the economic, social and political viewpoints of those who are engaged in its practice. Morgan was even more explicit:

> . . . . accounting researchers are obliged to face the dilemma that they are really social scientists . . . . and to keep abreast of new developments and be competent at their craft, they will need to devote serious consideration to the nature and practice of what counts as good social research. (1983, 9 385)

In recognising the social nature of accounting it becomes clear that the positivist, natural science approach to accounting research is not appropriate – it had been rejected in most of the social sciences. The naïve assumptions (such as value free propositions and efficient markets) in the neo-empirical approach are insufficient to reflect the "real" role of accounting in society and in fact, suggest Lowe and Tinker (1989, p 48), "may be disastrous for the practical usefulness of financial accounting statements". And Tomkins and Groves (1983) argue that adopting an approach other than that claimed to be used in the natural sciences may bring accounting theory and practice much closer together.

Table 1 (Some) Assumptions of Neo-empiricism

Ontological
That there is an objective external reality
That human behaviour is purposive
That social order controllable

Epistemological
Observation is separate from theory and is for either verification or falsification
Causality

From Table 1 it can be observed that neo-empirical research (as demonstrated earlier – Gaffikin 2005b) is based on a realist ontology. Neo-empirical researchers believe there is an objective reality that exists independent of any human agency (human involvement). Following on from this then, human beings are viewed as interacting with this reality passively – that is, they do not create the reality but have to live around it. Therefore, human behaviour can also be objectively observed – its response to "a real world". Accordingly, how humans respond to external stimuli (their surroundings and their attempts to exist therein) can be predicted. Consequently, social order is controllable; societies can be managed. The means by which knowledge of such an idealised world is obtained follow from this ontological position.

In respect of knowledge claims empiricism and testability become paramount. However, as Christenson (1983) has demonstrated, in accounting research, there is considerable confusion as to the process of empirical testability. Causality is a problematic notion and complex causal modelling and extensive multivariate analysis, designed to demonstrate causality, have had not proved otherwise. It remains a highly disputed concept.

Thus, there are many problems with attempting to employ the methodology of the natural sciences in *any* discipline let alone one so obviously a social phenomenon as is accounting. This led Mautz to argue that the discipline must "accept more responsibility for value judgements" because while the accountant may attempt to adopt an impersonal disinterested viewpoint "the truth is that his (sic) data include value judgements and for him to ignore such considerations is to ignore important aspects of his data" (1963, p 319).

Alternative Research Methodologies
Accounting researchers have drawn on a number of theoretical frameworks that have been used in the social sciences. There is a logical difficulty in attempting to describe or classify some of these because "by definition" they defy classification[**]. However, for pedagogical (instructive) purposes a description of what they involve can be undertaken. They mostly employ **qualitative** rather than **quantitative** research methodologies and this is sometime taken as a defining characteristic. To varying degrees they are concerned

[**] This is because some of them rely on a (social) constructionist rather than a realist ontology. That is, by definition they do not exist as independent objective entities.

with notions such as language, culture, interpretation, reflexivity, discourse, text, power and history.

Table 2 Research Differences

QUANTITATIVE RESEARCH	QUALITATIVE RESEARCH
Seeks facts and causes of phenomena	Concerned with understanding actors' behaviour
Uses controlled measurements	Naturalistic and uncontrolled observation
Claims objectivity	Subjective
Seeks verification/confirmation through reduction	Seeks to discover and explore
Is outcome oriented	Process oriented
Claims to use hard and replicable data	Claims data is valid and rich
Produces generalisable outcomes	Is nongeneralisable
Assumes stable reality	Assumes a dynamic reality
Assumes an outside perspective	Assumes an insider perspective

[adapted from Blaxter et al (2002), *How to Research*, Oxford University Press]

A simple difference between quantitative and qualitative research is presented in Table 2. One of the major steps in quantitative research is the identification of variables. The variable is central to quantitative research – it is a concept that varies – quantitative research uses the language of variables and is primarily concerned with the relationships between them: the aim is to establish the casual structure of the variables. This is possible because of the realist ontology adopted. Therefore, variables are representations of the real world. They can be objectively determined so the aim is to observe them and establish a causal relationship the outcome of which can then be generalized to other (similar) situations (sets of variables). The researcher remains separate – outside from – the data in order to maintain objectivity. In qualitative research the interest is in the processes and the behaviour of individuals in response to an ever changing – a dynamic – world. The researcher tends to be intimately involved with the subject under investigation and acknowledges the subjectivity of the results which are presented as of potential interest to others but which are not generalisable because each situation will differ.

For example, a capital markets study will be a quantitative research study. Stock market data are collected and summarised (reductionism) to indicate evidence or confirmation of an hypothesis and the claim will be that this – stock price reaction - will always occur in similar situations. The researcher will be committed to a realist ontology where the reality is represented by the stock market prices. The same study can be replicated in another stock market with the same results which will (again) confirm the results of the original study as a representation of the hard reality. On the other hand a behavioural study could examine stock market prices that result from the actions of a group of investors in certain situations. The results would not be generalisable as these circumstances and the behaviour of individuals would never be identical. The qualitative study may well involve

the use of quantitative data (stock prices) but the significance of them would not be the same as in a quantitative study where they are considered to be hard, objective facts.

This example is a simplified one and the differences between the research methods are likely to be much more significant. Whereas there is one methodology that is privileged in quantitative research this is not so in qualitative research. As explained earlier the methodology in quantitative research will be positivist scientific method[††]. In qualitative research many forms of research (research methodologies) exist each regarded as the most appropriate in differing situations. Some of these will be as equally positivist as neo-empirical research, some will retain the essential characteristics of modernism, some will totally reject modernist precepts and some will be based on very radical philosophies. In the accounting literature there is a plethora of adjectives describing some so called theory adopted in a particular research study. Many of these are epistemologically extremely dubious!

Subjectivity versus Objectivity

A key underlying assumption in whether quantitative or qualitative research approaches are adopted is a belief in the neutrality of the resulting knowledge; in other words, is it possible to be objective when researching. As indicated above, quantitative researchers believe objectivity is not only desirable but possible (and even essential!). On the other hand qualitative researchers believe objectivity is not possible therefore the researcher should acknowledge her or his subjectivity. These positions can be contrasted in terms of the classification of assumptions described (and terminology employed) in earlier discussion as indicated in Table 3.

Table 3 Underlying Theoretical Assumptions

Objectivist View		**Subjectivist View**
realist	Ontology	constructionist
positivist	Epistemology	anti-positivist
intended to create law-like generalisations	Methodology	intended to provide specific non-generalisable descriptions
mainly quantitative	Appropriate Methods	qualitative

In accounting the neo-empirical research adopts the objectivist position and this research is sometimes referred to as *nomothetic* which means that it sets out to establish law-like generalisations. For example, research examining the effects on share prices of an accounting method choice will claim the result as something that will always occur in similar situations. Such research will tend to use large numerical data bases from which conclusions will be drawn out. The original research will be replicated using different data bases and after the conclusions have been confirmed sufficiently they will form a scientific law. On the other hand a subjectivist approach is sometimes referred to as *ideographic* which simply means that the focus will be on cultural and historical particulars and a description will be made on the basis of the researcher's interpretation

[††] This will probably be a form of hypothetico-deductivism described in earlier papers and used in neo-empirical research.

(for example, a case study). As indicated, in subjectivist, qualitative research no method is privileged over others so there are many variations some of which will now be discussed.

Accounting Theory as Critique

In the accounting literature there has been a tendency to refer to any non-positivist accounting research as critical theory research. Unfortunately this has also been true in much of the social science research literature and it can refer to a range of theories that take a critical view of society and social processes. Thus, the term has been used quite loosely and can have a very broad meaning. This is sometimes unfortunate because, strictly speaking **critical theory** refers to the work of a group of social theorists and philosophers called the Frankfurt School working in Germany early in the 20th century. Their work was continued in the rest of the 20th century by one their students, Jurgens Habermas, and in turn some of his "students" have carried on (and developed and extended) his work[‡‡] to the present day.

(Frankfurt School) Critical theory has hugely influenced social theory, largely as a result of the work of Habermas. It is complex so any summary here is highly simplified. Some essential characteristics of critical theory are its rejection of positivism as the sole arbiter and generator of knowledge largely because of its lack of self-reflection which leads it to reduce epistemology to a crudely mechanical methodology. Self-reflection requires the acceptance of the importance of human agency in the creation of knowledge. This is necessary because without it oppressive power relations are hidden. Crudely speaking, if you do not think about what and how you know things your actions may be simply reflecting what others want you to do so you would be reinforcing the dominant and powerful views that exist in society. For example, accountants believe they are acting in a value natural and objective manner and reporting on economic reality. However, it is important to know what "reality" is being represented – what attributes are being measured and how they are presented in a financial report. Through self-reflection one is freed from past constraints (such as dominant ideology and traditional disciplinary boundaries) and thus critical theory is emancipatory.

Critical theory was initially strongly influenced by Marxism but "developed in contrast to the crude materialist, determinist and allegedly scientific Marxism that had become orthodox in the Soviet Union" (Simons, 2004, p 2); rather, it developed what is often referred to as Western Marxism. Despite Habermas' rejection of the scientism of the positivist program (which he believed was only one of many forms of knowledge) he continued to remain attached to the idea of modernity and viewed the Enlightenment as a worthy but unfinished project.

There have been several accounting studies advocating critical theory. Perhaps the strongest advocate has been Richard Laughlin who was later joined by Jane Broadbent as well as other co-authors. A more general case for accounting as a critical social science

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[‡‡] It is generally held that there are three phases of critical theory: first, the work of the original members of the Frankfurt School; and the early work of Habermas (up to the mid 1970s); secondly, the later work of Habermas (post mid 1970s); and thirdly the work of Habermas' students.

was made by Dillard (1991) who uses the work of two prominent accounting authors to demonstrate the benefits of a more critically oriented approach. To this extent Dillard's work is a good summary of some of the key considerations in adopting a critical theory approach. On the other hand Laughlin's work is more directed to employing critical theory to solve "real life" accounting problems and issues. His work examines accounting systems in organisations and he makes a case for a critical theoretical understanding. Previous, technical positivist attempts to understanding the operation of accounting systems, he argues, have not contributed to our understanding of accounting in practice (Laughlin, 1987). Many of the advantages of using critical theory were seen by its advocates as most suited to accounting in organisational contexts and can, therefore, be said to have improved our understanding of management accounting.

In his later work Laughlin, especially that written with Broadbent (and in her own work) turned attention to accounting and accountability in the public sector (under the New Public Management). Their work extended their use of critical theory to include the later work of Habermas which examined issues of law (juridification) (for example, Laughlin and Broadbent, 1993) and communicative action (how understanding is communicated).

In a later paper Laughlin (1999) argues that there are at least four important characteristics of critical accounting. First, it is always contextual. That is, it recognises that accounting has social, political and economic consequences. Secondly, it seeks engagement which mean that it is always undertaken to change (improve) the practice or profession of accounting. Thirdly, it is concerned at both micro (individuals and organisations) and macro (societal and professional) levels. And, fourth, it is interdisciplinary in that it engages with and borrows from other disciplines. Thus, critical accounting is much more broadly concerned with the practice, profession and discipline of accounting than traditional studies.

The work of Prem Sikka clearly illustrates Laughlin's characteristics. He is somewhat of a political activist in accounting and has taken issue with the profession for not having more forcefully aided the fight against issues such as money laundering, fraud and transnational crime and professional body insouciance (indifference to many of these issues) (see, for example, Sikka and Wilmott, 1997).

Critical accounting has influenced research in many countries and in 2002 a special issue of the journal *Critical Perspectives in Accounting* was devoted to "Critical Accounting in Different National Contexts". In this issue Broadbent asks why we need critical accounting. Her response argues that in a world pondering over the allocation of scarce resources "We need to ensure the use of accounting does not represent certain interests at the expense of others". And, she continues, "Constructions and interpretations of accounting information must pay attention to the cultural imperatives of those it seeks to control as well as those who are using it as a tool of control" (p 444). Thus, critical accounting seeks to unmask the often hidden interests of those who would seek an unjust allocation of a society's scare resources so that all interests in society can benefit. The spectacular corporate collapses and fraud seen early in this century – and before – clearly indicate that such maladjusted interests exist.

Accounting Theory as Interpretation

It should be remembered that classifying the alternative methodologies is antithetical to the essence of many of these alternatives. Classification usually presumes a fixed basis for categorisation – a fixed "reality" – which is the very thing many of these alternative methodologies reject. Therefore, it is restated that such grouping is done for instruction to those unfamiliar with the philosophical complexities involved with these alternative views of how knowledge is created. While the Frankfurt School critical theorists adhered to a belief that there are foundations to knowledge, those who strongly hold a social constructionist ontology deny that it is possible to determine such foundations (or, in fact, their existence at all). This has important implications for how knowledge is perceived. Foundational beliefs are taken as certain and beyond doubt – they exist independent of any human agency. Constructionists believe that knowledge is produced by human societies: we do not discover knowledge so much as make or construct it. We create concepts, models and systems to make sense of our experiences. Accounting, of course, is a good example of a constructed knowledge. However, our experiences are constantly changing so our constructions have also to change. Accounting in the 19th century is different from accounting today. Our understanding is dependent on how we interpret our changed experiences. Such interpretation does not exist in isolation but depends on societal norms, social demands, language and other considerations. There is a range of research and theory approaches that concentrate on interpretation. These approaches, like critical theory, are necessarily interdisciplinary. For example, it is important to understand the political, social, legal, economic, linguistic, cultural and historical context of interpretation. There are many variations of these interpretive approaches to knowledge some dating back to the just before and after the turn of the 20th century as in the work of Max Weber (a major classical sociologist) and Edmund Husserl (founder of the movement known as modern phenomenology). Other approaches include those known as philosophical hermeneutics, ethnomethodology and symbolic interactionism. While these are rather complex sounding titles they all share the aim of attempting to enrich peoples' understanding of the meaning of their actions in order that they can change their worlds through such self-understanding.

One of the earliest works to draw attention to the potential of improving accounting practice by using interpretive theories in accounting is that by Tompkins and Groves (1983). Their central intention was to argue that accounting research had traditionally uncritically borrowed models and methods from the natural sciences which were very often inappropriate for studying accounting practice. "Naturalistic" rather positivist approaches would result in a better understanding of accounting practice. This is a strange use of the term "naturalistic" but others have used it and it is intended to relate to non-positivist methods including some interpretive approaches, namely ethnomethodology, symbolic interactionism and transcendental phenomenology.

Ethnomethodolgy seeks to determine how people go about their daily practices (hence the title of the Tompkins and Groves paper!) and what "rules" lead them to derive meaning from their actions: how do they make sense of their world. Therefore, Tompkins and Groves suggest that it might be applied to determine how accounting influences the

actions of others or understanding of events. Accounting "rules" are determined from accounting practice, that is, the significance and meaning of the rules emerges from how accountants (and others) interpret and act on them.

Symbolic interactionism was developed at the University of Chicago and is similar to ethnomethodology except it is more concerned with the actions and interpretation of individuals. Meanings do not reside in objects but emerge from social processes. Individuals act on the basis of the meaning they attach to things and this becomes evident as they interact in society. Tompkins and Groves suggest this research approach could be used to study financial control. By examining how various individuals respond to financial decision information it will be possible to identify "key people" who are aware of "the larger macroeconomic determinants of behaviour" (Willmot, 1983, pp 394 – 5).

Interpretive approaches have been used more in management accounting than financial accounting. Chua (1986, pp 615 -617) provides an excellent example of the significance of an interpretive approach by comparing two pieces of research related to budgetary processes, one a traditional approach , the other an interpretive study. She demonstrates that whereas in the former the "budgetary control system" is seen to exist as "a facet of reality that is external to the world of the researchers" in the latter the budget is "symbolic not literal, vague not precise, value loaded not value free" – in fact the budget shapes reality through the meanings people place on it and how it influences their actions within the organisation. In another article Chua (1988) shows that management accounting research has used the interpretive approach and points out some difficulties with its use in accounting. In the paper Chua explains the difference between symbolic interactionism and ethnomethodology and suggests some new insights over the traditional approaches to management accounting research that the interpretive perspective brings and how it can continue to be used to advantage.

Accounting Theory as Structure

Early in the twentieth century a French linguist, Ferdinand Saussure, developed an approach to the study of language which concentrated on underlying structures which he argued underpinned all language. Later, his approach was adopted to apply to a form of social analysis in which the structures of social organisation took priority over the human aspects. The name **structuralism** refers to the methodological and theoretical approaches to culture and social analysis which assumes societies can be studied in manner similar to a Saussurian structural analysis of language[§§]. Therefore, the theoretical study of accounting would concentrate on the "structures" on which accounting is built. The emphasis would be on the unobservable but structural relations between conceptual elements to expose the essential logic that binds the "structures" together. The object of investigation is studied as a system.

The accounting profession's search for GAAP and then a conceptual framework can be viewed as a "structuralist" approach – however, this has never been consciously considered. Nevertheless, the search for the essential logical elements that bind

[§§] Although most usually associated with Saussure, structuralism most likely originated in (the then) Czechoslovakia and Russia.

accounting systems and result in financial reports being prepared is very similar the structuralist approaches taken in other disciplines (notably anthropology).

However, economic theory has been greatly shaped by structural thinking. In fact Saussure "took economic theory as *the* model for his highly influential semiotic theory of language" (Macintosh, 2002. p 9); and one commentator has said that "Economics, be it noted, is the structural study par excellence" (Sturrock quoted in Macintosh, 2002, p 9). Because accounting has relied so heavily on economic theory, Macintosh goes on to demonstrate that it too has been heavily structuralist and he illustrates this with agency theory: "Agency theory is prototypically structuralist" (2002. p 10). However, few accounting researchers have consciously seen their research as being directly shaped by structuralist theory.

Accounting Theory as Language

The cliché, accounting is the language of business has been around for many years. Knowledge can only exist through communication and language is the most common media of communication. Therefore to understand how knowledge of accounting is established it is useful to study language. And if accounting is the language of business this becomes even more important. However, the study of language is highly complex and there are several ways by which this may be undertaken. The Ancient Greeks saw language as comprised of signs and a common word for the study of language, **semiotics** (or semiology in Europe), has Greek origins (interpreter of signs). Other terms used in the study of language include linguistics, rhetoric, hermeneutics and discourse analysis (and many others).

About the same time that Saussure, in Europe, was developing his semiotics, his theory of language (which was to become the basis of structuralism as mentioned above), one of America's most important philosophers, Charles S Peirce, was creating his semeiotic, his theory of signs which he believed extended to a whole system of philosophy. Peirce was also the founder of **pragmatism**, the theory that holds that a proposition is true if holding it to be so is practically successful or advantageous. He also greatly influenced the development of logic.[***]

Saussure was primarily concerned with the development of a theory of language central to which is the notion of the **sign** which is, in turn, a combination of the paired elements of *signifier* and *signified*. The signified is the concept (for example of "catness") and the signifier is the sound image (the sound –spoken – or sound image, "cat"). One thing to note is that the sign is arbitrary, that is, they can differ from one language to another. It is also important to realise that not only are different signs used in different languages this leads to users of those signs thinking differently: the influence of culture which shapes the way people think. In "accounting language" the word asset is a signifier and the concept of asset ("assetness") is the signified but just what is the concept of asset has

[***] Pragmatism is the archetypical American philosophy and has been dominant in American thinking. While it has probably influenced many accounting theorists one who admits to being an adherent is Barbara Merino. Most of her research has been in history of accounting, see, for example Merino (1989).

been the subject of debates for many years. It can be future economic benefit but on what basis is this measured?

As indicated in the previous section, Saussure's work was primarily intended as a theory of language. However, it was taken up by other disciplines such as anthropology by, Levi-Strauss, psychology by, for example, Lacan and in many other disciplines including economics. The ultimate aim was to determine the underlying structures. Two other features become evident. First, if underlying structure are sought then the individual (human) is no longer relevant because she or he exists independent of the underlying structure. Secondly, such analysis is *synchronic*, it is ahistorical – structures are independent of time. The opposite of synchronic is *diachronic* – changing over time. Structuralist analysis, therefore, ignores history and development. To some scholars who originally subscribed to structuralism this was a naïve understanding of how language actually works. Therefore they rejected structuralism (as it stood) and sought ways of extending or changing it to make it more reflect the fact that language changes over time depending on how individuals and societies interpret the signs contextually. These scholars came to be known as **poststructuralists** (because they came "after" structuralism) but they developed their ideas in very different directions and all rejected the label. The common features of their work are first, a recognition that language is viewed as the medium for defining and contesting social organisation and subjectivity. Secondly, they hold that individuals are knowing and rational subjects and are necessary for the creation of knowledge.

These views can be compared to the mainstream positivist notion of knowledge. To the positivists knowledge was comprised of uncovering the elements of a real world and formulating the knowledge in a neutral theoretical language. The individual therefore is only a "device" for uncovering this knowledge. The postructuralist view is quite the opposite – it is through language that knowledge comes into existence and this language is comprised of a socially derived and accepted set of signs which every individual interprets in their own way. Two of the most well known of the so-called postructuralists are Michel Foucault and Jacques Derrida. Foucault turned to history, Derrida took language and meaning to the extremes, breaking it down, deconstructing it into its barest elements. There are several studies in accounting which have adopted a Foucauldian approach but very few who have employed Derrida's analysis.

Foucault was one of the most influential thinkers in the second half of the twentieth century and still exerts a strong influence on theory in the social sciences and philosophy so it is little wonder that some accounting researchers have been attracted to his ideas. Foucault is a notoriously difficult person to categorise but there are three phases of his work. In the first he referred to the method as archaeology and it displays his structuralist roots although it has moved well beyond Saussurean structuralism. The method in his second phase he called genealogy and in the third phase it is described as being concerned with discourse ethics. Themes found in his work include history, language, discourse, subjectivity and power.

Although he is often seen as a historian Foucault's history is not that of the traditional historian. Rather than seeing continuous progress and development he looks for disruptions. He does not seek out simple causality but rather seeks to determine the factors that made social institutions and beliefs possible throughout history. Comprehending these helps understand where we are now. Therefore, in accounting, those that have employed his approach have mostly resorted to historical study. Stewart says that Foucault has

> . . . provided a theoretical schema within which to problematize and question accounting, and break away from a unidimensional picture of its development. Accounting has not been created just by capitalism or industrialization or ownership or organizational structures. Rather, the emergence and functioning of accounting in its various contexts is a complex phenomenon, due to the interplay of many different influences. (1992, p 61)

Stewart cites several works in accounting that have employed a Foucauldian perspective – they have examined such topics as the professionalisation of accounting, the emergence of administrative power, the development of cost accounting in the United Kingdom and the role of the state in developing accounting. The aim in Foucauldian studies is to see "accounting as transcending time and space considerations and developing into a set of supra-historical accounting techniques that will be better able to meet the needs of the organization" p 58). Hoskins and Macve (1986) have argued that double entry bookkeeping emerged from the context of disciplinary techniques developed by medieval monastic orders. Furthermore accountability and control received an impetus from the development when universities developed a system of monitoring student performance through examinations – "a power-knowledge framework" (p 123). Loft (1986) demonstrated that the professionalisation of British accounting was influenced by the need for cost accounting during the First World War. There are numerous other studies in accounting that employ a Foucauldian perspective.

Accounting Theory as Rhetoric

Rhetoric is an old discipline dating back to the fourth century BC. Its contemporary meaning is the art of persuasive communications and eloquence. Some time ago Arrington and Francis pointed out that

> Every author attempts to persuade (or perhaps seduce) readers into accepting his or her text as believable. (1989, p 4)

It is important to note here the terms author, persuade and text. The author will subjectively select the rhetorical devices she or he feels will be most useful in persuading others of a particular position. The word text is widely used and means more than a written document – it now refers to many other things in which meanings are being conveyed such as films, speeches, advertisements, instruction manuals, conversation and, of course, financial reports.

As indicated in Gaffikin (2005a), Mouck (1992) demonstrated how positive accounting theorists employed several rhetorical devices to persuade others that positive accounting theory is the only way to truth. Rhetoric is most commonly encountered in literary studies, however, in 1980 McCloskey published a paper in the *Journal of Economic*

Literature entitled "The Rhetoric of Economics" which spawned a new movement in economics, consistent with similar movements in other social sciences, which has seen rhetoric as an alternative to positivist epistemology[†††]. Whereas epistemology is based on a set of established abstract criteria, rhetoricians hold that truth emerges from within specific practices of persuasion.

One of McCloskey's primary aims was to draw the attention of economists to how they use language and how language shapes their theories. Similarly, Arrington and Francis seek to show how "the prescriptions of positive theory function linguistically rather than foundationally and cannot purge themselves of the rhetorical and ideological commitments" (1989. p 5). Arrington and Francis move beyond a simplistic analysis of language and draw on the work of Derrida to make their case. Derrida's work is highly complex and extends the discussion of signs and language to extremes. His concern is with deconstructing the text. That is, unpacking the text "to reveal, first, how any such central meaning was constructed, and, second, to show how that meaning cannot be sustained" (Macintosh, 2002, p 41).

Largely due to its complexity and its controversial reception by some quarters of the academic community there have been very few studies in accounting drawing on Derrida's work. However, his central message that language cannot be the unambiguous carrier of truth that is assumed in many methodological positions should never be forgotten or overlooked. As with other poststructuralists, Derrida saw all knowledge as textual – comprised of texts. Derrida believed that all western thought is based on centres. In this sense, a centre was a "belief" from which all meanings are derived; that which was privileged over other "beliefs". For example, most western societies are based (centred) on Christian principles. Perhaps it could be stated that accounting is centred on capitalist ideology. Deconstruction usually involves decentering in order to reveal the problematic nature of centres. So, it could be argued that many accounting problems arise from problems with capitalism – it has changed so much over the years that it is hard to be precise. Another example could be the way so much accounting thought has been centred on historical cost measurement. In many discussions over the years, until recently, it has been "assumed" that historical cost is the basis for measuring accounting transactions. Therefore, advocates of alternative measurement bases were viewed as if they were heretics.

Accounting Theory as Hermeneutics

Hermeneutics is the study of interpretation and meaning and, as a formal discipline, was initially used several hundred years ago by biblical scholars interpreting biblical texts. In

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[†††] McCloskey later expanded the argument and published a book by the same name: *The Rhetoric of Economics*, University of Wisconsin Press, 1998. Other economic rhetoricians have criticized that work as being too conservative and deferential to neoclassical economics and have greatly extended the arguments of the rhetoric of economics movement; for example, James Arnt Aune's *Selling the Free Market: The Rhetoric of Economic Correctness*, New York: The Guilford Press, 2001. Arnt Aune's argues, like Mouck (1992) that neoclassical have resorted to various rhetorical devices to sell the idea of the free market but he goes further by demonstrating that politicians and commentators (including novelists) have also rhetorically contributed to the selling of liberalisation, privatisation, globalisation and transnationalisation (ie the free market and minimum political intervention) economic (and social) policies.

the mid nineteenth century it became a discipline for the critique of the attempted application of (natural) scientific method to the human sciences. Hermeneutics, as the interpretation of meaning of texts and other works (for example art works) was the recommended methodology. In the twentieth century hermeneutics was extended from an epistemology to an ontological position, that is, extended from focussing on knowledge to being (existence) thus making it a valuable approach to understanding social organisation such as accounting. This extended view of hermeneutics usually results in it being referred to as philosophical hermeneutics. However, the focus is still on language, meaning and interpretation. It is also common to find reference to the hermeneutic circle. This is because interpretation inevitably requires understanding through language and the interpreter comes to the matter under consideration with an historical understanding – language is developing over time. Thus, it is inevitably circular – "new" understanding is based on previous (historical) understanding: meaning is grasped from past interpretations because that is all there is. Consequently any value-free inquiry is not possible and truth only exists as shared interpretations – knowledge can only be regarded as knowledge when it is accepted by an audience.

There was, in the social sciences, a growing interest in interpretation and this has been referred to as the hermeneutic turn. Boland (1989) has argued that this hermeneutic turn was also reflected in accounting research. To him, this was manifest in the work of those researchers wishing to break from the subjectivist-objectivist dichotomy and who saw the renewed interest in subjectivist approaches to theory as having considerably more potential for a fruitful understanding of accounting.

Different Accounting Theory

The discussion above has provided a brief view of some of the many different approaches to accounting theory that have developed over the years[‡‡‡]. While they are very different in specific orientation they do share some characteristics. Collectively they are often referred to as critical studies. While the term critical theory has a specific meaning it is also used to refer to a heterogeneous set of theories that generally can trace their roots to the European rather than the Anglo-American philosophical tradition. Embracing an alternative philosophical framework has served as an antidote to the sterile positive prescription of the mainstream methodological hegemony. Critical accounting studies take a wide range of stances from highly conservative to (a few) extremely radical but they all have the intention of trying to improve accounting practice by making accountants more aware of the wider social, political and economic consequences of their practice. And, as Morgan has indicated "the more one recognizes that accounting is a social practice that impacts on a social world, the less appropriate natural science approaches become (1983, p 385). Critical studies, then, are united in opposing the use of positivist scientific methodology in pursuing accounting research because it specifically excludes any human or social considerations under the misguided apprehension of

[‡‡‡] There have been many other proposed approaches drawing on the work of philosophers or social theorists. For example, labour process studies initially drew on Marxian ideas; actor network theories draws on the work of French techno-science Latour, Callon and others; post colonial theoretical studies point out the legacy of colonisation; and there have been historical sociological studies – the new history. See Lodh and Gaffikin (1997).

producing objective knowledge. One consequence of accepting accounting as a social practice is that it imposes greater responsibilities on accountants to be more aware of the social implications of their practice, In order to do this many researchers have turned to research undertaken in the social sciences as exemplars for appropriate methodologies.

A dominant theme in critical studies is an awareness of the role of language in producing knowledge. It is through language that accounting is constructed and constructs a reality Thus, many of the alternative methodologies have been dependent on the many and varied approaches to the philosophical study of language such semiotics, linguistic analysis, rhetoric, hermeneutics and deconstruction. Language has always been a central concern of philosophers but there was, according to American philosopher, Richard Rorty (1992), a "linguistic turn" in many disciplines in the later half of the twentieth century. There has been a far greater awareness of the importance of language to the creation and understanding of knowledge. Thus, language plays an important role in most of the methodologies developed in the social sciences and, consequently, in most critical accounting studies.

Other important elements commonly encountered in critical accounting studies are cultural consciousness and awareness of the importance of history. Languages are created in societies and the impact of culture is crucial to any understanding of a language. Languages change over time despite the position adopted by Saussure and positivists; there are no universals. Associated with this realisation is that societies are regulated by rules and conventions so it is important to determine how individuals interpret the rules and conventions. Critical accounting researchers have taken up many of these issues in their work. Interpretation is a very individual exercise so subjectivity and reflexivity are important considerations of human behaviour.

All of these epistemological considerations are reflected in the fact that most critical accounting researchers practice and advocate qualitative research methods. Therefore, the research undertaken by critical accounting researchers is going to be very different to that practised by neo-empirical researchers. Both critical and neo-empirical researchers are attempting to determine a "truth". In order to make some evaluation of these truth claims it is important to appreciate from where the researcher is coming. This paper has attempted to provide a very brief understanding of where critical theorists are coming from to balance the background to neo-empirical researchers provided in a previous working paper (Gaffikin, 2005a).

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