

Methodological theme: alternative theories for research in Accounting, Finance and Management



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Presentation to:

The University of São Paulo

**School of Economics, Management and
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Tuesday, October 19, 2021

Introduction

- **Researchers use both traditional and emergent theories to study accounting, finance and management in organisations.**
- **Traditional and emergent theories offer differing insights into organisational phenomena and suffer from different shortcomings**
- **These two approaches to accounting, finance and management research lead to increase in knowledge and understanding about a phenomenon or phenomena.**

Introduction (Continued)

- **A major problem confronting a new and even experienced researchers, especially PhD students is the choice of appropriate theory that could act as the ‘Map’ and ‘Lens’ for their investigations.**
- **Methodology/theory is seen as the interrelations of substantive problems, sources of evidence and of larger assumptions about society, history and the purposes of scholarship (Skocpol, 1984, p. x; Bakre, 2004, p. 5).**

Alternative Perspectives

- ❑ **Positivism/normative Perspective**
- ❑ **Economic Perspective – Agency Theory**
- ❑ **Organisational Perspective – Contingency Theory**
- ❑ **Interpretive Perspective**
- ❑ **Critical Perspective**

Positivism/normative Perspective

- ❑ **Normative models mainly describe what ought to be done by practitioners.**
- ❑ **These were based on neo-classical economic assumptions:**
 - **Decision makers are profit maximizers**
 - **All the information required is available at no cost and no uncertainty**
 - **Arrive at a profit maximizing solution using the principles of marginal Analysis**
 - **The decision maker is either the owner or shares the owner's goals**
 - **Individual decision maker can be isolated from other decision-makers within the organisation**

Normative Perspective (Continued)

- To relax some of the above assumptions, researchers developed more sophisticated analytical models of accounting, finance and management within the framework of neo-classical economics**
- The gap between theory and practice has widened.**
- The recognition of this gap affected accounting, finance and management research in two ways:**
 - Firstly, there was increasing interest in studies that explored the nature of accounting, finance and management practices. More research towards positive accounting research i.e. looking for explanation to observe practice and;**
 - Secondly, changes that took place in the methodology of accounting, finance and management research**

Agency Theory

- **Assumes a world of two person (explicit or implicit) contracts between owner and employee in which both parties behave in a rational utilitarian fashion motivated solely by self interest.**
- **It views agency relationships as a contract under which the owner (or principal) delegates decision-making authority to the manager (agent) who then performs services on behalf of the owner.**
- **Agency theorists rely on neo-classical economic theory and the techniques of information economics.**
- **When an agent possesses more information than the principal, his/her risk and effort averse, and faces imperfect monitoring from the principal, then the agent shirks when he/she has a chance to do so.**

Agency Theory (Continued)

- **Given that agents are utility maximizers, it seems the agent will not always take actions that are in the principal's best interests.**
- **The owner, however, can limit such aberrant behaviour by incurring auditing, accounting and monitoring costs and by establishing, also, at a cost, an efficient incentive scheme.**
- **An efficient incentive scheme should ensure that the utility the manager gets from the job is at least as great as the utility available elsewhere in the market for managers.**

Agency Theory (Continued)

- **Two types of Agency Problem**
- **Adverse Selection**
 - **adverse selection problem arises when employees have private information**
- **Moral Hazard**
 - **A moral hazard problem arises when owners cannot observe the actions of employees and must therefore evaluate performance and base compensation contracts on imperfect surrogate of behaviour.**

Contingency Theory

- **Contingency approach advocates that there is no one 'best' design for accounting, finance and management information system, but that it all depends upon the situation factors.**
- **There is no universal appropriate accounting, finance and management system application to all organisations in all circumstances.**
- **Contingency theory attempts to identify specific aspects of an accounting, finance and management system that are associated with certain defined circumstances and to demonstrate an appropriate matching.**

Contingency Theory (Continued)

- **The situation factors represent the contingent variables:**
 - **Culture**
 - **Environment**
 - **Strategy**
 - **Organisational structure**
 - **Size**
 - **Technology**

Contingency Theory-The Concept of Fit

□ The Selection approach

- most common interpretation of fit: Organisation must adapt characteristics of its context if it is to survive/be effective.
- Looking for an equilibrium between environment and organisation.

□ The Interaction Approach

- Fit=an interaction effect of organisational context and structure on performance
- The interest is not with causes and effects that may exist between organisational context and design, but more in organisational performance on the interaction of organisational structure with its context.

□ The System Approach

- The systems approach is based on and uses the conceptual frameworks of systems theory and seeks to further these approaches through empirical analysis.

Alternative Approach

Interpretive and Critical Theories

□ **Non-Positivisms**

- **Subjective**

- **Predominantly qualitative in nature**

- **Interviews, observations**

- **Socially constructed**

- **Power and Knowledge**

Alternative Approach-Interpretive Theories

- **Symbiotic Interactionism**
- **Enthnomethodolgy**
- **Structuration theory**
- **Pragmatism**
- **Grounded theory**

Alternative Approach - Critical Theories

- **Marxian and Labour Theory**
- **Habermasian theory**
- **Weberian Closure theory**
- **Faculdian theory**
- **Power theory**

Alternative Approach -Non-rational Design School

- **Argues on the presumptions of rationality in organisational choice.**
- **Focuses on accounting, finance and management system and organisational functioning.**
- **Helps us to better understand the construction of accounting, finance and management and their limited roles in organisational decision-making**

Alternative Approach-Naturalistic Approach

- **Study the daily practice of accounting, finance and management.**
- **Each study addresses a unique aspect of accounting, finance and management practices due to different nature of organizations.**
- **Enhance our understanding on the various local values, meanings and nuances in different organizations due to different accounting, finance and management technologies adopted.**

Alternative Approach-Radical Perspective

- **Adopted the idea from Marx, Frankfurt School and labour process.**
- **Accounting, finance and management practices are being seen as free from political restrictions.**
- **Emphasis on how accounting, finance and management practices are implicated in the creations and perpetuation of an unequal society (unequal distribution of wealth, education and justice).**
- **Used critical ways of writing and radical theories to develop empirical evidence in accounting, finance and management.**
- **Provides a platform for critique, change and improvement, particularly within organisations and generality in society.**

Alternative Approach-Institutional Theory

- **Focuses on socially generated rules instead of aggregation of individual actions.**
- **Influenced mostly by institutionalism of organisational theory and sociology which focus on cognitive and cultural explanations of institutions.**
- **Motivates the existence of various technical and institutionalised environment, legal, professional regulatory.**
- **Accounting, finance and management practices are influenced by the complexities of these environments and their expectations.**

Alternative Approach-Structuration Theory

- **Emphasis on the capability of individual to make choice and the reproduction of social structures.**
- **The routine of human behaviour explains the replication of given structures across time, although change is still possible.**
- **Human beings can still choose to act differently from the norms and rules.**
- **Highlights the mutual impact our behaviour has on society and likewise.**
- **Provides small yet distinctive contribution to accounting, finance and management practices.**

Alternative Approach-Foucauldian Perspective

- **Based on work of Foucault (1977) on discipline and docility which have resulted in provocative constructions of accounting, finance and management control.**
- **Generates new histories of accounting, finance and management which examine the social and organisational practices and knowledge.**
- **Enables particular accounting, finance and management technologies to emerge at given times and places.**
- **Suggests that accounting, finance and management practices are complicated and unpredictable due to different forms of discourses and institutional structures.**
- **Provides strong contrast to traditional characterisations of accounting, finance and management control.**

Alternative Approach-Latourian Perspective

- **Focuses on understanding of accounting, finance and management technologies in the context of network of human and non-human ‘actants’.**
- **Illustrates how accounting numbers are developed to accommodate and persuade diverse interest within organizations.**
- **Reflects how diverse interests are converted into facts.**
- **Introduces distinctive idea of translation to characterisations of accounting, finance and management practice.**

Summary and Conclusion

- **Understand why and how to choose an appropriate methodological framework for your investigation.**
- **Advance reasons for the suitability of your particular choice to your kind of investigation.**
- **Advance reasons to convince readers of why alternative choices you have rejected may not be suitable for your kind of investigation.**

Summary and Conclusion

- **Always rely on more experienced researchers or your supervisors for proper guidance on this important aspect of your investigation.**
- **Share your views with colleagues and other PhD students.**
- **Most importantly, always remember the political economy of conducting research and publication.**
- **Good Luck.**