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# **WHITHER ACCOUNTING RESEARCH? A EUROPEAN VIEW**

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**ABSTRACT:** “Whither Accounting Research?” is the question raised by Hopwood (2007) in an essay documenting a growing sense of unease about the state and direction of accounting research. This paper addresses this question by focusing on the European Union, discussing the causes for a narrowing of topics in research and proposing some remedies. Specifically, it connects academia’s understated performance in developing research relevant to European Union society with the widespread practice of assessing university quality based on journal rankings, which tends to reward conformity to the US-mainstream. It presents a view of accounting research that is strongly embedded in its economic and socio-political context and deals with the fundamental objectives and constitutional setting of the European Union. Consistent with this view, it develops novel research questions and discusses the possibilities for a changing the European scholarly debate towards more innovative and influential research.

**KEYWORDS:** Critical, Public Interest, Accounting Research, Political Economy of Accounting, Varieties of Capitalism

**JEL CLASSIFICATION:** M41, P00, K00

"The principal objective for social science with a phronetic approach is to carry out analyses and interpretation of the status of values and interests in society aimed at social commentary and social action, i. e. praxis". (Flyvbjerg, 2001, p. 60)

## **1. Introduction**

There is, nowadays, a growing sense of unease about the state and direction of accounting research. A number of critical studies have highlighted a detrimental tendency in academia, that is the excessive spread of performance measurement practices and the flow of conformity they tend to engender and consolidate (e.g. Gendron, 2008; Gendron 2015; Parker, 2011; Pelger and Grottke, 2015; Wilkinson and Durden, 2015). Much of current research tends to operate within the parameters set by academic practice rather than questioning and challenging them. According to Hopwood (2009), this is the main reason for the apparent failure of academia to identify any of the recent financial and economic crises.

By focusing on the European Union (also "EU" hereafter), this paper shows that academia's understated performance to address issues relevant to European society has much to do with institutional incentives faced by academic scholars in their careers, including tenure, promotion and research grants based on journal ranking lists, which encourage academics to over-focus on "hits" in allegedly high-quality journals (Hopwood, 2007, 2008; Tourish and Willmott, 2015). Accounting journal ranking lists are dominated by United States ("US" hereafter) journals, whose research is very much focused on shareholders' wealth and stock market-based economies (Callen, 2015; Hopwood, 2009; MacKenzie, 2008; Sikka, 2015; Wilkinson and Durden, 2015). Accounting is largely viewed as a neutral, mechanical and objective technology whose function is just to reduce information asymmetry and to provide the transparency needed for capital markets to function efficiently. Accordingly, little scope is left for other issues such as the linkages between accounting and the macroeconomic and socio-political environment in which it operates. The result is the growing sense of superficiality and stagnation so long complained of by many accounting researchers (e.g. Arnold, 2009; Gendron, 2008; Hopwood, 2007; Khalifa and Quattrone, 2008; Pelger and Grottke, 2015; Wilkinson and Durden, 2015; Williams et al., 2006). Sadly, this problem is not specific to accounting research but a manifestation of a much broader problem confronting social sciences (Flyvbjerg, 2001).

The constraining power exerted by journal ranking lists on research is very real and potentially bears disruptive effects on society that have not been entirely understood or fully appreciated yet. Accounting is deeply implicated in the life of individuals, organizations and society, being at the same time cause and effect of complex social and economic processes (Arnold, 2009; Burchell et al., 1985; Craig and Amernic, 2006;

Palea, 2015; Sikka, 2009, 2015). It affects a great variety of contingents: not only firms, investors, bankers, auditors, but also ordinary citizens, employees and states, since financial information serves as a basis for determining a number of rights. It serves to set the limit for distributable profits, to elaborate public budget which social welfare is based on and to calculate taxes (Palea, 2015). Consistent with this view, Weber (1947) argued that accounting and society should be studied together. Knowledge would therefore be better served by research agendas taking into consideration differences in socio-economic models. It is especially at times of great uncertainty and changes, such as those we are living, that the advantages of variety in research can be appreciated.

This paper presents a view of accounting research that is strongly embedded in the European Union's constitutional setting, which is provided by the Lisbon Treaty (also "Treaty" hereafter). The Lisbon Treaty states that the European Union shall work for sustainable development based on a highly competitive social market economy aiming at full employment and social progress. Social market economy represents the economic and social model on which the European Union is expected to build and shape its future. Moving from this perspective, this paper makes some proposals for an accounting research agenda more focused on the core objectives of the European Union. It also considers some corrective actions that might bring academics on the track of more innovative and influential research able to cope with issues relevant to European society. The very hope is to answer Weber's (1947) call for a better understanding of the close relationship between accounting and society.

The structure of the paper is as follows. Sections 2 and 3 present an overview of structural changes that university systems in the European Union have gone through over the last decades, leading to a tendency for academia to conform to US-mainstream research. Section 4 delineates a new framework for accounting research that is strongly embedded in the EU's constitutional setting set out by the Lisbon Treaty. Section 5 presents a few examples of accounting issues that deserve deeper discussion and analysis with respect to their capability to match with the fundamental objectives of the EU. Finally, Section 6 and 7 discuss possibilities to bring European academics to deal with issues relevant for their society and make some proposal in this direction.

## **2. The wider context: structural changes in the European university environment**

According to Wilkinson and Durden (2015, p. 24), "the research stagnation problem can be summarized as an aggressive narrowing of what constitutes legitimate research". To discuss this statement with respect to the European Union, a holistic view of the structural changes that have affected the European university environment is key. Since

the late 20<sup>th</sup> century onwards, university systems in the European Union have experienced significant changes in their environments, structures and strategies, which have altered the policies regulating the ways of doing research. This trend was partly triggered by a standardization of higher education at a European level in the spirit of the Bologna Reform (1999),<sup>1</sup> which aimed at creating a European higher education environment able to ensure more comparable, compatible and coherent education systems in Europe. Increased compatibility between education systems was expected to make it easier for students and job seekers to move within Europe.

On the one hand, the Bologna Reform stressed the central role of universities in strengthening European cultural and social dimensions: “A Europe of Knowledge is now widely recognized as an irreplaceable factor for social and human growth and as an indispensable component to consolidate and enrich the European citizenship [...] together with an awareness of shared values and belonging to a common social and cultural space” (Bologna Declaration, 1999). On the other hand, internationalization was also an important objective, which could provide “a world-wide range degree of attraction to our [European] extraordinary cultural and scientific traditions” (Bologna Declaration, 1999). This objective, however, was to be attained “within the framework of our institutional competences and taking full respect of the diversity of cultures, languages and national education systems” (Bologna Declaration, 1999). Standardization, competition and internationalization became keywords affecting academic life in most parts of Europe and accordingly new public management techniques and rankings entered academia (Pelger and Grottke, 2015).

Changes in university management have been particularly dramatic in the Continental European Union, where education and research were strongly embedded in local context and traditions (Hopwood, 2008; Panozzo, 1997; Qu et al., 2009). While in the United Kingdom (UK) extensive use of performance targets and league tables had already been made, many countries in the Continental EU did not have well-established experience and tradition in this field. As a result, they considered adopting the “best practices” from the English-speaking world in terms of “how research should be conducted and what should count as good research” (Messner, 2015, p. 76). Moreover, the global financial crisis and the profound economic recession that followed resulted in diminished public funding for universities, which further pushed them to consider the English-speaking university system as an example for its ability to raise cash and attract private funds through business schools. As a result, university management has over

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<sup>1</sup> The Bologna Reform is based on a joint declaration of the European Ministers of Education, which was signed in Bologna in June 1999 (<http://www.bmbf.de/en/15553.php>).

time become increasingly structured and standardized in line with the Anglo-American system (Hopwood, 2008; Messner, 2015; Parker, 2011; Pelger and Grottke, 2015; Ter Bogt and Scapens, 2012). The need for governing European universities more “scientifically” have also required the development of comparable criteria and methodologies to assure academic “quality”, which has provided favorable conditions for a growing adoption of rankings in assessing both universities as a whole and individual researchers’ performance (Parker, 2011). Universities have therefore started making reference to “international” standards and rankings as indicators for good quality and visibility (Adler and Harzing, 2009; Messner, 2015; Ter Bogt and Scapens, 2012). If, on the one hand, adopting international standards has contributed to opening up the rather closed university system that existed especially in Continental European countries, on the other hand, an increasing “fetishism” of international rankings has entered the way of doing research in Europe (Wedlin, 2011; Wilmott, 2011). Rather than fostering real interculturality, internationalization has been developed in a number of European countries in conformity to the Anglo-American educational system (Kim, 2009).<sup>2</sup>

### **3. Journal rankings’ constraining power over European research**

The new institutional conditions and university management systems have borne relevant constraints on the way research is conducted in the European Union. The most important is connected to journal rankings, which entered European academia as a proxy measure of research quality (e.g. Hopwood, 2008; Parker, 2011; Pelger and Grottke, 2015). From a pragmatic angle, rankings constitute useful tools as they provide, in a snapshot, a reasonably “credible” judgement on the quality of academics (Gendron, 2015). Most professions and organizations use metrics and benchmarks to assess their progress, and researchers have become aware that rankings are likely to go on constituting an inescapable “rule of the game”. As noted by Annisette et al. (2015), we are living in a “contradictory world”, in which rankings both “seduce and constrain”. Gendron (2015) points out that rankings are essential tools for funding agencies, especially in interdisciplinary fields such as social sciences and humanities, where committees are often required to assess the record of research achievement of people from different fields, or where there is a huge amount of material to go through within a limited time frame. As a result, it is reasonable to maintain that in the broader field of

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<sup>2</sup> A thorough review of research quality assessment practices in the EU is provided by the European Commission’s paper (2010) “Assessing Europe’s University-Based Research” (2010), available at [https://ec.europa.eu/research/science-society/document\\_library/pdf\\_06/assessing-europe-university-based-research\\_en.pdf](https://ec.europa.eu/research/science-society/document_library/pdf_06/assessing-europe-university-based-research_en.pdf)

social science and humanities some sort of ranking will still be used as a proxy for one's productivity. The key issue is how rankings are built.

Journal ratings are grounded on the idea that good research is published in high quality journals, which in turn are supposed to be those with the highest citation rates (Libby, 2012). Several concerns can however be raised over the legitimacy and fairness of the most influential journal ranking lists, which are based on citations indexes derived from the ISI Web of Science or Scopus databases. In fact, such ranking lists are not produced by academics but by big corporations: Thomson Reuters in the case of ISI Web of Science and Reed Elsevier for Scopus. Thomson Reuters is a public company listed on the Toronto and New York stock exchange (NYSE), while Reed Elsevier is listed on the United Kingdom (UK), the Netherlands and the New York stock exchanges. By referring extensively to their citation indexes, European academia has in substance delegated its research quality assessment and career progression to private companies over which it does not have any kind of control.

Table 1 reports the list of top ranking accounting journals (i.e. included in the first quartile) according to both ISI Web of Science and Scopus along with the names of the editors-in-chief and the universities they come from. If an editor-in-chief cannot be clearly identified, all editors are reported in the table.

(PLEASE INSERT TABLE 1 ABOUT HERE)

As one can see, the lists provided by ISI Web of Science and Scopus are not the same and quite subjective. Evaluations on including journals in these lists are up to the Thomson Reuter and Elsevier's staff (see "The Thomson Reutisers Journal Selection Process") and journals' rankings are based on different citation metrics.<sup>3</sup> The inclusion decisions are made behind closed doors and the process by which new journal applications are considered and evaluated are totally obscure (Annisette et al., 2015). The list of journals ranked by Web of Science, for instance, is much shorter than that by Scopus and does not include some excellent, yet critical journals. *Critical Perspectives on Accounting* has been admitted to the list only in recent times, while other important journals, including *Accounting, Economics and Law: A Convivium*, are still missing, with potential competitive disadvantages for both the careers of authors and the journals' ability to attract high quality submissions.<sup>4</sup> Table 1 also shows that accounting journals

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<sup>3</sup> Also other journal ranking lists, such as those provided by the Australian Business Dean Council and by the Association of Business Schools, derive their citation data from ISI Web of Science and/or Scopus (ABDC Report 2013; ABS Guide, 2015).

<sup>4</sup> *Critical Perspectives on Accounting* has been admitted to the Social Science Citation Index on May 2015, 2 years after having sent an application to Thomson Reuters (Annisette et al., 2015).

included in the lists are all published in English and, for the most part, dominated by the US research community.

The pressures generated by journal ranking lists on European academia have been significant, especially for business schools and some university departments of business studies willing to achieve international recognition. Many institutions have started offering salary increments for publications in top journals, although these are American in origin and relate poorly to the previous way of doing research in the EU, which was characterized by a vaster array of topics and approaches (Baxter and Chua, 2003; Panozzo, 1997; Qu et al., 2009; Hopwood, 2008). Many studies have already pointed out that US elite dominance in journal ranking tends to reward conformity and discourage research diversity; compliance dominates, and academics and doctoral students are subjected to homogenizing forces (Adler and Harzing, 2009; Pelger and Grottke, 2015; Prasad, 2015; Raineri, 2015). Research topics are no longer chosen based on curiosity but on an examination of the issues that top journals deem to be worth pursuing. By means of journal lists, US elite editorial boards can spread their own perspective on what good research is within the international community (e.g. Bourdieu 1988; Foucault, 1977; Lee, 1995; Qu et al., 2009). They can effectively influence what is and what is not publishable, thus governing the knowledge process (Adler and Harzing, 2009; Hopwood, 2008; Humphrey and Gendron, 2015; Lee, 1995; Messner, 2015; Pelger and Grottke, 2015; Shao and Shen, 2012).

Research in US elite journals is very much capital market-oriented and thereby optimized for stock market-based capitalism (Callen, 2015; Hopwood, 2009; MacKenzie, 2008; Sikka, 2015; Wilkinson and Durden, 2015). Moreover, it is grounded on a positivistic approach to research, which is generally considered the way to do “good research”, while tending to ignore other approaches (Arnold, 2009). In US mainstream research, “qualitative ethnographies are rare, philosophical ruminations emerge infrequently, history is under-represented and values remain a private matter of personal choice” (Chua 1996, p. 132). Following the same trend, while previous European accounting research embraced a variety of research perspectives, differences have been narrowed into research standardization and “what was a polycentric research environment is seen as increasingly taking on the characteristics of a more monocentric one” (Hopwood, 2008, p. 87; Panozzo, 1997; Qu et al., 2009). European academics have increasingly began pursuing positivistic and stock market-oriented research, further reinforcing the mainstream approach in elite journals, while leaving little scope for accounting issues specific to the European economic and socio-political context and for a more critical approach, which should characterize academic inquiry (Ter Bogt and



Scapens, 2012). This is particularly true for doctoral students and young researchers, who tend to conform to mainstream research in order to advance their careers (Pelger and Grottko, 2015). Doctoral education as well has largely standardized in line with the US model, becoming more structured and methodologically oriented towards quantitative research published in highly ranked journals. Courses on accounting theory or conceptual accounting research, formerly the most prominent areas of study in Europe, and critical interpretative accounting have become largely absent (Fülbier and Gassen, 2011; Pelger and Grottko 2015).

Articles published in the *European Accounting Review*, the journal of the European Accounting Association, are anecdotal with respect to this trend. Despite the serious financial and social crisis in the EU, over the last five years no research has addressed social, distributional, and political effects of financial accounting. Along the same lines of elite journals, more than two-thirds of the articles are related to shareholders or their agents' interests, with a dramatic increase in 2015. Formulaic papers based on complicated regressions or analytical models also dominate. Along the same lines, *Journal of Accounting and Economics*, *The Accounting Review* and *Journal of Accounting Research* are the most cited journals (ISI Web of Science, 2015). US authorships have increased sharply, and US data are more and more used in research. While articles published in 2011 focus on an EU setting, more than one third now consider data outside the Europe context. Taken as a whole, Europe seems to be becoming just a sampling site from which to test the applicability of gap-spotting hypotheses by utilizing standard, quantitative research methods developed in top journals (Alvesson and Sandberg, 2013; Komori, 2015). Critical research as well as sociologically-based and qualitative research are almost missing.

It is clear that standardized approaches and monocentric frameworks restrict knowledge dissemination and prevent the addressing of issues that are specific to different socio-cultural contexts. Burawoy (2005) notes that journal rankings constitute an effective disciplinary technique that makes sure all researchers march in step. In the original conception of the European Union by policy makers, internationalization of research was expected to increase the exchange of ideas across national borders, however taking full respect of the diversity of cultures, languages, national education systems and of University autonomy (Bologna Declaration, 1999). The Bologna Reform sets interculturality as an ultimate goal of the European Union. Forces framing the contemporary situation have been giving a very different social shape and meaning to the pattern, which has advanced the creation of US-centric knowledge in accounting: this is what Komori (2015) refers to as "globalization paradox" in research.

#### **4. Making accounting research matter again: a new framework for European research**

Mainstream research tends to analyze the economic consequences of financial accounting by focusing foremost on the interests of shareholders or their agents, i.e. corporate management (Callen, 2015; Hopwood, 2009; MacKenzie, 2008; Sikka, 2015; Wilkinson and Durden, 2015). Research is mainly quantitative and based on theoretical elegance and methodological rigor (Alvesson and Sandberg, 2013). Moreover, it is presumed to be adopting a positivistic approach, which is dismissive of normative viewpoints. Positive research describes how people do behave, regardless of whether it is “right”; it explains why people behave in a certain manner, for example to achieve some objective such a maximizing share values or their personal wealth, regardless of whether it is “right”; or it predicts what people have done or will do, once again regardless of whether that is “right” or “best behavior” (Godfrey et al., 2010).

But can research really be neutral? Gramsci (1971) coined the term “organic intellectual” to highlight that knowledge is never neutral, as it is acquired in a particular social context, and it reflects the political-economic structure and social relations that generate and reproduce that context. Any research is normative in nature, as it contains the researcher’s value judgement about how society should be organized. Concerns for private investors, for capital market agents, or for corporate management are themselves normative in nature, although not explicitly exposed. An implicit value judgement is made in this kind of research, that is, the needs of investors and managers are of primary importance. Accounting, however, is not just a technique but a powerful calculative practice that is embedded in an institutional context and shapes social and economic processes (Palea, 2015; Sikka, 2009, 2015). As pointed out by Cooper and Sherer (1984), accounting is essentially political. Accounting rules derive from political struggle in society and operate for the benefit of some groups in society to the detriment of others. They are influenced by ruling elites and dominant ideologies, and in their turn legitimize relations of power and distributional transfers of wealth (Tinker et al., 1982).

Standardizing accounting research onto a single economic model, moreover one accommodated to the needs of liberal stock market economies, is not neutral and can harm alternative forms of capitalism. Stock market based-capitalism does not represent the only way of doing business. Furthermore, the worldwide recession caused by the financial market crisis and excessive credit expansion has shown its fragility as an economic and political process.

Contrary to the common knee-jerk reaction that more rigor in theorizing and in methodological procedure will fix the problem of a lack of interesting work (Donaldson

et al., 2012), this paper argues that perceived stagnation in European research has much to do with a shortage of accounting research in addressing the big questions at stake for European society. Rather than trying to conform to the US-mainstream, European academia should concentrate on those aspects that fit in with the understanding of the European Union's "uniqueness" and develop novel research specific to that context. Such an approach, also known as a political economy of accounting, recognizes the strong interdependence between research and society and attempts to explicate and interpret the role of financial accounting in the distribution of income, wealth, and power. It therefore provides a more holistic framework for analysing and understanding the value of financial reports within society and considers accounting policies, including that of the appropriate accounting measurement system, in terms of their contribution to the overall social welfare, which dominates in this perspective (Tinker, 1980). This paper strongly supports academic research in line with this perspective.

The European Union's competences are governed by the principle of subsidiarity. Financial reporting regulation is included in the single market policies that are set out by European institutions, which must legislate and adopt those binding acts necessary to pursue the EU's objectives in this field. The objectives of the European Union are set out by the Lisbon Treaty, which provides the constitutional framework of the EU, clearly stating its inspiring values and founding principles.<sup>5</sup> According to the Treaty (art. 3), the European Union must work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress. Furthermore, the European Union must combat social exclusion and discrimination, and promote social justice and protection. Social market economy represents the guiding idea of the European Union. This is therefore the framework within which European policies should be defined and their outcomes discussed.<sup>6</sup>

There is general agreement that, in establishing social market economy as a guiding principle for the European Union, the Lisbon Treaty looked to the Rhenish variety of

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<sup>5</sup> The Lisbon Treaty was signed by the European Union member states on 13 December 2007, and came into effect on 1 December 2009. It amends the two previous Treaties which constitute the basis of the European Union: the Maastricht Treaty, also known as the Treaty on the European Union, and the Rome Treaty establishing the European Community.

<sup>6</sup> Some may argue that so far European institutions have not done enough to reach these objectives and I do personally agree on this. However, this does not undermine the relevance of the European Union's ideals. As Noël et al. (2010) note in their article on Habermas' discourse of ethics applied to accounting policy, ideals give rise to action even if they are not or cannot be enforced, since they inspire us to improve our institutions and behaviour. Moreover, after the fiscal compact and years of austerity, there is some evidence of important changes on the part of European institutions, which have started to look into industrial policies based on public intervention in order to foster a smart, sustainable and inclusive growth (Rodrik, 2008; Owen, 2012; Pianta 2015; Mazzucato, 2013). The Juncker's Plan, for instance, goes exactly in this direction.

capitalism (Glossner, 2014; Palea, 2015; Velo, 2014).<sup>7</sup> The Rhenish model is typical of Germany and the Scandinavian countries, whose economies have been based on the consensual (for the most part) relationship between labour and capital, the supporting role of the state and the availability of patient capital provided by the banking system (Albert, 1993; Fiss and Zajac, 2004; Perry and Nölke, 2006). As highlighted by Hall and Soskice (2001), these characteristics have been crucial in developing long-term strategies, high-skilled labour and quality products based on incremental innovation, which have been at the basis of post-Second World War Germany's economic success.

In many EU countries shareholder wealth maximization has never been the only, or even the primary, goal of boards of directors. Workers play a prominent role and are regarded as important stakeholders in the firm. In Germany, for instance, firms are legally required to pursue the interests of parties beyond the shareholders through a system of co-determination in which employees and shareholders in large corporations sit together on the supervisory board of the company (Rieckers and Spindler, 2004; Schmidt, 2004). The inclusion of parties beyond shareholders is also a common concern in Austria, Denmark, Sweden, France and Luxembourg, all of which require some kind of co-determination system (Ginglinger et al., 2009; Wymeersch, 1998). For this reason, it is common to refer to the Rhenish variety of capitalism also as “stakeholder capitalism”.

According to social market economics, a free market and private property are the most efficient means of economic coordination. However, since a free market does not always work properly, it should be monitored by public authorities that should act and intervene whenever the market provides negative outcomes for society. Public authorities set out and enforce the rules for the sake of general interest (Gil-Robles, 2014). Consistent with this view, the Treaty contains a 'social clause' requiring the European Union, in conducting its policy, to observe the principle of equality of its citizens, who shall receive equal attention from its institutions, bodies, offices and agencies. Decisions should be taken as openly and closely as possible to citizens (art. 15 TFEU),<sup>8</sup> which should prevent European institutions from being influenced by special interest groups. Along the same lines, social dialogue is considered to be a valuable asset (art. 152 TFEU). It is no mere coincidence that the best performing member states in terms of economic growth and job creation, such as Germany and Sweden, enjoy strong and institutionalized social

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<sup>7</sup> The “Rhenish” model refers to coordinated market economics, while the “Anglo-Saxon” model refers to liberal market economics (e.g. Albert, 1993; Hall and Soskice, 2001). These two models have been developed on the basis of western Europe and the US. For other capitalist economies, further models are of course necessary (Nölke and Vliegthart, 2006).

<sup>8</sup> TFEU is the acronym for “Treaty on the Functioning of the European Union”.

dialogue between businesses and trade unions (Andor, 2011). In order to be relevant to European society, research should engage with this institutional context.

### **5. Developing research questions relevant to European society**

Discussing accounting issues in the broader framework of the Lisbon Treaty would probably yield more fruitful results for the advancement of European society. This section provides a few examples of accounting issues that top ranked journals have typically investigated in terms of their effects on investors or their agents, leaving little consideration for other contingents and, more generally, for social welfare, which is at the core of the Lisbon Treaty. The Lisbon Treaty and its fundamental objectives represent the framework within which such issues will be discussed and novel research questions developed, with the hope “to stimulate a revival of accounting scholarship aimed at understanding the relationship between accounting practice and the macro political and economic environment in which it operates” (Arnold 2009, p. 806). This new perspective requires accounting researchers to work closely with other social scientists, including sociologists, jurists, political experts and other economists. So far, contamination among different sciences has been discouraged by the very rigid journal ranking lists. It is now time for variety in research to be appreciated and encouraged.

One big issue that has almost been ignored so far relates to the consistency of Regulation 1606/2002 adopting International Financial Reporting Standards (IFRS) in the European Union with the Lisbon Treaty. Regulation 1606/2002 has mandated IFRS for consolidated financial statements of listed companies starting from 2005, with an option for member states to extend IFRS to other reporting entities. The purpose of mandating IFRS was to introduce a single set of high-quality global accounting standards that could, on the one hand, standardize accounting language at a European level and, on the other hand, be recognized in international financial markets. This should in turn contribute to an efficient and cost-effective functioning of the capital market. Regulation 1606/2002 is very much focused on capital markets, as is the IASB, the body that issues IFRS. IFRS consider investors to be those most in need of information from financial reports since they cannot usually request information directly from the firm. Moreover, as investors provide risk capital to firms, the financial statements that meet their needs are supposed by IFRS to meet most of the needs of other users, too (IASB, 2010 BC 1.16). Consistent with this view, mainstream research has largely investigated the effects of adopting IFRS in Europe in terms of their value-relevance to investors or their effects on firms' cost of capital (Palea, 2013 for a review).

This kind of research, however, is not exhaustive and comprehensive of all the relevant issues at stake with IFRS adoption in the EU. The current financial reporting

environment consists of various groups that are affected by accounting regulation. Regulation 1606/2002 states that IFRS can be adopted in the EU only if they are conducive to the “European public good”. Nevertheless, mainstream research has mainly neglected discussing such an important criterion for IFRS to be endorsed in the EU. In fact, at the time European Regulation 1606/2002 adopting IFRS came into force, the Lisbon Treaty had not been signed yet. A constitutional framework within which to analyze European Regulations was lacking. Nowadays, however, the Treaty is in force and provides us with a definition of what must be intended by “European public good”. It therefore represents a broader framework that goes beyond investor interests, within which financial reporting policies in the EU can thoroughly be discussed.<sup>9</sup>

### **5.1. Accounting and sustainable growth**

The Lisbon Treaty sets sustainable economic growth among its main objectives. In order to meet such a goal, European institutions have recently implemented a number of long-term policies, which are considered crucial “for putting the European economy on a path of smart, sustainable and inclusive growth [...] less prone to systemic risks and more resilient” (European Regulation 2015/760). In 2014, the European Commission launched a European Fund for Strategic Investment, also known as Juncker’s Plan, to support long-term strategic investments in the Union (European Regulation 2015/1017). By providing financing to long-term projects, the Juncker’s plan is explicitly recognized to contribute to the implementation of the EU’s objectives (European Regulation 2015/760). After years of laissez-fair approach, the Juncker’s Plan represents a backing of industrial policies and public actor in economy. The Green Paper on Capital Market Union also includes among its goals that of improving access to financing for long-term projects across Europe (European Commission, 2015). In fact, long-term growth requires an efficient and resilient financial system able to provide stable financing to real economy (European Commission, 2010). Short-termism seems to be banned from the EU conception of society.

Consistent with this view, an improved understanding of the role of financial accounting in supporting economic sustainable development in the EU is needed. This calls into question fair value accounting, which represents the main difference in measurement systems between IFRS and the previous national accounting standards used by listed companies in the EU. National standards, which still apply to firms not adopting IFRS, are based on the European directives and set historical cost accounting

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<sup>9</sup> The Lisbon Treaty has provided the basis for a new economic and social governance, which goes beyond the Maastricht architecture of a simple economic and monetary union. For instance, it enshrined a Charter of Fundamental Rights in the European Union’s consitutional order, thus establishing not only economic, but also political and social rights for citizens and residents of the European Union.

as basic measurement criterion, although fair value measurement is allowed for certain assets. Countries from the Continental European Union require full historical cost accounting, while the United Kingdom allows the use of fair value for some items.

From a Lisbon Treaty perspective, there are two main issues related to fair value accounting that deserve to be investigated in the broader context of social welfare. The first relates to the fair value definition provided by IFRS 13, Fair Value Measurement, and short-termism it may induce with potentially disruptive effects on long-term development. The second relates to the ability of fair value accounting to match with the objective of a financial system less prone to crisis and more resilient, which is at the basis of sustainable economic growth.

According to IFRS 13, fair value is an exit price, i.e. the amount that would be received when selling an asset in an orderly transaction between market participants at the measurement date. Fair value is therefore a spot market price. There is general agreement that fair value definition as an exit price institutionalizes the shareholder value paradigm in the form of accounting practices (Müller, 2014; Nölke and Perry, 2007; Zhang and Andrew, 2014; Widmer, 2011). It therefore leads managers and investors to consider the firm as a portfolio of assets that must constantly be reconfigured and rationalized in order to maximize shareholder value and, as a result, to demand that every corporate asset is put to its most profitable use as judged by market benchmarks (Boyer, 2007). Since capital markets tend to take a more short-term perspective on profit, several concerns can be raised on the consistency of this definition with long-term industrial strategies, which have been - and are expected to continue to be - key for developing and maintaining the competitive advantage in many EU countries (Nölke and Perry, 2007). Furthermore, a few studies have shown that the dominance of the shareholder value paradigm contributes to shift income away from wages to company profits and dividends (Ezzamel et al., 2007; Jürgens et al., 2000; Palea, 2015; Widmer, 2011). Sikka (2015) argues that such a shift is supported and legitimized by accounting calculations. Arnold (2009, p. 808) points out that empirical research should “explain how seemingly neutral accounting practices facilitated, and continue to facilitate, the massive wealth transfers that mark this extraordinary financial crisis”. There is also evidence of unequivocal impact of the shareholder value paradigm on industrial relations, which leads to a decline in working conditions and a rise in social inequality (Fligstein and Shin, 2004; Lazonick and O’Sullivan, 2000; Lin and Tomaskovic-Devey, 2013; Van der Zwan, 2014). This is of course quite a big issue in those countries where companies have developed on the basis of consensual corporate governance arrangements. As a result, several concerns can be raised regarding the long run effects

of adopting fair value accounting on the relationships between managers, investors and wage earners and, in the end, on the socio-economic environment typical of the Rhenish variety of capitalism.

As mentioned above, sustainable economic growth requires long-term investment strategies, which in turn need stable financing and thereby a resilient financial system. It is well known that fair value accounting has been alleged to be deeply implicated in the recent financial crisis. Specifically, fair value accounting has been considered to increase procyclicality and contagion effects in the banking system, with adverse effects on real economy. Studies on fair value involvement in the crisis, however, have not provided unequivocal evidence, and deeper analysis and discussion is still needed. Some research finds little evidence to blame fair value accounting (e.g. Laux and Leuz, 2009), whereas others come to opposite conclusions (e.g. Allen and Carletti, 2008; Bowen et al., 2010; Ronen, 2012). Central banks and some international institutions as well have questioned the role of fair value accounting in exacerbating financial crises (Banque de France, 2008; Financial Stability Board, 2011; International Monetary Fund, 2009). According to William Isaac (2010), former Chairman of the Federal Deposit Insurance Corporation, fair value accounting was the primary cause of the crisis.

Schwarz et al. (2015) argue that there cannot be clearer evidence of fair value accounting's involvement in the crisis than the decision taken by both IASB and FASB to allow banks to reclassify, from the third quarter of 2008, certain non-derivative financial assets, which were measured at fair value, to amortised costs under certain circumstances. Jarolim and Öppinger (2012) show that the reclassification option was used quite extensively by European banks and avoided recognition of losses of almost 900 million euros, on average, per bank. Many more banks could have run into substantial problems if accounting rules had not been amended at the peak of the crisis. De Jager (2014) points out that the existing debate has focused too much on the role of fair value during the crisis, while ignoring its role in masking balance sheet fragility in pre-crisis periods. In such times, fair value accounting leads banks to appear healthier than they are, facilitating further asset expansion financed by debt. During the crisis, however, banks' deleveraging leads to a downward spiral with forced sales of assets and shrinking balance sheets that significantly impair banks' capability to lend money. Since banks play a crucial role in the EU economy, effects of fair value accounting on the financial system are a key issue. During the recent crisis, financial distress in the banking system bore significant consequences on real economy and employment (Dell'Ariccia et al., 2008; Freixas and Tsomocos, 2004). Due to bank bailouts, public debt of many states soared and, in order to keep it under control, public spending and social welfare were



cut. As a result, a great variety of contingents have been affected by the banking system crisis: not only market actors, such as investors, bankers and auditors, but also simple citizens, employees, and States.

Furthermore, it should be considered that fair value accounting has been developed within the Anglo-Saxon variety of capitalism, which is characterized by the predominance of financial markets for capital provision, an active market for corporate control and an increased emphasis on short-term price movement in stock markets (Albert, 1993; Hall and Soskice, 2001). It is widely recognized that historical cost accounting, being more conservative and concerned with the protection of debt holders, has in contrast been crucial for highly bank-oriented financial systems such as that of the Continental European Union (Sally, 1995; Froud et al., 2000; Lazonick and O'Sullivan, 2000; Perry and Nölke, 2006). As mentioned above, the recent financial crisis has also raised several doubts about unregulated free stock market capitalism being necessarily the best way to run economy. By setting social market economy as its founding principle, the EU shows that there can be more than one variety of capitalism.

Taken as a whole, many doubts arise about the capability of fair value accounting to match with the EU's objectives of a social market economy. How, and to what extent, does fair value exacerbate short-termism and thereby threaten the Rhenish variety of capitalism? Is its adoption consistent with a social market economy or does it just suit stock market-oriented economies and, more generally, the Anglo-Saxon variety of capitalism? Shouldn't financial reporting regulation be large enough to accommodate different forms of capitalism and let them compete on a level playing field? Shouldn't the "optimal" design of financial reporting regulation depend on the institutional characteristics of the political and economic systems and on the objectives relevant to society? Still further, is fair value adoption consistent with the purpose to provide stable financing to long-term investors so as to make the European economy more resilient? Wouldn't historical cost better suit European economy based on long-term strategies? All these issues should be carefully addressed in order to assess whether the current financial reporting regulation is really conducive to European public good. Mandating fair value accounting, designed to accommodate the needs of liberal stock market economies, may not be neutral and can harm alternative forms of capitalism such as social market economy. A deeper discussion is therefore key to assessing the consistency of European Regulation 1606/2002 with the Lisbon Treaty.

## **5.2. Accounting and inclusive society**

Previous discussion highlights that accounting is not a mechanical and objective process simply measuring economic facts pertaining to a firm. It is rather a powerful

calculative practice that is embedded in an institutional context and shapes social and economic processes. Miller and O’Leary (1987) note that accounting normalizes and abstracts a "system of socio-political management". Power in the hands of accounting standards-setters is therefore huge (Palea, 2015). Nevertheless, mainstream research has given little consideration to this issue, which is core from a Lisbon Treaty perspective. The Treaty (art. 15 TFEU) requires that decisions should be taken by the EU as openly and closely as possible to citizens in order to prevent European institutions from being influenced by special interest groups. By adopting IFRS, the European Union has instead dismantled financial reporting regulation under the control of the European Parliament, delegating it to the IASB, which is a private, independent, British law organization controlled by the IFRS foundation. Many have already blamed the European Parliament for having adopted Regulation 1606/2002 with the support of a large number of votes in favor (e.g. Biondi and Suzuki, 2007). Several explanations could however be provided for this, one of them being that the Lisbon Treaty had not yet been signed at that time.

The IFRS foundation is a non-profit private-sector organization registered in the US state of Delaware, financed by large industrial and service companies, auditing firms, international and public organizations (IFRS, 2013). If one considers the IASB’s composition, this is largely limited to members from the financial and auditing industry (Chiapello and Medjad, 2009; Crawford et al., 2014; Noël et al., 2010; Palea, 2015). The IASB is strongly affected by the structural power of the private financial and auditing sectors, while other types of actors are not represented to any great extent. The same holds for EFRAG, which is a technical expert committee that provides advice to the European Union on whether a new standard meets the criteria for endorsement.

As mentioned above, the IASB is very much focused on investors and securities markets. Zhang and Andrew (2014) show that the current conceptual framework project jointly conducted by the IASB and the FASB forms an important part of the architecture of neoliberalism, providing coherence and legitimacy to its key ideas. As noted by Harvey (2006, p. 19), “neoliberalism meant, in short, the financialization of everything and the relocation of the power center of capital accumulation to owners and their financial institutions at the expense of other factions of capital”.<sup>10</sup> Notwithstanding, the European Union has no say in how things are done in the IASB and cannot decide whether and when a given accounting issue should be examined (Maystadt, 2013). This is a key issue as accounting serves not only to inform investors, but also to set the limit for distributable profits, to define public budgets and to calculate taxes.

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<sup>10</sup> According to Epstein (2005) definition, financialization is an increasingly prominent role of financial motives, financial markets, financial actors and financial institutions in the operation of economies.

As outlined by Cooper and Sherer (1984), accounting is essentially political in that it is derived from political struggle in society. The outcomes of accounting policy are also political in that they reflect different interests and operate for the benefit of some groups in society (Ezzamel et al. 2007; Suzuki, 2007). The IASB itself is a vehicle through which the financial and auditing industry can institutionalize its own perspective on what value is, and how to measure it, within international financial reporting standards. Several concerns can therefore be raised as to the consistency of the standards-setting and endorsement processes with the European Union's social clause of making decisions as openly and as closely as possible to citizens in order to prevent European institutions from being influenced by interest groups. The Lisbon Treaty highlights the importance of social dialogue, which is considered key for the European social model. Furthermore, it stresses inclusiveness as a fundamental pillar of society. An inclusive society is a society for all in which each category of stakeholders has an active role to play. Consistent with this view, research should bring more attention to the main features of a standards-setting process able to make it possible for all social constituencies to have their voices heard.<sup>11</sup> Not all the social groups affected, albeit indirectly, by the financial reporting regulation are now represented in the standards-setting process. So, what should the design be for a standards-setting process consistent with an inclusive society that meets the European Union's goals? Should the European Union bring the standard-setting process back to democratic rules that guarantee a strong role for the European Parliament? While, in recent years, increasing privatization was the general trend in international accounting standards setting, isn't it now time for this trend to be reversed with the backing of public actors? How could the European Union strengthen effectively its position in the international standards-setting arena? Maystadt's report (2013) has already tackled a few of these issues but much more public and well-rounded debate is needed.

Accounting issues discussed in this section are just a few examples of topics relevant to European society that have never been considered in terms of their consistency with the objectives set by the Lisbon Treaty. Many more cases, however, could be considered. One such issue relates, for instance, to environmental accounting, which affects firms' choices with important outcomes for the global environment. With respect to petroleum resources, prospecting and evaluation, some doubts have already been raised on the legitimacy and ethics of the IASB's work (e.g. Thistlethwaite, 2011). Accounting choices on environmental issues should also be analyzed in the constitutional framework of the

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<sup>11</sup> For a very interesting article on this issue, see Vinnari and Dillard (2016) forthcoming in *Critical Perspectives on Accounting*.

European Union, which is very progressive on this point, as it considers (art. 11 TFEU) environmental protection to be a fundamental objective of its economic and social model.

### **5. Any hope to make things change?**

According to this paper, the shortage in developing research questions relevant to European Union society is tightly related to the widespread practice of assessing university's research quality based on journal rankings, which tends to reward conformity to US-mainstream research. Most of the top ranked journals mainly consist of quantitative research focused on shareholders' interest, leaving little space for alternative approaches (Young, 2009). The question is now whether there is any hope to make things change. Is there any chance of bringing academia on the track of producing more innovative and useful research for the advancement of society?

Gendron (2015, p. 174) wonders what kind of attitude we should have toward the constraining power that journal rankings have in our field: "To what extent should we tolerate that journal rankings favor the establishment of oligopolistic power, characterized with the supremacy of a few "A" journals which are not keenly interested in favoring innovation – unless innovation clearly lies within the boundaries of the paradigms they privilege?". To limit the power of constraining academic research by journal ranking, he proposes to put rankings under the watch of a collective gaze, which establishes some community-wide "center of vigilance" in order to ensure that ranking disciplinary regime is kept under a collectively appropriate form of surveillance. Adler and Harzing (2009), instead, suggest a temporary moratorium on rankings until more valid and reliable ways to assess scholarly contributions are developed. They therefore invite scholars to innovate and to design more reliable ways to assess scholarly contributions that could truly promote the advancement of relevant knowledge. Hopwood (2008, p. 95) is more pessimistic and maintains that there are no significant counter-pressures that are readily available to possible opposition and coping strategies: "I also genuinely doubt if assessment regimes are going to be changed radically and the media interest in rankings is likely to grow rather than decline. The underlying forces that resulted in their emergence remain as active as ever. Indeed they have most likely increased in intensity in the intervening period". Wilkinson and Durden (2015) point out that US researchers remain blissfully unaware of the debate on research stagnation because such a debate occurs primarily outside the most prominent journals, the only ones they read. Callen (2015) also expresses some pessimism on the possibility that the status quo may change by showing how researchers are overly complacent with the positivistic approach, refusing to falsify its dubious proxy constructs and models. Along the same lines, Gendron and Smith-Lacroix (2015) note that ways of thinking and doing

within finance academia have not substantively changed despite the global financial crisis.

Indeed, looking to recent volumes of top ranked US-based accounting journals, one can realize how, despite the broadly shared sense of a troubling shortage in novel ideas and effective contributions, research appears to continue on the same trajectory. Wilkinson and Durden (2015) argue that one must conclude one or more of three things: accounting researchers really do not believe it is a problem; accounting researchers agree that it is a problem, but do not know how to fix it; or that those with sufficient power to change things are unwilling to do so. Probably, there exists a combination of all three scenarios. A key role, however, is played by some sort of “functional stupidity”, which implies the absence of reflexivity, a myopic way of using intellectual capacities and a marginalization of doubts that allows social life and organization to function smoothly (Alvesson and Sandberg, 2013). As pointed out by Humphrey and Gendron (2015), some sort of myopic attitude also exists in academia, which is quite discouraging, as academics should be at the civil, cultural and intellectual forefront of society. A part of academia has strived to enter the elite and now that it has become a part of it, it does not want things to change. So, is there any possibility for research variety in accounting?

#### **7. Policy recommendations and conclusions: revising institutional conditions**

According to Wilkinson and Durden (2015), mainstream research is not going to change by itself. Thus, accounting researchers should shift their attention away from concerns about stagnation of accounting research towards “applying pressure to policy-makers to take action”. As those who do acknowledge the social responsibility of their profession, it is now incumbent on academic scholars to seek to influence policy-makers with the power to deliver an external shock (Wilkinson and Durden, 2015). Consistent with this view, the purpose of this section is to recognize the conditions and possibilities for an emancipation and change of the scholarly debate towards more creative, eclectic and relevant research for the EU society. Consistent with the political economy of accounting, the starting point for this discussion is the recognition of the state and government as repository of social welfare and thereby as actively involved in managing the economy (Cooper and Sherer, 1984). This approach is consistent with social market economics, according to which institutions must intervene whenever the market does not work properly. Accordingly, European institutions, to which financial accounting regulation is delegated, are called forth into the discussion.

To be critical, research needs to be free as much as possible from any constraint. Being free means the possibility of embracing a multitude of research paradigms, thereby

creating a pluralistic discursive space that allows heterogeneity and includes a wide range of academic inquiries of accounting in its social, organizational and historical contexts (Baxter and Chua, 2003; Lukka and Mouritsen, 2002). To be free, research must be get rid of the censorship of the editorial boards of a few elite journals as much as possible.

The European Union has long been financing academic research. The current research programme Horizon 2020 pursues the same objectives of the Lisbon Treaty, as it supports and fosters research on smart, sustainable and inclusive growth in the EU.<sup>12</sup> Its final goal is to help drive long-term economic growth and to face societal challenges (European Commission, 2014). Such a programme has the political backing of the European Commission and Parliament. So, why does the European Commission not also consider setting up an open access web portal, maybe organized along the same lines of Horizon's research calls, where all scholars, even those not participating in the programme, could make their contributions on the great issues at stake for European society? Would not many of those research questions developed in the previous sections already have been addressed, if something similar had existed? This initiative could contribute to supporting a new scholarly research mode by promoting and disseminating fruitful research for the European Union. It would also represent an effective democratization of research, allowing for researchers who are willing to take part in the debate on EU challenges to have their voice heard. In fact, due to budget constraints, not all the proposals submitted to Horizon 2020 are financed. Moreover, many scholars cannot compete due to a lack of necessary administrative and technical support from their universities, badly hit by the economic crisis.

The initiative of this web portal should be taken on by the EU's institutions but could also be carried out by a network of European universities or departments sharing the same view of this paper and willing to make research the environment change. In fact, the Juncker's Plan includes investment in education and research in the list of eligible projects funded by the EU. It also states that investment in those fields "should adopt a holistic approach that displays appropriate respect for the intrinsic value of education and culture" (European Regulation 2015/1017). It could therefore represent an important source for providing long-lasting financing to this open access web portal. This initiative would probably contribute to stimulating more innovative and influential research and also to creating a European research identity able to challenge the US elite in economics research with a variety of research programs. It would be in line with the very spirit of the Bologna Reform of "consolidate[ing] and enrich[ing] the European

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<sup>12</sup> Horizon 2020's estimated budget is 80 billion Euros ([ec.europa.eu/programmes/horizon2020/](http://ec.europa.eu/programmes/horizon2020/)).

citizenship [...] together with an awareness of shared values and belonging to a common social and cultural space”. It would recognize pluralism and diversity, which are necessary to the advancement of society. Research could be more qualitative and critical in character, allowing for different modes of expressing the relationship between accounting and economics. The economics concerned would not necessarily be neoclassical and could emphasize an institutional vein where the links with wide socio-economic contexts are of primary relevance (Zambon, 1996). This initiative would represent a shift towards a new “reflexive and path – (up) setting scholar” (Alvesson and Sandberg, 2013).

There could be space for research of any length, room for more in-depth analysis and for any research methodology different from statistics and mathematical modelling. Rankings provided by ISI Web of Science or Scopus, for instance, tend to ignore books and book chapters, thus discouraging scholars from a more in-depth analysis of topics. Some of the most important contributions to the literature have been advanced through non-journal outlets (Griffith et al., 2008). The recent influential books by Piketty (2014) and Mazzucato (2014) are paramount in this respect. Piketty offers a very in-depth analysis of inequality in society, while Mazzucato analyses State intervention in economy. Both these topics, which are key to the debate on the future of European society, could never have been squeezed into a limited-length article. There would also be space for languages other than English, thus challenging the idea that “if it is not English, it does not really exist” (Adler and Harzing, 2009). Overall, research would likely be more interdisciplinary and could use a broader set of theories and vocabularies, with more emphasis on critical interpretations and freedom in counteracting consensus.

The EU’s institutions should be made aware of the certain benefits of this initiative, and this paper has also this among its objectives. Accordingly, they should encourage national governments to include this open access database in national research quality assessment as a reference for effective contribution of research to society. Such changes would, in their turn, affect what is done within universities and schools, including hiring, tenure and career promotions. Rigor in terms of logical consistency and thoroughness of the paper is of course key, but its assessment would be left to the scholars reading the paper rather than to a close set of editors. As a consequence, more frame-breaking research could be done, and more normative papers could be written without the fear of being rejected. Even if, consistent with Gendron (2015), one makes the realistic assumption that rankings will go on constituting an inescapable “rule of the game” for a “public display” of researchers’ productivity, considering citation counts from this database as a measure of research performance and innovativeness would contribute to

taking power away from ranking lists produced by private corporations, bringing it back to academics. This would facilitate the creation of a new scholar identity that is less cautious, instrumental and disciplined, yet more critical, independent and imaginative. This dynamic process among individuals with different backgrounds would probably encourage a variety of scientific research, overcoming the stagnation of research so long complained about by academicians. In this way, researchers would be challenged to produce better and more accountable research for society.

I am of course aware that this proposal will raise some concerns and provoke some critics, and open discussion is welcome to improve or even to discard it on the basis of sound counter-arguments. However, it will have already reached one important goal if it is able to stimulate further debate on corrective and practical actions able to bring academia back on the track of producing more innovative and influential research for the EU society.