ACCOUNTING RESEARCH — ACADEMIC TRENDS VERSUS PRACTICAL NEEDS

William T Baxter
ACCOUNTING RESEARCH -
ACADEMIC TRENDS VERSUS PRACTICAL NEEDS
ACCOUNTING RESEARCH -
ACADEMIC TRENDS versus PRACTICAL NEEDS

by W T Baxter DLitt BCom CA
Emeritus Professor
The London School of Economics & Political Science

Published by
THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SCOTLAND
27 QUEEN STREET, EDINBURGH EH2 1LA
This book is published for the Research Committee of The Institute of Chartered Accountants of Scotland and does not necessarily represent the views either of the Research Committee or of the Council of the Institute.

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the author or publisher.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher.
FOREWORD

This publication is the second of an "Emerging Issues" series which has been initiated by the Research Committee of The Institute of Chartered Accountants of Scotland. The Committee believes that the series, which is addressed to all groups with an interest in accounting information, will meet a need for explanation of issues which are particularly topical.

The terms of reference of the Committee charge us with the task of commissioning and promoting research in accounting and auditing which will contribute to the Institute’s overall objectives of enhancing the practice of accounting and the status of the profession. One of our themes in the past few years has been our concern about the gap which appears to exist between the interests and activities of practising accountants and academic accountants. We have been concerned about this gap, the existence of which had been confirmed by our casual observations and by various discussions which we have had with university teachers of accounting. Our concerns led us to invite Professor Baxter to speculate as to the nature of the gap, the reasons for its existence and the possibilities for bridging it.

We are pleased to publish Professor Baxter’s paper which we believe presents an accurate analysis of the problem in a style which is readily accessible to both academics and practising accountants. We believe that the paper’s conclusions present issues of crucial importance to the accounting profession and that they should stimulate serious debate and, importantly, action. We have taken the liberty of appending a Commentary on Professor Baxter’s analysis which is intended to be a contribution to that debate.
The Committee commends this book for study and discussion in the interests of better understanding and better communication between accountants in academe and practice; the opinions expressed by the author are, of course, his own.

The Institute of Chartered Accountants of Scotland

Jack Shaw
Convener, Research Committee
CONTENTS

INTRODUCTION 1

WHAT HAS CAUSED THE GAP? 3

THE NATURE OF "RESEARCH" 5

UNIVERSITY DEPARTMENTS OF ACCOUNTING 8

THE METHODS AND MATTER OF ACADEMIC RESEARCH 13

CONCLUSION 19

ACKNOWLEDGEMENTS 21

A COMMENTARY BY THE RESEARCH COMMITTEE 22
INTRODUCTION

Introduction

In the last twenty years or so, accounting has burgeoned as an academic discipline. Almost every British university has set up an accounting department. Student numbers in these departments have soared; and staff numbers too have become big.

As might be expected, growth in teaching has been paralleled by growth in output of research articles. Until 1970, Britain had no journals for these (if we tactfully ignore the short-lived Accounting Research, published by the Incorporated Accountants, and suppressed after that body's amalgamation). Now we have several; and the many writers - even when fortunate enough to win an editor's imprimatur - have to wait in a long queue till publication. There is a similar flow (rising at an exponential rate) in USA, Australia, etc.

The job of the university departments is to study a "practical" activity - the important and demanding work of accountants in the profession, management, etc - and to train students who will gain their livelihood in that activity. So it would be not unreasonable to suppose that the research would centre on various practical aspects of an accountant's daily work; and that the spate of papers would cast a fresh and helpful light on such work. We might then picture the practical accountant turning eagerly to the latest research journal, and finding just the right ideas for improvement.

But, alas, this picture would seem far from accurate. I fear that a great gap separates much research from practice.

One can make some test of this view by scanning the content lists of research journals. My own snap conclusion, no doubt arbitrary, is that nearly fifty out of a hundred titles must be incomprehensible and repellent to most accountants. And of
INTRODUCTION

course an innocent-seeming title may disguise a less-innocent content.

The editorial boards of some research journals have lately furnished proof of the gap's existence and size, by adopting plans for lessening its bad effects. The Accounting Review has launched a sister journal, Accounting Horizons, for articles that may appeal to practical men. The Journal of Accounting, Auditing and Finance (NYU) publishes twin articles simultaneously:

"high quality, academic refereed articles will be accompanied by non-academic renderings . . . .
Upon acceptance of a paper, the author will be asked to provide a concise, non-academic version, describing the research problem, design, methodology, results and implications for practitioners. A professional editor will be available to assist the author in editing and styling the abbreviated version. As a result, the work will be read by both academic peers and a wide audience of practitioners, the latter typically not having been exposed to research written in technical, academic language. Thus, the condensed version will provide the critical bridge between the academic and professional communities."
WHAT HAS CAUSED THE GAP?

What Has Caused The Gap?

One can readily think of explanations for this gap. I suspect there are faults on both sides.

Practical men give plenty of reasons for ignoring, and sometimes disparaging, academic research. Thus they find its subject matter remote. They shy away from its statistical tables and mathematics. They regard its jargon as pretentious ("hermeneutic", "stochasticity", "systematic heuristics" and "protocol analysis" are perhaps not yet part of the everyday chat in some offices). They feel that the writers are excessively concerned to demonstrate familiarity with "the literature"; the many bracketed references in the text are irritants, as is the end-loading of full references. Research (they tell us) should be written up with brevity and clarity. Where it is specially commissioned, it should be done without the long delays, and for a modest fee. It should possess practicality, i.e. suggest improvements that are simple, quick and foolproof; yet (despite the requirement of simplicity) it should be detailed enough to reveal a full and well-digested scheme. And so on.

The academic researcher will put the case somewhat differently. He can argue that new ideas demand new terms and new ways of study, and that he can hardly preface each article with a background guide. He can say that mathematics on occasion provides not only a useful shorthand but also a means to clearer thought. He can point out that professional bodies such as the Accounting Standards Committee also are accused of failing to achieve the simple and practical. In a less kindly mood, he might hint that practical men may lack the training and energy that are needed for the understanding of research. He might even suggest that his harsher critics joined the profession in years when a degree was not yet needed - so that their attacks
THE NATURE OF "RESEARCH"

2. **Office**

In the big auditing firms, "research" is likely to have a somewhat narrow meaning. A main task of the research department - significantly, often called the technical department - is to offer fast solutions to problems that crop up from day to day. Thus if auditors come across a worrying feature in a client's accounts, they can phone to the technical department for guidance. A member of that department must then give a prompt answer; if in doubt, he may find out how the firm has in the past dealt with similar cases (perhaps by consulting colleagues, or records that have been kept for this very purpose), or he may look up external rules (company law, standards, etc). When faced with a situation in which there are no clearly-defined rules, he may apply his analytical skills to more fundamental ideas, stemming, for example, from "true and fair".

In some firms, the research department has the extra task of monitoring developments in computing, tax, etc.

A big company, especially a multi-national, also may have a department for accounting research. Here again a chief concern is likely to be with external rules.

These departments obviously do "research" in the sense of noting and digesting each rule as it appears, both in Britain and abroad. And they often will try to influence proposed new rules - by studying their likely impact, getting evidence and arguing a case before the issuing body.

All these activities can demand an enviable degree of expertise. But they can seldom grow into a sustained
search for principle. So, despite its name, the work of a research office is apt to differ greatly from university research - in both aims and subject matter. True, its members will at times scan academic journals, in the hope of detecting something of use to the firm. And fortunately they do occasionally contribute to the journals and publish books. They may do so for disinterested reasons, or because publication can enhance the firm's standing, eg with those who advise students on career choice. However, if audit firms are as profit-driven as is often suggested, there is not likely to be much encouragement for such non-chargeable work.

Practical men do of course meet problems with overtones of theory, and may seek to explore them in some depth. To meet this demand, entrepreneurs lay on expensive conferences. The contents lists of such conferences thus identify the problems of the day. Popular topics of recent times (in some cases selected by the audience) are listed in the note below.¹

These certainly do not lack intellectual interest. A researcher with marketing flair might regard such lists as guides to subjects that are worthwhile and would tempt editors of professional journals.

University Departments of Accounting

To understand the academic accountant's drift from practice, we must consider trends in staffing and syllabus at the universities.

1. **Staff**
   
   In our lifetime, there has been a marked shift of personnel from office to campus. The opinion used to be that a sound teacher must not only hold a professional qualification but be part-time: full-time work at a university would inevitably mean loss of touch with what matters. This view was presumably held by the chartered bodies of Edinburgh and Glasgow in the early 'twenties when they pioneered in education by persuading the two universities to teach accounting: apprentices attended classes part-time, and professors like William Annan managed somehow to put in long hours at both the North Bridge and Charlotte Square.

   Subsequent change has been big. Many of today's teachers hold qualifications other than those of a professional accountant and are full-time. The change is well-illustrated by a recent advertisement for a lecturer:

   "Candidates should have a good degree in accounting or a related subject and teaching experience in accounting. An accounting qualification and/or professional experience will be an advantage. Applicants are invited from any specialist area of accounting or finance."

8
Several reasons for this change suggest themselves, including:

(a) Part-timers cannot do all the administrative work that a university exacts, particularly when student numbers grow large.

(b) Part-timers are too rushed to teach with conscientious care, or to do the reading and research expected of a scholar.

(c) University training has become more thorough. A degree may (at least in some areas) compare not unfavourably with a professional qualification.

(d) Accounting (both in the outside world and university) has increasingly been forced to absorb fellow disciplines, such as mathematics and computing. A teacher whose primary training is in these disciplines (let us call him, with no disrespect, a fellow traveller) is likely to be better at them than is a "pure" accountant.

(e) (A rather improper thought.) Accountants can command high pay. Fellow travellers are content with the other kinds of rewards found in university life.

The ideal is of course a mix of full- and part-timers, and of professional accountants and fellow travellers. But getting the best mix may not be easy.
2. Syllabus

For several good reasons (eg the use of computers in business, and the economist's shift to mathematics), an accounting course now includes many novel topics. Students must use an impressive array of skills (largely mathematical) when tackling economics, finance, DCF, portfolio theory, etc.

In many ways, this change is good. The new subjects can be a rigorous intellectual diet. Young accountants no longer shy away from mathematical equations, compound interest or probability. But there are dangers. Stress on the intriguing new topics may lead to neglect of what is old but essential. To quote a paper from the American Accounting Association (a teachers' society),

"a growing gap exists between what accountants do and what accounting educators teach . . . a complete reorientation of accounting education may be needed".

An economist can very reasonably define his subject by saying "economics is what economists do"; but we can hardly argue that "accounting is what academic accountants do".

A glance at the syllabus of any lively department will show how big has been the shift from traditional ground. Subjects can now include behavioural budgeting, computer-based information systems, artificial intelligence, information economics, stock market efficiency, mathematical financial modelling, etc. (In passing, we may wonder how all these novelties, plus the flow of extra
rules on traditional topics such as tax and company law, can be pumped into students in three years. But that is a different problem.)

In these conditions, it is not surprising that a teacher's ideas on research should often be remote from practice. He is under pressure to write about something; university rules sternly link his advancement with publication. Yet, when he looks for a topic, he increasingly feels estranged from the problems of the office. Other subjects dominate his colleagues' discussion and articles. Inevitably he too is drawn to these subjects. And he is likely to find that his prowess with statistics and computing points to his path of least resistance: there are plenty of problems, not too remote from accounting and finance, that give scope for measurement - unfortunately, often only of the "handle-turning" kind. No-one can deny that the resulting tables are fresh knowledge; and they demand only slight ability to write the simple and grammatical. But they may interest and enlighten few readers save specialists.

An outsider cannot perhaps appreciate the power of fashion in research. Suddenly a writer of originality propounds a new idea, and so starts off an intellectual hare. Soon his idea dominates discussions, seminars and journals. Old topics may be abandoned - perhaps before they have been explored thoroughly. Anyone who stays faithful to the old feels shut out; he may be regarded as a dull plodder and is unlikely to find favour with selection committees. This bandwagon trend is common to many subjects besides accounting; for instance, language departments may concentrate for a time on place names, then on dialects, then on psycho-linguistics and so on. Editors can further bias the direction of research (and in US - the complaint
is - may even announce what are acceptable topics and methods, before receiving manuscripts). If editors and their referees feel enthusiasm for some new approach, then writers who adopt it are likely to dominate the journals.
THE METHODS AND MATTER OF ACADEMIC RESEARCH

The Methods and Matter of Academic Research

Any short description of academic research must be naive. No summary can do justice to the wide variety of theories, topics and methods.

It may perhaps be helpful to regard the researchers as belonging to one or other of two different schools, even though these are not in fact divided by hard walls. We may call the schools the classical and the radical. Most early researchers belonged to the former. The latter became conspicuous about 1970.

The classical school tends to believe that principles and methods should be established by careful reasoning; the goal is the logical what-ought-to-be. The new school tends to reject this normative approach, and to substitute empiricism; the information value of rival accounting methods must be determined not by logic but observation, backed up by statistical testing.

1. **The classical school**

This school began, like the writers of textbooks, with descriptions of book-keeping technique. Then however it went on to look for principles behind the traditional records. But "principles" turns out to have two rather different meanings:

(a) **Codification of practice.** The researcher describes "what is" and reduces it to settled rules of procedure.

(b) **Discovery of fundamental truth.** The researcher seeks for "a comprehensive law or doctrine, from which others are derived" (the definition in Webster's
Dictionary).

Thus pioneers like Paton, Hatfield and May studied practice and then reduced it to rules of type (a); for instance, Paton described and justified accruals in terms of the (to my mind, unfortunate) "matching" notion; and "conservatism" and "the realisation test" were rationalised. But May was also leaning towards type (b) when, examining the rules of book-keeping, he detected GAAP (Generally Accepted Accounting Principles). This premonition of a conceptual framework enabled him to nudge accounting forward in a consistent way.

The early members of the classical school did not advocate much change in the traditional subject matter of accounting, ie historical figures of actual arms-length transactions (plus accruals and allocations based on the historical figures). By the mid-1930s, however, critics began to question the historical cost doctrine. Young teachers at the London School of Economics (R S Edwards and Ronald Coase) led the way in a memorable series in The Accountant; inspired by the marginalist doctrines of LSE economists, they argued that accounting should demote fixed costs, abandon allocation, recognise unrealised appreciation and pay some regard to ex ante concepts of income. Their what-difference-does-it-make approach also let them readily absorb J C Bonbright's teaching on the valuation of assets: "value to the owner" is the difference in the owner's wealth if he is (1) left free to use the asset to best advantage, or (2) deprived of it.

At much the same time, some American writers were questioning orthodox accounting because of its failure to recognise price change. H W Sweeney published his Inflation Accounting, based on Germany's disaster of
1923 - 24. Kenneth MacNeal joined in the attack, though he was concerned with the falling prices of the depression years.

The post-war inflation has inspired many sequels. Almost all of them argue that historical figures should give way to up-to-date values that can better reflect "economic reality".

Though such proposed tamperings with historical cost have seemed outrageous to an older generation, we are perhaps justified in still looking on them as part of a classical (or "neo-classical") tradition. The innovators in this school seek to modernise the figures, but nevertheless accept such traditional accounts as the balance sheet and income statement; they are still concerned with concepts of asset value, and therefore of depreciation and income. Thus they continue the study of subjects familiar to practical men (and, for the most part, in language that is acceptable to such men). Indeed, Sweeney and MacNeal were themselves in practice, while Edwards was an accountant before becoming a professor, and he went on to be chairman of the nationalised electricity industry and then Beecham.

2. The radical school

The classical school has often taken "usefulness" as a test of good accounting. The radical school also accepted this view. But it put far more stress on usefulness to a particular group - namely decision-makers, and especially actual and potential investors.

It therefore reasoned that such persons must regard past and even current values as low-grade information. What decision-makers want is ex ante information. In other
words, assets and income should be depoed, and accountants should provide estimates of future cash flows and risk.

Some radicals soon took a further step; they changed the methodology too. They argue that usefulness must be established by tests - for instance, of whether security markets do in fact respond to fresh accounting figures. Observation replaces the logical quest for a "desired state".

The better to explore these ideas, the researchers sought help outside of accounting proper. They turned to sister subjects such as information economics and decision theory. They thereby were led to further change in both content and methods.

It is largely these sister subjects, with their recourse to mathematics, that have made accounting research so baffling to the uninitiated. So let us look at them a little more closely. Some of the more important are:

Information economics. This has perhaps had most influence on research. It seeks to answer questions about the quantity and nature of the information that providers (such as accountants) should supply. It regards information as a commodity, ie something subject to market rules of supply and demand; as with other commodities, its producers should weigh the costs and benefits of marginal quantity change. But information is peculiar in several ways; for instance, the producer may be unable to exact a price from the consumer (eg the shareholder and analyst); some researchers therefore ask whether a free market underproduces accounting information.

Moreover, there can be conflict between different groups
THE METHODS AND MATTER OF ACADEMIC RESEARCH

of producers and consumers. Thus the individual firm may fear that franker accounts will help competitors; yet more information may be good for consumers and indeed - if provided by all firms - may help them all to improve their methods. The investor, company, industry and government can all have different views on the optimum supply of accounting information. Bodies such as the Accounting Standards Committee must make political decisions when trying to resolve such conflicts. Some researchers (staunch upholders of the free market) go on to ask whether any regulation of accounting can be justified, ie whether laissez-faire would not work better than standards and laws.

Agency theory. Where ownership and management are separated, there may well be a divergence of interest between a principal (owner) and his agent (manager). Thus interests may clash where, for instance, shareholders would gain by selling their company, and the managers by not selling. Agency may also entail extra costs, including those of monitoring (eg fuller accounts) and "bonding" (eg auditing). Researchers ask how far these relationships and clashes can explain the accountant's behaviour and choice of methods. Ex post accounting is to some extent vindicated, since its picture of recent history helps owners to assess their agents' skill and probity; agency theory can thus be looked on as a welcome return to notions of stewardship accounting.

Efficient market hypothesis. Researchers interested in this hypothesis ask how far financial markets show "information efficiency", ie react intelligently to information. For instance, can markets distinguish between form and substance in a report? Are they misled by superficial change in accounting methods (change that does not herald
change in cash flows)? Are figures as effective in notes as in accounts proper? Can a shrewd analyst spot "mis-priced" securities, and thus outstrip the market? Should standards be looked on as evidence that markets have hitherto not been efficient? Plainly there is great scope for statistical testing of possible links between new information and movement in share prices; the efficient market hypothesis has thus done much to promote the empiricism now found in research.

**Behavioural accounting.** Researchers in this field ask *inter alia* how individuals and groups use information. What kind of accounting is "useful"? How do owners monitor managers? Some researchers claim they can find the answers to such questions in the responses to mailed questionnaires or to classroom tests on students. Often the researchers invoke the teachings of other behavioural sciences, eg psychology, organisational theory and sociology. And they have now won an accolade from the other sciences as these have begun to quote the findings of behavioural accounting.
CONCLUSION

Conclusion

If the argument of foregoing pages is sound, it can hardly lead to any neat and comfortable ending. It suggests that academic accountants have taken the bit between their teeth and are moving far and fast from familiar ground. They seek to emulate the standards and ways of sister departments rather than the office. They find more stimulus in study of the abstract than of practice. They prefer pure to applied because pure comes more easily, is more fashionable and offers better career prospects.

No doubt there are plenty of exceptions to my generalisation. Some academics will continue to study practice and to publish work that is germane and understandable. Tax, computing and other technical fields will still provide a flow of "practical" topics. New standards will give plenty of scope for study and criticism. The conceptual framework may be a chimera, but the fundamentals of financial accounting (value, income, etc) offer ample scope for individual research. Management accounting too has its unsolved problems, eg on the overhead : pricing issue.

If accountants feel that the gap between research and practice is regrettable, there is not much that they can do about it. Schemes of secondment between university and office would be an ideal, but at present sound like pie-in-the-sky. Research committees of professional bodies could usefully commission more work on practical problems, and perhaps suggest lists of topics; more fruitfully - since publication is so important to ambitious academics - they could arrange for approved work to be put into print. Direct pressure on the universities would - very rightly - be resisted.

Are there any grounds for thinking that present trends will in time peter out of their own accord? Perhaps there will be a change of fashion; perhaps a new generation of accountants will
CONCLUSION

be more able to digest research; perhaps researchers will learn to furnish articles with a lucid preface and conclusion; perhaps editors will serve up more digestible fare; perhaps pure research will one day yield unforeseen benefits to practice. But these hopeful notions hardly convince.

So our wise course is to accept philosophically that accounting research has for the most part taken off in an unexpected and probably irreversible direction. We must recognise that the gap is likely to get bigger rather than smaller and that universities and practice will drift still further apart, with disadvantages to both.
ACKNOWLEDGEMENTS

Acknowledgements

When drafting this article, I have been helped by discussions with (among others) Messrs D Cairns, A V C Cook, P N McMonnies and C Westwick. My survey of research has gained much from, in particular, P W Bell "Accounting as a Discipline for Study and Practice", Contemporary Accounting Research, June 1987 and G Whittington "Financial Accounting Theory: An Overview", British Accounting Review, Autumn 1986.
A COMMENTARY BY THE RESEARCH COMMITTEE

A Commentary by the Research Committee

Professor Baxter has confirmed our fears: there is, indeed, a wide gap between the research interests of academic accountants and the needs of practising accountants. The Committee accepts Professor Baxter’s findings that the gap exists and, of course, shares his regret that it does. We also accept his conclusions that the gap is widening and that it will prove to be extremely difficult (he suggests almost impossible) to bridge it. However, we believe that a serious and concerted effort must be made to do so.

Unless such an effort is made academic accountants will become totally isolated from those in industry and practice. This, in turn, will lead to the university education of accountants being inappropriate for their subsequent careers in industry or public practice. It cannot make sense for academic and practising accountants to be heading in different directions. The consequences of such divergence will be damaging for the profession as a whole.

Efforts to bridge the gap will be in vain until there is an increased awareness of the gap’s existence. We support the publication of Professor Baxter’s paper as a step in acknowledging the gap and increasing awareness of it. Let us now find ways of bridging it.
ACCOUNTING RESEARCH - ACADEMIC TRENDS versus PRACTICAL NEEDS