

ESTUDOS II



FACULDADE de ECONOMIA da UNIVERSIDADE do ALGARVE

ESTUDOS II

Cidadania, Instituições e Património

Economia e Desenvolvimento Regional

Finanças e Contabilidade

Gestão e Apoio à Decisão

Modelos Aplicados à Economia e à Gestão



Faculdade de Economia da Universidade do Algarve

2005

COMISSÃO EDITORIAL

António Covas
Carlos Cândido
Duarte Trigueiros
Efigénio da Luz Rebelo
João Albino da Silva
João Guerreiro
Paulo M.M. Rodrigues
Rui Nunes

FICHA TÉCNICA

Faculdade de Economia da Universidade do Algarve

Campus de Gambelas, 8005-139 Faro
Tel. 289817571 Fax. 289815937
E-mail: ccfeua@ualg.pt
Website: www.ualg.pt/feua

Título

Estudos II - Faculdade de Economia da Universidade do Algarve

Autor

Vários

Editor

Faculdade de Economia da Universidade do Algarve
Morada: Campus de Gambelas
Localidade: FARO
Código Postal: 8005-139

Capa e Design Gráfico

Susy A. Rodrigues

Compilação, Revisão de Formatação e Paginação

Lídia Rodrigues

Fotolitos e Impressão

Grafica Comercial – Loulé

ISBN

972-99397-1-3 Data: 26-08-2005

Depósito Legal

218279/04

Tiragem

250 exemplares

Data

Novembro 2005

RESERVADOS TODOS OS DIREITOS

REPRODUÇÃO PROIBIDA

Philosophy of research in accounting and finance – A critical reflexion ¹

Rúben M. T. Peixinho

Faculdade de Economia, Universidade do Algarve

Luís M. S. Coelho

Faculdade de Economia, Universidade do Algarve

Abstract

Existent taxonomies in accounting and finance are based on different ontological and epistemological positions. We state that, despite the inexistence of a right perspective as well as a proper research method within these domains, a reflection about such issues is crucial for the development of high-quality research. Several reasons justify this reflection. On the one hand, it is well-established that the research process is dependent on researcher's assumption about the nature of reality. On the other hand, the clear definition of researchers' philosophical perspective facilitates the understanding of their work by the remaining academic community. This paper aims at clarifying some of these issues in the accounting and finance domains. The paper also presents a two-dimension map describing the main characteristics regarding two extreme philosophical perspectives that constitute the basis of several taxonomies in accounting and finance research.

Keywords: Ontology, Epistemology, Methodology, Research, Accounting and Finance

Resumo

Diferentes posições ontológicas e epistemológicas justificam o surgimento de diversas taxionomias em contabilidade e finanças. Este artigo argumenta que, apesar da inexistência de uma perspectiva correcta e de um método de investigação apropriado neste domínio, a reflexão acerca destas questões é crucial ao desenvolvimento de investigação de elevada qualidade. Diversas razões justificam tal reflexão. Por um lado, é comumente aceite que o processo de investigação depende do entendimento do investigador acerca da natureza da realidade. Por outro lado, a clarificação da perspectiva filosófica do investigador potencia um melhor entendimento do seu trabalho por parte da comunidade académica. O presente artigo clarifica algumas destas questões no domínio

¹ The financial support provided by the Fundação para a Ciência e a Tecnologia is deeply acknowledged by the authors.

da contabilidade e finanças. Adicionalmente, é apresentado um mapa bidimensional, o qual descreve as principais características de duas posições filosóficas extremas. Estas perspectivas constituem a base de diversas taxonomias de investigação no domínio da contabilidade e finanças.

Palavras-Chave: Ontologia, Epistemologia, Metodologia, Investigação, Contabilidade e Finanças

1. Introduction

Research undertaken in the management domain has some particular aspects that make it unique (Ryan et al., 2002). Perhaps, the most relevant one is that researchers working in this field may adopt different perspectives about the nature of reality. In many other scientific areas, like physics or medicine, there is a universal understanding on this question, allowing researchers to follow a pre-determined research methodology to undertake their studies. Such homogeneity facilitates the existence of a common language, with which researchers may commonly discuss their ideas and research results. This is not possible within the management research field. In this case, researchers tend to enclose themselves in pre-determined groups, according to their own ontological perspective. Each group develops a particular research language, making it unfeasible for researchers arising from alternative research families to understand their ideas and research outcomes. As a result, within management research, there is no right or wrong approach to the research process.

Understanding this issue is of critical importance for those willing to make a contribution to management literature. In fact, research designs have to be conditioned by the researcher's philosophical perspective, something that can only be achieved if he or she has a clear understanding about his or her ontological and epistemological position. Such clarity ensures that both the aim and the design of the research project are aligned, which in turn optimizes the setting for developing high quality management research (Easterby-Smith et al., 2002).

This paper presents the authors' reflection on the different perspectives available to conduct research in the management domain, particularly within the accounting and finance areas. Our objective is to provide some basic guidance on this issue for those now entering these areas of research.

The paper proceeds as follows. Section two briefly describes the ontological and epistemological debate that exists in academic research. Section three presents the taxonomy of organizational research as well as its philosophical paradigms. Section four characterises the contributions of two authors for the understanding of the taxonomies in financial research. Section five presents a map that captures our understanding of the various theoretical and philosophical approaches available for those undertaking research in financial domain. Section six concludes.

2. Ontology and Epistemology

Blaikie (1993) defines ontology as “*the claims or assumptions that a particular approach to social enquiry makes about the nature of social reality*”. In simple words, ontology refers to the way researchers understand the world, especially the manner in which they perceive reality. Interestingly, there is still an ongoing debate among philosophers of knowledge about the implications of different ontological positions. This debate is built around the opposite dimensions of realism and relativism and, in its initial stage, three main ontological positions were presented: *representationalism*, *relativism* and *nominalism* (Easterby-Smith et al., 2002). Nowadays, these three traditional positions evolved into several ontological assumptions, representing the contrast between realism/relativism or objectivity/subjectivity.

Several attempts have been made to create an ontological taxonomy. One of the most popular ones is that of Morgan and Smircich (1980). Their model is based on six different ontological assumptions that, according to Ryan et al. (2002), represent “*a continuum of alternative ways of viewing the world*”. Table 1 summarizes these six assumptions.

Table 1. - Morgan and Smircich (1980) six ontological assumptions

1	Reality as a concrete structure (naïve realism)
2	Reality as a concrete process (transcendental realism)
3	Reality as a contextual field of information (conceptual relativism)
4	Reality as a symbolic discourse (transcendental idealism)
5	Reality as a construction (social constructionism)
6	Reality as a projection of human imagination (idealism)

Source: Morgan and Smircich (1980)

Within the Morgan and Smircich’s (1980) framework, researchers’ perception of reality changes as we move from naive realism to idealism. Particularly, those researchers that position themselves as naïve realists believe that reality is objective and that social phenomena are embedded in a concrete social structure that is independent of human perception. Conversely, researchers that position themselves in the other extreme of the continuum believe that reality is a construction of the human mind.

The ontological position of the researcher must have a direct impact on the methodologies employed to conduct research. Researchers that regard reality as objective will tend to use methodologies strongly related with the scientific method of research. In the particular case of accounting and finance research, this position is closely related with the mainstream financial research. Conversely, in the more subjective side of the Morgan and Smircich’s (1980) ontological continuum, the naturalistic methods of research are the most appropriated ones (Tomkins and Groves, 1983). Interpretative financial research accounts for this type of positioning within the particular areas of accounting and finance.

Epistemology is another philosophical concept of fundamental importance in the domain of management research. According to Blaikie (1993), epistemology “refers to the claims or assumptions made about the ways in which it is possible to gain knowledge of this reality”. Put simply, epistemology explores the ways researchers may follow in order to find what Plato and others defined as “justified true believe” (Ryan et al., 2002). The ontological position of the researcher influences his or her epistemological perspective. Researchers that believe in an objective reality, find themselves more comfortable with research designs that somehow measure reality. Two key assumptions underlie this approach. The first is that reality can be reduced into its components. The second is that the causal mechanisms that relate such parts can be precisely determined and specified. In sharp contrast, researchers that perceive reality as being subjective tend to use research designs that attempt to describe the social phenomena. No emphasis is given to the exercise of its measuring or uncovering any type of universal law. In fact, these exercises are not reconcilable with the notion that there is no real truth or objective reality. Under this alternative perspective, facts are only a creation of the human mind and the researcher can only expect to comprehend the richness of the understanding.

The discussion of ontology and epistemology issues fuelled the emergence of a set of different classifications for management research. One of the most interesting contributions in this area is the one by Burrell and Morgan (1979). These authors’ framework and its implications are presented in the next subsection.

3. Classification of organizational research

This section is divided in two parts. The first introduces the work of Burrell and Morgan (1979), providing some detail on their subjective-objective framework. Based on this seminal contribution, part two discusses the four key paradigms in research: functionalist, interpretative, radical humanist and radical change.

3.1 Burrell and Morgan (1979) taxonomy

In 1979, Burrell and Morgan published a seminal work related to the categorization of organizational research. Their framework is based on the existence of two independent dimensions: *the nature of social sciences* and *the nature of society*. The first dimension consists of four distinct but related elements: assumptions about ontology, epistemology, human nature and methodology. As illustrated in table 2, each of these elements is itself a continuum. However, Burrell and Morgan (1979) collapsed them into the single subjective-objective continuum.

Table 2: Burrell and Morgan's (1979) social science dimension

Ontology:	Individual consciousness	.....	Concrete construction
Epistemology:	Interpretation	.....	Observation
Human Nature:	Free will	.....	Determinism
Methodology:	Hermeneutics	.....	Scientific Method
Collapsed to:	Subjective	.....	Objective

Source: adapted from Hopper and Powel (1995)

As shown by table 2, both ontology and epistemology are core concept in Burrell and Morgan's (1979) classification of organizational research. In such taxonomy, different ontological assumptions are accounted for, ranging from individual consciousness, where reality exists in the mind of the individual, to concrete construction, where there is an external reality which is independent of the observer. Moreover, the approach also incorporates an epistemological dimension, which ranges from interpretation, where knowledge of the world is essentially of a personal nature, to observation, when there is a concrete external world. Table 2 also shows that Burrell and Morgan (1979) added assumptions about the human nature to ontology and epistemology. At one extreme, individuals are regarded as possessing free will and autonomy of action. At the other, their actions and their behaviour are completely determined by the environment.

These three sets of assumptions have direct methodological implications. When reality is concrete and objective and human behaviour is deterministic, knowledge is gained through observation. In this case, the scientific method of research will be the most appropriate one. However, when reality is grounded in subjective experiences and individuals possess free will, knowledge is gained through interpretation and hermeneutical methods are needed.⁵⁵

Burrell and Morgan's (1979) taxonomy has a second dimension, representing the range of approaches that researchers may adopt towards society. At one extreme, researchers may be concerned with regulation and the creation of order in the society. In this context, the objective of research is to explain how society is held together. According to Burrell and Morgan (1979), at the other extreme researchers are interested in conflicts and inequalities in society, and are concerned with the potential of radical change. It is worth noticing that despite being represented by two extremes, this second dimension is again a continuum, not a dichotomy. In fact, in their original work, Burrell and Morgan (1979) recognize that researchers may assume an intermediate position between the two extremes now presented.

The Burrell and Morgan's (1979) taxonomy facilitated the identification of four key paradigms within which all of the different academic domains can be conceived. Their main implications are discussed in the next sub-section.

⁵⁵ The term "hermeneutics" has its origins in the interpretation of biblical texts. However, it can be applied to social sciences research methods which seek to interpret the subjective experiences of individual social actors (Ryan et al, 2002).

3.2 Philosophical paradigms and management research

As mentioned in the previous paragraph, academic fields can be envisaged in terms of four main paradigms: functionalist, interpretive, radical humanist and radical structuralist. These four paradigms are based on different assumptions about the nature of social science (i.e., the subjective-objective dimension discussed above) and the nature of society (i.e., the regulation-radical change dimension presented in the previous sub-section). The next paragraphs provide some insight on the main characteristics of each of these paradigms.

3.2.1. The functionalist paradigm

The functionalist paradigm assumes that society has a concrete existence and follows a certain order. These assumptions lead to the existence of an objective and value-free social science that can produce true explanatory and predictive knowledge of reality. This paradigm assumes that scientific theories can be assessed objectively by reference to empirical evidence. Scientists do not see any role for themselves within the phenomenon that they analyze through the rigor and technique of the scientific method. Moreover, the functionalist paradigm attributes independence to the observer from the observed (that is, an ability to observe what is without affecting it). It also assumes universal standards of science determine what constitutes an adequate explanation of what is observed and that external rules and regulations govern the external world. In this context, the goal of scientists is to find the orders that prevail within that phenomenon.

In short, the paradigm under analysis seeks to provide rational explanations of social affairs and generate regulative sociology. It emphasizes the importance of understanding order, equilibrium, and stability in society and the way in which these can be maintained. Science provides the basis for structuring and ordering the social world, similar to the structure and order in the natural world.

3.2.2. The interpretive paradigm

The interpretive paradigm sees the social world as a process created by individuals. Social reality, insofar as it exists outside the consciousness of any individual, is regarded as being a network of assumptions and intersubjectively shared meanings. This assumption leads to the belief that shared multiple realities that are sustained and changed exist. Under this approach, researchers recognize their role within the phenomenon under investigation. The goal of interpretive researchers is to find the orders that prevail within the phenomenon under consideration. However, within the interpretative paradigm, it is posited that the researchers cannot be entirely objective.

The interpretive paradigm believes that, in cultural sciences, the subject matter is spiritual in nature. In the cultural sphere, human beings are perceived as free. An understanding of their lives and actions can be obtained by the intuition of the total wholes. Cultural phenomena are seen as the external manifestations

of inner experience. The cultural sciences, therefore, need to apply analytical methods based on "*understanding*" through which the scientist can seek to understand human beings, their minds and their feelings, and the way these are expressed in their outward actions.

In summary, this paradigm sustains that scientific knowledge is socially constructed and socially sustained. Accordingly, the significance and meaning of knowledge can only be understood within its immediate social context. Interpretive finance research enables scientists to examine aggregate market behavior together with ethical, cultural, political, and social issues. The interpretive paradigm believes that no universally valid rules exist.

3.2.3. The radical human paradigm

The radical humanist paradigm posits that reality is socially created and sustained. It provides critiques of the *status quo*, tending to portrait society as *anti-human*. This paradigm views the process of reality creation as feeding back on itself in such a way that individuals and society are prevented from reaching their highest possible potential. In other words, supporters of this vision suggest that the consciousness of human beings is dominated by the ideological superstructures of the social system, which results in their alienation or false consciousness. This alienation, in turn, prevents true human fulfillment. The social theorist regards the orders that prevail in the society as instruments of ideological domination. The major concern for theorists is with the way such ideological domination occurs and finding ways in which human beings can release themselves. The researchers seek to change the social world through a change in consciousness. Moreover, radical humanists believe that everything must be grasped as a whole because the whole dominates the parts in an all embracing sense. Moreover, truth is historically specific, relative to a given set of circumstances, so that one should not search for generalizations for the laws of motion of societies.

In short, the focus of the radical humanists upon the "*super-structural*" aspects of society reflects their attempt to emphasize the Hegelian dialectics. It is through the dialectic that the objective and subjective aspects of social life interact. The super-structure of society is believed to be the medium through which the consciousness of human beings is controlled and molded to fit the requirements of the social formation as a whole.

3.2.4. The radical structuralist paradigm

The radical structuralist paradigm assumes that reality is objective and concrete. It uses scientific methods to find the order that prevails in the phenomenon. This paradigm is based on four central notions. First is the notion of totality, which emphasizes the dialectical relationship between the totality and its constituent parts. Second, is the notion of structure. The focus is upon the configurations of social relationships called structures. The third notion is that of contradiction. Structures, or social formations, contain contradictory and antagonistic relationships within them that act as seeds of their own decay. The

fourth notion is that of crisis. Contradictions within a given totality reach a point at which they can no longer be contained. The resulting political and economic crises indicate the point of transformation from one totality to another in which one set of structures is replaced by another of a fundamentally different nature.

To survive and reproduce, human beings transform reality, making material reality the most important. This transformation takes place through the social division of labour. This division implies that social groups enter into relations with each other to produce while they use a means of production. These groups, formed in terms of production relations, are called social classes. A complete definition of a social class encompasses economic, political, and ideological elements with dialectical relationships. Production relations, under capitalism, are antagonistic since they unite two antagonistic poles, defined as owner and non-owner; therefore, social classes, which are the carriers of contradictory aspects of social relations, are antagonistic, too.

Transforming material requires knowledge of doing it. Gaining knowledge of doing it requires dealing with it. This is the materialist basis of epistemology, i.e., science has a materialist nature. Therefore, only classes, identifiable in terms of production relations, have the objective possibility of an independent knowledge of reality. Furthermore, the class that deals with a larger portion of reality has the greater objective possibility of gaining a correct knowledge of it. Under capitalism, the proletariat, which deals with an increasing portion of social reality, has the objective possibility of knowing it correctly. In the context of the constant attempt that classes make to dominate one another, it can only realize itself through ideological class struggle. Knowledge is, thus, in the most fundamental sense, ideological since it formulates views of reality and solves problems from a class point of view.

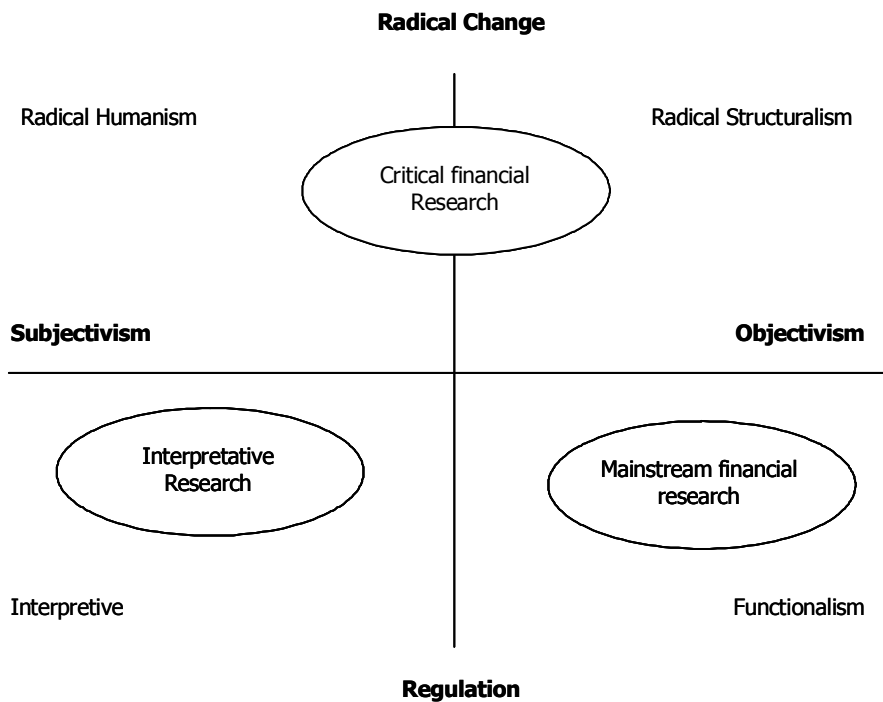
4. Taxonomies of Financial Research

The previous paragraphs summarize how the Burrell and Morgan (1979) taxonomy can be used to define four main paradigms that are embedded within scientific research, also providing an overview of their implications. The current section draws on the previous one, focusing its attention on the fields of accounting and finance.

4.1 Hopper and Powell's (1995) Taxonomy

Several taxonomies of financial research are nowadays available (Ryan et al., 2002). Hopper and Powell (1995) is one of the most widely used by financial researchers (Ryan et al., 2002). This nomenclature is based on the early work of Burrell and Morgan (1979). In fact, Hopper and Powell (1995) also use the subjective-objective and the nature of science dimensions to devise their taxonomy of financial research.

Figure 1. - Hopper and Powell's (1995) categories of financial research



Source: adapted from Hopper and Powell (1995)

The four sections of figure 1 are labelled according to the original work of Burrell and Morgan (1979). The most important contribution of Hopper and Powell (1995) is that the authors rearranged these original categories in an innovative way in order to create a classification of financial research that is nowadays widely accepted.

Their model includes three different categories: *mainstream financial research*, *interpretative research* and *critical financial research*. Chua (1986) summarizes their main characteristics:

Table 3. - Comparison between mainstream financial research, interpretative research and critical financial research.

	Mainstream Financial Research	Critical Financial Research	Interpretative Financial Research
Beliefs about knowledge	Theory and observation are independent of each other, and quantitative methods of data collection are favoured to provide a basis for generalization.	Criteria for judging theories are always temporal and context bound. Social objects can only be understood through a study of their historical development and change within the totality of relations.	Theory is used to provide explanations of human intentions. Its adequacy is assessed via logical consistency, subjective interpretation, and agreement with the author's common-sense interpretations.
Beliefs about physical and social reality	Empirical reality is objective and external to the subject (and the researcher). Human actors are essentially passive objects, who rationally pursue their assumed goals. Society and organizations are stable, and dysfunctional behaviour can be managed through the decision of control systems.	Empirical reality is characterized by objectivity, real relations, but is transformed and reproduced through subjective interpretation. Human intention and rationality are accepted, but have to be critically analysed because human potential is alienated through false consciousness and ideology. Fundamental conflict is endemic in society because of social injustice.	Reality is socially created and objectified through human interactions. Human action is intentional and has meaning grounded in the social and historical context. Social order is assumed and conflict mediated through shared meanings.
Relationship between theory and practice	Theory is concerned with means, not ends. It is value neutral, and existing institutional structures are taken for granted.	Theory has a critical imperative, in particular the identification and removal of domination and ideological practices.	Theory seeks to explain action and to understand how social order is produced and reproduced.

Source: adapted from Chua (1986)

It is clear from table 3 that the different categories of the Hopper and Powell's (1995) classification of financial research are highly divergent in terms of their ontological, epistemological and political underlying assumptions. The most important consequence of this conclusion is that an academic debate about accounting and finance cannot be established between all the scholars working in these fields of knowledge. In other words, the methodological gap that exists between different classifications of financial research is so acute that research produced according to any specific research category will not be understood by researchers that position themselves according to different research standards.

4.2. Laughlin's (1995) Taxonomy

In the last sub-section, we summarize Chua's (1986) revision of the characteristics of the different categories of financial research proposed by Hopper and Powel (1985). However, some authors argue that such taxonomy does not identify a range of other important dimensions that have to be considered when discussing methodologies of financial research (Ryan et al., 2002). Drawing on Burrell Morgan's (1979) early work, Laughlin (1995) presents an alternative taxonomy of financial research. In sharp contrast with Hopper and Powell (1995), this author avoids the subjective-objective approach. Instead, Laughlin (1995) uses theory, methodology and change to create a three-dimensional taxonomy of financial research. In this alternative framework, the change dimension is similar to the Burrell and Morgan's (1979) approach to society. The theory dimension refers to the level of theorization prior to the research. The methodological dimension is concerned with the level of theorization in the research process itself and relates to the theoretical definition of how the researcher should see the subject of the research.⁵⁶ Combining these three dimensions, Laughlin (1995) classifies the various social theories that inform financial research. Table 4 resumes the characteristics of the dominant schools of thought in the financial domain within this new framework.

Table 4. – Laughlin's (1995) key characteristics of dominant schools of thought

	Mainstream financial research	Critical Research	Interpretative approach
<i>Theory characteristics</i>			
Ontological belief	Generalizable world waiting to be discovered	Generalizations possible	Generalizations may not be there to be discovered
Role of theory	Definable theory with hypotheses to test	Marginal, with some broad understanding of relationships	Absence of defined theory, no prior hypothesis
<i>Methodology characteristics</i>			
Role of observer and human nature belief	Observer independent and irrelevant	Observer important and always part of the process of discovery	Observer important and always part of the process of discovery
Nature of method	Structured, quantitative method	Definable approach but subject to refinement in actual situations, invariably qualitative	Unstructured, poorly defined, qualitative approach
Data sought	Cross-sectional data selectively gathered, tied to hypotheses	Longitudinal, case study based. Heavily descriptive but also analytical	Longitudinal, case study based. Heavily descriptive
Conclusions derived	Thigh conclusions about findings	Reasonably conclusive tied to "skeletal" theory and empirical richness	Poorly defined and inconclusive conclusions, but empirically rich in detail
Validity criteria	Statistical inference	Meanings: researchers + researched	Meanings: researched
<i>Change characteristics</i>			
	Low emphasis on changing <i>status quo</i>	Medium emphasis, open to radical change and maintenance of <i>status quo</i>	Low emphasis on changing the <i>status quo</i>

Source: adapted from Laughlin (1995)

⁵⁶ For details, see Ryan et al (2002).

The analysis of table 4 suggests that mainstream financial research is primarily concerned with the functioning of accounting and finance. Researchers within this approach have an objective view of society, consider individual behaviour as deterministic, rely on empirical observation, and traditionally adopt a positivistic research methodology. Moreover, the classical mainstream financial researcher is not motivated by a desire to change the world: theory building is regarded as being neutral and focused on uncovering general laws that command social life.

Ryan et al. (2002) also reflect upon the idea of a dominant research methodology within the financial area. These authors suggest that finance literature as long understood the distinction between the theoretical and empirical domains of research. According to these authors, it is noteworthy the effort that many financial researchers have devoted in order to relate the theoretical concepts embedded within financial models and empirical observations. Ryan et al. (2002) conclude that the growth and consolidation of this field of knowledge is mainly due to the development of a rigorous theoretical body and a set of well-defined empirical tests that attempt to connect theory with financial reality. According to such authors, this constitutes the dominant methodology of finance and accounting.

5. A Two-dimension Map of Financial Research

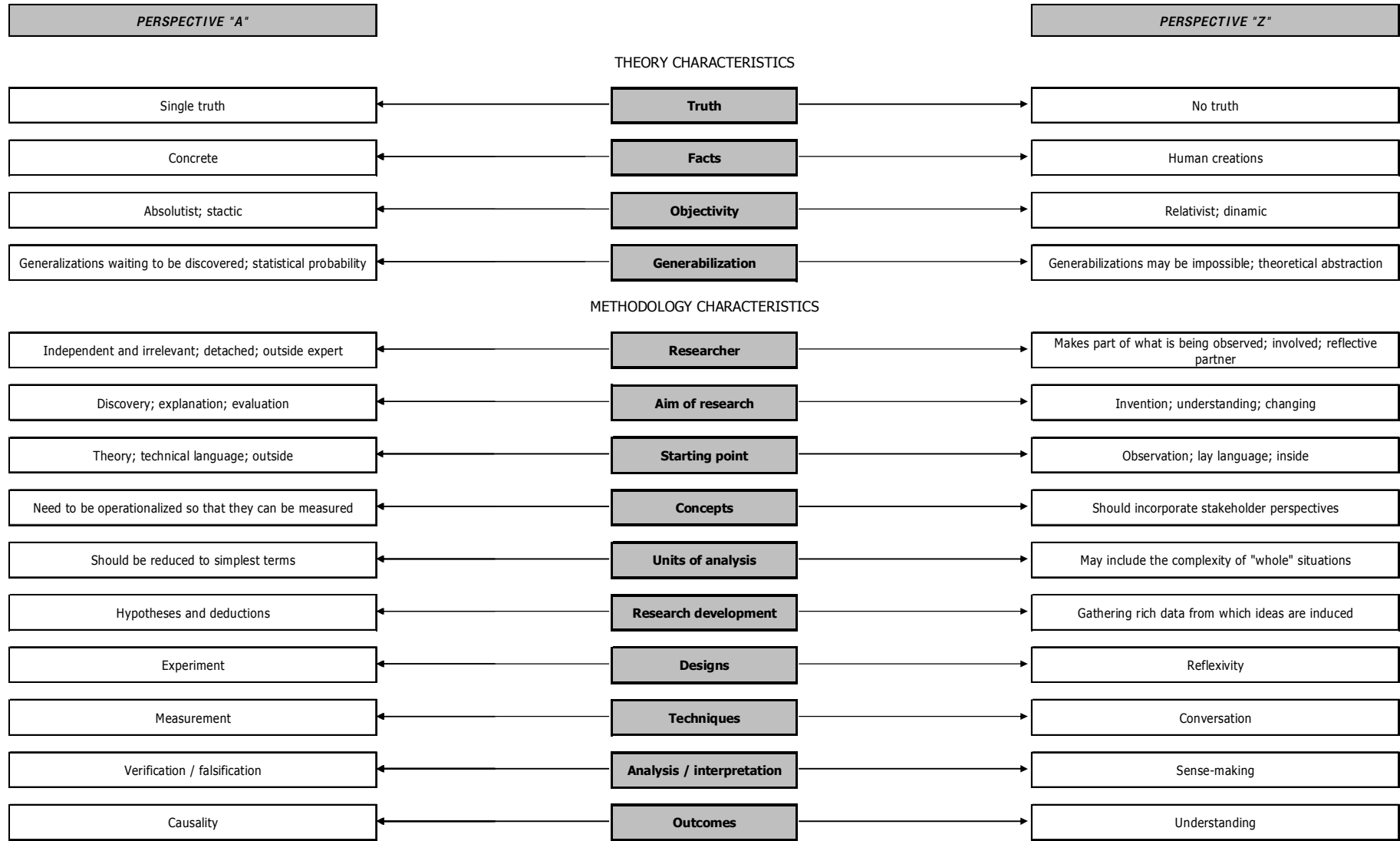
The discussion presented in the previous sub-sections suggests that comprehending the basic philosophical concepts underlying management research is not an entirely straightforward task. In fact, the intricacy of such thematic is considerable and most of the existing contributions on this issue are far too complex to be easily apprehended by those now entering this area of research.

This section presents an alternative two-dimension map of financial research. The tool, presented in figure 2, draws on the contributions of several leading scholars in the philosophical and methodological domains (e.g., Mathews and Perera, 1991; Blaikie, 1993; Johnson and Duberley, 2000; Sekaran, 2000; Easterby-Smith et al., 2002; Partington, 2002; Ryan et al., 2002) and explores the implications of the ontological and epistemological debate within the accounting and finance research fields. It aims only at providing young researchers with the essential knowledge that they require in order to understand the fundamental features relating to the issues under analysis. It is not our intention to produce *the* ultimate taxonomy of financial research.

The map is based on the idea that there are two possible extremes in financial research. On the one hand, perspective “A”, closely related to the objectivism, is based on the idea of a concrete reality. On the other, perspective “Z”, intimately connected with subjectivism, is based on the idea that reality is socially constructed.⁵⁷ These two extreme perspectives try to capture the radical different ontological assumptions about the philosophical debate around objectivism/subjectivism and realism/relativism.

⁵⁷ Despite the fact that the map is built around the idea of to competing extremes, it must be emphasized that the authors recognize the existence of several intermediate perspective between them.

Figure 2: Two-dimension map of finance research



5.1. Perspective “A”

Perspective “A” assumes that the social world exists externally and that its properties should be measured through objective methods. There are two underlying assumptions in this approach. The first is that reality is objective and external to the researcher. The second is that knowledge is only of significance if it is based on observations of this external reality.

Concrete facts constitute the starting point to accept or reject theories in this approach. Knowledge is thus advanced through the process of *theory-building* in which new “*discoveries*” of the nature of reality are cumulatively added to what is already known (Chia, 2002). The belief that science can produce objective knowledge rests on two key assumptions: first the ontological assumption that there is an objective reality to be known and secondly that it is possible to remove all subjective bias in the assessment of that reality (Johnson and Duberley, 2000). The objective of eliminating all subjective bias in the assessment of reality requires that researchers analyse phenomena from the outside and they must be objective and value-neutral. This position is crucial to avoid that researcher’s biases interfere with the understanding of the phenomenon being researched.

In this approach, theory is used to formulate hypotheses, which express relationships between dependent and independent variables. These relations are critical, given that causality or internal validation with predictive power constitutes one of the research aims.¹ Testing hypothesis about the nature of reality helps researchers to validate or not the theories about the phenomena being researched. Such tests and the laws that can be extracted from them may increase the predictive power of the control of some external environmental forces.

According with this perspective, the seek for the truth about a particular phenomenon can be achieved using sophisticated, objective and replicable data. Research methodology is usually based on quantitative methods, which facilitate extraction, measurement and verification. Blau and Scott (1963) represent the views of many more recent academics to justify the use of quantitative data from large-scale studies rather than individual cases (Johnson and Duberley, 2000). The use of a quantitative approach is justified to ensure reliability, given the possibility of replication. This methodology is essential to generalize the results about a particular phenomenon and constitutes one of the most important aims of this perspective.

¹ The search for causality relations leads to one of the common critiques of this perspective: the extreme reductionism that sometimes happens with the excessively narrow focus. In fact, the extreme reductionism may sometimes avoid the understanding of the world’s complexity (Hogan and Sinclair, 1996)

5.2. Perspective “Z”

The key issue of this perspective is the idea that reality is socially constructed rather than objectively determined. Hence, the task of the social scientist should not be to gather facts and measure how often certain patterns occur, but to appreciate the different construction and meanings that people place upon their experiences. Consequently, one should try to understand and explain why people have different experiences rather than find fundamental laws that explain their behaviour (Easterby-Smith et al., 2002). This perspective focuses on the study of human phenomena without considering questions of their causes, their objective reality, or even their appearances. The aim is to study how human phenomena are experienced in consciousness, in cognitive and perceptual acts, as well as how they may be valued or appreciated aesthetically.

In this approach, researchers are engaged in an on-going process of making sense of the world using theoretical abstraction. Contrary to perspective “A”, the understanding of the socially constructed reality can be achieved using qualitative methods. The use of qualitative methods facilitates the understanding of complex “*whole*” situations that cannot be understood by the use of quantitative methods rather the understanding of the phenomena can be achieved by a sense-making analysis based on observation and conversation. Within this perspective, human actions are a function of the sense that people make of different situations, and not a direct response from external stimuli.

5.3. Perspective “A” vs. Perspective “Z”

The general ideas embedded within perspective “A” are often used in the accounting and finance areas as a positivistic approach. Despite the importance of this research tradition, positivism is not a frequent word in finance journals. However, this does not mean that management researchers are strange to positivist assumptions (Johnson and Duberley, 2000). Indeed, the majority of management journals, particularly those from the USA, provide clear examples of research undertaken according to positivistic assumptions. Interestingly, most researchers that use this approach do not provide any explicit reflection on the adopted perspective during the development of their research (Johnson and Duberley, 2000).

At this stage, a word of caution is required. The fact that the majority of the papers that have been published on management journals and particularly in those of the accounting and finance are positivistic is not sufficient per se to justify that this is the best approach in terms of research in this domain. Abdel-khalik and Ajinkya (1979) explore several methodological frameworks and conclude that the scientific method used by positivistic researchers should be the “*ideal*” or preferred method in accounting research. However, Tomkins and Groves (1983) challenge this conclusion, saying that the scientific method should not have a privileged place in the accounting research. According to this paper, the adaptability of the research method depends on the nature of the phenomena being researched. In contrast to the scientific method, naturalistic methods are based on

realism, holism and analytical method (Ryan et al., 2002). Naturalistic methods should be used when the nature of the phenomena being researched present characteristics that can be associated with perspective “Z”. In fact, if we consider that reality is a projection of human imagination, it makes no sense to use the scientific method since, according to this perspective, reality is not objective and generalization may be impossible to achieve.

6. Conclusions

This paper is divided into four parts. The first presents an overview of two key philosophical concepts in management research: ontology and epistemology. Drawing on these fundamental concepts, this paper’s second part describes the taxonomy of organizational research first presented by Burrell and Morgan (1979). The implications of this classification are also briefly discussed and some insight on the philosophical paradigms that arise from it is also provided in this second part of the paper. The focus of the third part is on the taxonomies of financial research. Two widely cited examples in this area are reviewed: the Hopper and Powell (1995) and Laughlin (1995) frameworks. This section concludes summarizing the main characteristics of what is known as mainstream financial research, which is the basic methodological approach followed by the core journals in the accounting and finance areas. The last part of this paper introduces a two-dimension map of financial research elaborated by the authors. This tool aims at providing some initial guidance on the philosophical aspects of financial research for those now entering such area of research.

This paper posits that there are several reasons that justify the need for a thorough understanding of the philosophical underpinnings of management research. In fact, our discussion suggests that research undertaken within this field of knowledge may be developed according to very different research paradigms that are based on completely different ontological and epistemological assumptions. As a result, there is no right or wrong perspective in the management’s research process. In this context, researchers have to make an additional effort in order to maintain aligned their own perspective about reality and the methodology used to perform their studies.

We argue that clearly understanding such philosophical aspects of management research is particularly crucial for those now starting their development as researchers. In fact, such knowledge may well be the difference between research and high-quality research.

Reference List

- Abdel-khalik, A. & Ajinkya, B. (1979). *Empirical research in accounting: a methodological viewpoint*. Sarasota, FL: American Accounting Association.
- Blaikie, N. (1993). *Approaches to social enquiry*. Cambridge: Polity Press.
- Blau, P. & Scott, W. (1963). *Formal organizations: A comparative approach*. London: Routledge and Kegan Paul.
- Chia, R. (2002). The production of management knowledge: Philosophical underpinnings of research design. In: *Essential skills for management research*. David Partington (Ed.).
- Easterby-Smith, M., Thorpe, R., & Lowe, A. (2002). *Management research: An introduction* (2nd ed.). London: SAGE Publications.
- Hogan, R. & Sinclair, R. (1996). Intellectual, ideological and political obstacles to the advancement of organizations science. *The Journal of Applied Behavioural Science*, 32: 434.
- Johnson, P. & Duberley, J. (2000). *Understanding management research*. London: SAGE Publications.
- Johnson, P. & Harris, D. (2002). Qualitative and quantitative issues in research design. In: *Essential skills for management research*. David Partington (Ed.).
- Mathews, M. & Perera, M. (1991). *Accounting theory and development*. London: Chapman and Hall.
- Morgan, G. & Smircich, L. (1980). The case of qualitative research. *Academy of Management Review*, 5: 491.
- Partington, D. (2002). *Essential skills for management research*. London: SAGE Publications.
- Ryan, B., Scapens, R. & Theobald, M. (2002). *Research method & methodology in finance & accounting* (2nd ed.). London: Thomson Learning.
- Sekaran, U. (2000). *Research methods for business* (3rd ed.). New York: John Wiley & Sons.
- Tomkins, C. & Groves, R. (1983). The everyday accountant and researching his reality. *Accounting, Organization and Society*, 8: 361.