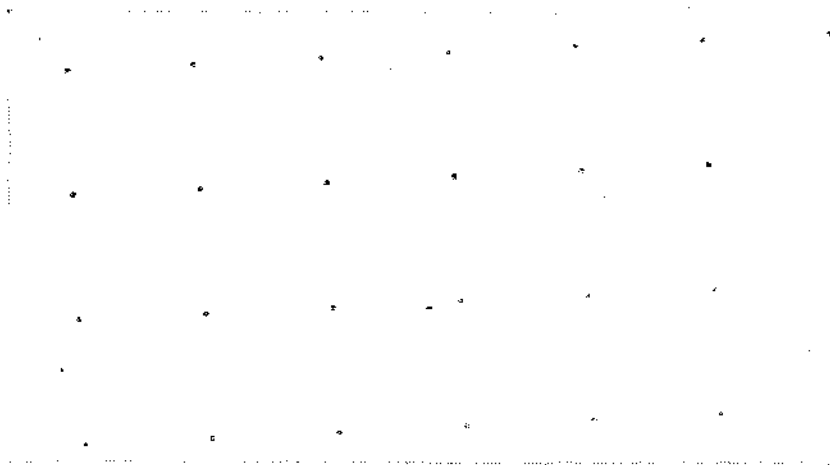


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POSITIVELY NORMATIVE (ACCOUNTING) THEORIES*

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POSITIVELY NORMATIVE (ACCOUNTING) THEORIES

Introduction and background

Among accounting researchers there is a growing awareness of the importance of epistemological and methodological reflections upon the development of their field. What exactly is the nature of "scientific" knowledge about accounting? How is such knowledge generated and how is its validity to be assessed? What is the relationship between accounting practice and accounting theories? And what role has scientific knowledge to play in the formulation of accounting policy? These are some of the questions to which researchers have traditionally devoted little attention, but which recently have gained increasing recognition. Indeed, the realization that unsatisfactory answers to these questions form a major impediment to the further development of accounting research is rapidly gaining ground.

One reason for this change of attitude has probably been the increasing diversity in accounting theories and research approaches. This trend is exemplified by the failure of the AAA Committee on Concepts and Standards for External Financial Reports to prepare an updated version of A Statement of Basic Accounting Theory (ASOBAT, 1966). Faced with fundamental changes in our discipline and with a bewildering diversity of research perspectives on accounting issues, the committee produced a Statement on Accounting Theory and Theory Acceptance instead (SATTA, 1977). Note that (1) SATTA is not a statement of accounting theory but a statement on accounting theory and (2) the committee apparently felt compelled to expand the scope of its enquiry to include theory acceptance. This was, of course, only a natural response to its finding that numerous competing accounting theories could be identified.

Unfortunately, however, the committee chose to interpret the present stage in accounting theorizing only in terms of one particular perspective,

namely that of Kuhn (1970). Kuhn's account of scientific development is mainly historical and sociological, however. It has little to offer with respect to the justification of criteria for theory acceptance. It is, therefore, probably safe to assume that SATTA's description of theory acceptance (of rather the lack of general acceptance) wetted the appetite for methodological prescription, without satisfying it.

A second reason for the growing awareness of methodological problems in accounting research is probably the internationalization of the accounting research community. Partly as a result of similar trends in accounting practice, researchers are increasingly exposed to other cultures. Thus they encounter different perspectives on accounting research, practice and policy. They come to appreciate how these perspectives are determined by cultural, social and institutional factors. And they learn how their own perspective takes much for granted which isn't equally evident to researchers from other cultures. (See Busse von Colbe's contribution to this book for illustrations of these points.) These experiences only naturally lead to a re-examination of the foundations of accounting theories and particularly to a critical reflection upon their unstated assumptions. The importance of these insights for the development of accounting practice is clear from the problems which are encountered in the international harmonization of accounting (of which Muis gives some European examples in this book). The difficulties which already exist in securing theory acceptance at a national level are thus substantially augmented in an international context.

I submit that a major portion of these difficulties can be traced to the role of value judgments in theory construction and acceptance.⁽¹⁾ This essay will examine this role. Specifically, it addresses the issues of the methodological merits of "positive" versus "normative" (accounting) theories. It is

therefore predominantly methodological in nature; methodology, following Blaug (1980), being defined as the rationale for accepting or rejecting scientific theories or hypotheses. The questions to be raised here are: What do we mean by positive and normative theories? What is the basic methodological difference between these theories? And what are the implications, if any, of this difference for the relationships of such theories with policy or practice?

A digression to Rochester

An examination of these questions seems especially topical in light of the contentions of what may be labeled the Rochester School of Accounting (Jensen, 1976). Following Keynes (1891) and Friedman (1953) these authors define positive theory as a body of knowledge concerning "what is": normative theory tells us "what ought to be". It is asserted that accounting theory is predominantly normative and has had little substantive, direct impact on accounting practice and policy formulation (Watts and Zimmerman, 1979, p. 273). - Indeed, in their arguments, most accounting research is "useless" because it is not aimed at developing a body of positive theory which is considered a prerequisite for answering normative questions. Because of its normative focus, research in accounting is even "unscientific" (Jensen, 1976, pp. 2-5).⁽²⁾

This paper will argue that, to the contrary, if positive theory means anything, it refers not to "what is" but to "what can be". Normative theory does tell us "what ought to be" but in a specific sense. For a theory to be normative, it should need a value judgment for its closure. That is to say, a truly normative theoretical system cannot be made complete without a value judgment.⁽³⁾ The inclusion of such value judgments in normative theories is the only methodologically relevant criterion to distinguish them from positive theories, since these value judgments hamper empirical testing of the theory. Thus, positive

as applied to theory is basically a misnomer; it should be replaced by "empirical."⁽⁴⁾ In the same vein, one cannot simply argue that a theory is normative because it has not been tested; a necessary condition is to show that it is not testable.⁽⁵⁾ Furthermore, one cannot denounce theories as normative when they are capable of yielding prescriptions of the type "what should be done if" (we subscribe to the postulated ends). As Christenson (1983) has effectively shown, such a conditional prescription requires the same argumentative schema as explanatory reasoning. We are not required to subscribe to the stated ends in order to accept the logic of the argument. If positive theories cannot yield such prescriptions, they equally cannot provide explanations and would seem to be restricted to descriptions.⁽⁶⁾ Such positive/descriptive theories of "what is" would certainly provide an insufficient theoretical basis for practice and policy formulation. Finally, it will be argued that the practical or political usefulness of accounting theories cannot be based solely on methodological considerations. A broader perspective has to be adopted which includes the social circumstances in which knowledge is generated and used.

Terminology and overview of the paper

As will already be evident, we have here enormous potential for terminological confusion. The terms "positive" and "normative" have been used in so many different contexts that they have lost all clarity of meaning. As is often the case in the evolution of terms, their loss of substance has been accompanied by an increase in the emotions they evoke. In several disciplines (e.g., sociology and political science) this has reached the point where "positivistic" and "normativistic camps" exist whose members communicate mainly among themselves. When they do talk with "the others" they do so largely at cross-purposes. Although the same trend exists in accounting, I hope we have

not yet created unbreachable communication barriers.

This paper will explore the problem from both viewpoints and will try to delineate areas of agreement as well as the real issues underlying the debate. In order to avoid as much of the potential terminological confusion as possible, it is perhaps helpful to (re)emphasize the following points:

1. The terms "positive" and "normative" are only retained here because of their extensive usage in the literature which is to be surveyed. From a methodological point of view the use of "empirical" and "non-empirical" is to be preferred.
2. The reader should specifically disregard any connotations of the terms "positive" and "normative" pertaining to the predictive ability of theories, the empirical relevance of their assumptions, their prescriptive ability (given certain ends), etc. The only basic difference between positive and normative theories as defined here is the inclusion of a value judgment in the theoretical structure of the latter.
3. The term "positivist" will be used to denote those who argue in favor of scientific theories which are as value-free as possible. In the philosophical sense of the word none of the authors surveyed here can be regarded as a positivist (see note 4). Their adversaries in the value-debate will be called "normativists". Few of them would apply this label to themselves; they would rather choose critical theorists, dialecticians, etc. Again, these terms are only retained to facilitate quoting from the relevant literature. As general terms separating two sides in the value debate they should suffice and their use should not cause any problems if the definitions presented here are kept in mind.

The relative merits of positive and normative theories have long been the

subjects of debate in the social sciences. This paper will draw upon the vast literature on this subject in order to help clarify the issues. The clearest manifestation of the debate can be observed in Germany, from the Methodenstreit in the late nineteenth century, through the Werturteilsstreit in the early twentieth century, to the Positivismusstreit from the 1960s onward. Therefore, it seems appropriate to take representative literature from these debates as a focal point for this paper. As Max Weber's writings are generally regarded as the first relatively comprehensive expositions of the positivist position in the social sciences, his arguments will be summarized in the next section. Then some more recent clarifications of the positivist viewpoint will be presented, followed by an outline of the main elements of normativist critique. This should provide the basis for an assessment of the debate, focusing on the areas of agreement as well as the real differences between the positivist and normativist positions. The general implications of these findings will be spelled out and, finally, some more specific remarks will be made on the relevance of positive and normative research from a practice or policy perspective.

It is not my aim to argue for a particular position in this dispute. Rather, I shall attempt to provide an overview of the debate and to bring out its essentials. The method will be almost dialectical: positivists will first be allowed to present their thesis as forcefully as possible, whereafter the normativist antithesis will be set forth with equal vigor. A synthesis, however, cannot be totally achieved in my view. In the final analysis the debate concerns some very basic choices. I am unable to reconcile or transcend the divergent viewpoints involved. All I shall be able to do is to properly set the stage for their discussion. To pursue this metaphor just a bit further: I shall argue that the role of value judgments in scientific reasoning can be properly shown only in the two-act play of methodology and social philosophy.

After these lengthy preludes it is high time we hear some real actors. Enter the positivists.

The Weberian Position

Weber (1917, p. 239) defined value judgments (Werturteile or Wertungen) as "practical evaluations regarding the desirability or undesirability of social facts from ethical, cultural or other points of view".⁽⁷⁾ Thus, in the context of scientific reasoning, value judgments refer to the scientist's evaluation of empirical facts. Such evaluations should be clearly distinguished from the observations of facts. The truth-value of factual observations and the validity of norms underlying value judgments are "absolutely heterogeneous in character" according to Weber (1917, p. 241).

This position does not imply that value judgments are to be withdrawn from scientific discussion altogether (Weber, 1904). First of all, the appropriateness of certain means for achieving a given end is open to scientific analysis. Thus, if we can estimate the chances of attaining the given end by the available means, we can indirectly criticize the end itself as practically meaningful or meaningless within the prevailing conditions. Further, we can try to assess the side effects of employing certain means thereby enabling the actor to weigh the "costs" of these means (in terms of the predictable loss of other values) against the chance of achieving the desired end. Finally, we can analyze the value judgments which exist in practice, test their internal consistency and arrive at the ultimate standards underlying these value judgments. Whether these ultimate standards should be adhered to, however, is the personal choice of the actor; it involves "will and conscience," not empirical knowledge. Weber (1904, p. 6) has summarized this position as follows: "An empirical science cannot tell anyone what he should do, but rather what he can do and,

under certain circumstances, what he wishes to do."

Although the problems of the empirical sciences can be addressed in a "value-free"--i.e., non-evaluative--manner, these problems are selected by their "value-relevance" (Wertbeziehung), which Weber (1917, p. 250) defined as "... the philosophical interpretation of that specifically scientific 'interest' which determines the selection of a given subject-matter and the problems of an empirical analysis". These interests direct the purely empirical scientific work. They can be determined through value discussions, which Weber regarded as very fruitful. They not only provide potential problems for investigation, they also aid in the development of value-interpretations (i.e., possible meaningful attitudes towards given phenomena) and they can clarify the really unbridgeable ultimate standards of value which keep opponents apart: "We are far removed, then, from the view that the demand for the exclusion of value judgments in empirical analysis implies that discussion of evaluations are sterile or meaningless" (Weber, 1917, p. 243).

The Weberian position thus strives for a separation between "objective" science and "subjective" value judgments. At the same time, it recognizes that values exert a strong influence on the scientific effort and the (type of) results it will produce because of this Wertbeziehung. The latter takes the form of, e.g., specific, "one-sided" viewpoints directing the selection, analysis and organization of the empirical object (Weber, 1904, p. 24); of personal answers to the question whether the results are "worth knowing" (Weber, 1919, p. 599) and of more general forces directing scientific activity (Weber, 1917, p. 251). However, Weber maintains that the (external) value-relevance of science does not render it impossible to keep scientific statements and theories (internally) value-free.

In the social sciences the debate on value judgments focuses on the choice of goals according to Weber (1917, p. 240). Such choices often have to be made to enable meaningful social research. His position is that one can agree to accept certain goals as "given a priori" but not as "fact." Only "facts" are open to scientific scrutiny; the individual evaluation guiding the choice of goals can be an object of value-discussions but not of scientific critique. In scientific analysis the normative validity of the goals is disregarded. As scientific statements are, therefore, devoid of normative content, they can never be used to justify or legitimize norms. With respect to economics he has specifically remarked that what is economically rational is not necessarily justified normatively: "... indisputably 'technically correct' economic rationalizations are not legitimized in an evaluative sense through this quality alone" (Weber, 1917, p. 168)." A separate decision is required to determine whether we really want to pursue the economic rationality embedded in our models as the (only) norm in practice. This separation of facts and value judgments is necessary to enable both the scientific debate and the value discussions, both of which are valuable in their own rights.

An accounting example: *The Weberian position allows us to investigate the consequences of hypothetically assuming that the objective of financial statements is "usefulness for decision-making by investors and creditors". The fact that this assumption serves as a basis for empirical research does not, however, imply its justification in any real world setting, not even if we can come up with a system which perfectly meets this objective. Weber would argue that the selection of this particular objective is probably to be explained by the value-background of the researcher(s). In scientific research this value-background should be ignored as irrelevant. At the same time, however, researchers are encouraged by Weber to discuss their (implicit) values: Why select investors and creditors as the relevant user groups? Why the emphasis on decision-making instead of stewardship or attitudes? etc. Such questions are very important in the Weberian view, but they should not be regarded as answerable by science.*

Further Clarifications: A Popperian Viewpoint

As mentioned in the introductory section, the debate on the merits of positive and normative theories certainly did not stop with the Werturteilsstreit in which Max Weber was involved. Subsequent thinkers contributed further conceptual and terminological clarifications. A foremost writer in the positivistic camp, whose views will be summarized here, has been Hans Albert, a professed Popperian.

Elaborating Weber's remarks on the absolutely heterogeneous character of the various issues involved, Albert (1963, p. 180) distinguished three problems: ⁽⁸⁾

1. The problem of the value basis of the social sciences: the question as to whether some basic evaluations underlie scientific statements.
2. The problem of evaluations in the empirical domain of the social sciences: the question as to whether these sciences should make such evaluations the object of their statements.
3. The problem of value judgments proper: the question as to whether the scientific statements themselves should exhibit the characteristics of value judgments.

As to the first problem, Albert (1963, p. 181) observes that there is no need to argue about the necessity of evaluative viewpoints in making basic decisions concerning, for example, the choice of problems, the acceptability of methods, the usefulness of hypotheses and the relevance of certain observations for the problems at hand. It is perfectly clear that such evaluations have to be made by the researcher. Furthermore, as scientific investigations are necessarily selective, i.e., can only pertain to certain aspects of reality, an assessment of the relevance of its statements is necessary. In this context, relevance refers to the extent to which a real world problem has been adequately covered in a theoretical problem formulation. The second problem, too can be no part of the dispute according to Albert. As evaluations are a determinant of social

relations and actions, they have to be analyzed in certain circumstances.

Statements describing, explaining and predicting the normative behavior of people are, however, not evaluative but factual in nature.

Therefore, the preceding two problems are not seen as requiring the scientist to include value judgments in his statements. But not so the third problem distinguished above, the real area of debate. It is helpful here to use the distinction between object-language (the language in which scientific statements about the empirical domain are expressed) and meta-language (expressing statements about the object-language). The postulate of "value-freedom" is expressed in meta-language and refers to the construction of object-language. In other words, this postulate is itself a value judgment expressing the desirability of "objectivity" or "intersubjective testability"; it is couched in meta-language, and it posits that the inclusion of value judgments in object-language be prohibited.

The postulate of value-freedom is an outgrowth of the concept of science held by Albert and other Popperians. Following Albert this concept of science can be referred to as "critical rationalism". Its basic tenet is the "fallibility of human reason"⁽⁹⁾ which implies that we can never accept the products of human reasoning as definitively true. Therefore, critical rationalism does not seek absolute certainties with respect to its empirical basis, as (logical) positivism did. Rather, it strives for permanent critical testing of existing theories. Research must not be aimed at confirmation but at refutation of theories. Theories must lend themselves to such testing: they must be falsifiable (Popper, 1975). From the Popperian point of view, the fundamental objection to value judgments in empirical theories is that they represent untestable elements. The postulate of value freedom is designed to enable critical testing of the entire theoretical system⁽¹⁰⁾ and to preclude the acceptance of systems which (partially) depend on untestable beliefs and commitments as "scientific".

An accounting example: Say that an accounting theory is designed which incorporates the value judgment that "the objective of financial statements should be to equalize income distribution in society". No empirical evidence concerning the objectives in the real world will disprove this statement. What is more, no evidence whatsoever may refute the theoretical results obtained in this system, since the researcher can always reject such evidence on the grounds that a necessary condition for the applicability of his theory has not been met.

Before concluding this section, one problem set should be added to the three distinguished by Albert. This problem set arises out of the complexities and, in the case of the social sciences, the instability of the empirical domain. Because of these factors, the ideal situation for fulfilling the requirements of positivist methodology is hardly ever attained. This ideal situation would involve theories (or hypotheses) which are consistent and falsifiable, tested intersubjectively and empirically richer than competing theories (Klant, 1979, pp. 253-254). In reality, the empirical content of theories is often difficult to compare: truly "alternative" theories hardly exist in the sense that one theory covers all of the empirical domain of the other (and preferably a larger domain). In addition, theories often admittedly provide only a partial explanation of reality. If other factors which are not included in the theory are acknowledged to be operative, a true falsification is hardly possible. Furthermore, consensus about a true falsification may be difficult to achieve because of, for instance, the potential operation of measurement and observation errors or differences of opinion as to required significance levels, etc. Finally, we may ask what should happen if more than one available theory withstands refutation or, alternatively, all available theories are refuted.⁽¹¹⁾ These difficulties are compounded by the flux inherent in social systems and by the ability of social actors to adapt to knowledge generated about them. Rudner (1953) has argued that any scientist "qua scientist" has to make value judgments in accepting or rejecting hypotheses. If our latter observations have any merit, it

may be that the social scientist has to rely more heavily on such value judgments than the natural scientist to whom Rudner's argument equally applies.

The Normativist Critique

As argued above, the postulate of value-freedom is embedded in its proponents' concept of empirical sciences. This concept calls for the description, explanation and prediction of phenomena in the empirical domain. Scientific statements can also be used as a basis for practical decision-making and policy formulation. Such decisions will often be aimed at control over the empirical objects (Cf. Albert, 1963, p. 188). Thus, management accounting theories serve to enable managerial planning and control, while financial accounting theories might be used to control (e.g. regulate) financial information flows. Empirical science, therefore, has not only an enlightening function--i.e., it illuminates an aspect of reality and increases our knowledge about it--but also has a "technical steering function"--it gives us the capability of influencing and possibly controlling its empirical domain (Albert, 1976, p. 228).

But if our technical capabilities to control are increased by scientific progress, the question has to be answered in what direction we wish to influence the objects under control. Adherence to the postulate of value-freedom implies that there is no "scientific" answer to this question. From this arises the normativist fear that our intellectual resources will be devoted predominantly to developing "means to control" without commensurate consideration of the "ends of control" (Adorno, 1962, p. 117). Especially Habermas (1971, 1976) has argued forcefully against the positivist separation of means and ends. If the social sciences are only allowed to offer technical advice for the realization of pre-given ends, a purely "technical interest" will come to dominate these "scientific recommendations". Why should we allow (scientific) reason only to

influence the selection of means? Does this not pave the way for decisions concerning the choice of ends which are not reflected upon by reason, and therefore in a certain sense irrational? And wouldn't the social sciences atrophy to the point where their "technical solutions" have little value for an inevitably normative practice? This is what Habermas means when he criticizes the "positivist isolation of reason and decision" and argues that "the price paid for the economy in the selection of means is an unconstrained decisionism in the choice of ultimate ends". (Habermas, 1971, p. 318.) What he fears is that science produces powerful instruments of control while abdicating responsibilities for their use. In his view such a separation between theorizing (about means) and decisions (about ends) is not desirable and, in fact, not really possible, as (1) theories are grounded in practice - and vice versa, while (2) the production of theories already implies their use for certain ends. (12) Wishing to make the relation between theories and practical interests explicit, Habermas therefore poses "the principle of identity of theory and practice". (13)

Normativists argue that the postulate of value-freedom implicitly favors the status quo (Dahrendorf, 1959, p. 145), both because it is not inspired by the desire for practical action and through a subtle process by which the values of the interests currently in power are assimilated. By unquestioningly taking the objectives currently prevailing in practice as "hypothetically given", business economics would also produce "power knowledge" (Herrschaftswissen; Staehle, 1973, p. 185) or would contain "unreflected entrepreneurial ideology" (unreflektierte Unternehmerideologie; Loitlsberger, 1971, p. 99).

The normativist critique further includes the following interrelated arguments:

- (a) The distinction between facts and values is untenable in the social sciences since society is the reflection of (purposive) human behavior. As such,

the "facts" of the social sciences only come into being under the influence of social norms and thus facts and values are inextricably intertwined (Cf. Habermas, 1971; Fleck, 1979; Tinker et al; 1982).

- (b) This can be further illustrated by pointing out that it is often very difficult to use purely factual terms in the social sciences. Intended as purely descriptive, many terms have (or acquire) emotive content. Consider, for example, the contrast between the words "profit" and "surplus." As a consequence, such descriptions will reflect their (implicit) value-background even if they are not intended to (Cf. Little, 1950, pp. 77-82; Myrdal, 1955).
- (c) Focussing on the relevance of scientific statements, some normativists argue that it does not make much sense to strive for a value-free, instrumental analysis of means-ends relationships if in practice both the adoption of ends and the application of certain means are governed by values (e.g., Loitslsberger, 1971).
- (d) Many normativists point to fundamental differences between the natural sciences and the social sciences and argue that these differences should be reflected in the respective methodologies. For our discussion, the main difference is that the objects of the social sciences themselves entertain values which guide their behavior. Therefore, the formulation of theoretical statements may, in the social sciences, influence the behavior of its objects, intentionally or unintentionally.
- (e) Finally, some of the positivist distinctions discussed above are regarded as artificial. If values admittedly influence the choice of research topics, the analytical framework used, etc., many normativists would argue that the theoretical results are to a large extent predetermined.

Furthermore, the necessity to select certain aspects of reality, the resultant "one-sidedness" of the hypotheses and the positivist methodological requirements may (and will in fact) introduce a bias in the knowledge produced by science.⁽¹⁴⁾ And, finally, the distinction between a value judgment expressed in meta-language and one expressed in object-language is questioned. This distinction seems rather artificial to normativists. They point out that positivists justify their prohibition of value judgments in object-language by referring to a value judgment in meta-language. The latter, however, are left unjustified and cannot, in fact, be justified since this would lead to infinite regress in language levels.

In view of the limited space available, the normativist alternatives to the positivist position will not be discussed here. Suffice it to say that they all allow the incorporation of normative premises in theoretical systems; they can be broadly grouped in two categories:

1. Those who propose the inclusion of value premises in theoretical systems which are used to evaluate the outcomes of descriptive analyses which are to be conducted as value-free as possible (e.g., Staehle, 1973);
2. Those who propose the inclusion of normative premises as axioms of theoretical systems. This would lead to different theoretical systems (in a pluralist society), but the relevance of these systems from different normative viewpoints would be explicit (e.g., Loitlsberger, 1971).

From a positivist point of view such normative premises may be added as hypothetical statements to theories in order to arrive at prescriptions. From the normativist standpoint, however, this is insufficient. It excludes these premises from theoretical debate and confers upon the remaining theory an aura of "objective knowledge", which is unwarranted from the normativist point of view.

An accounting example: A type-1 normativist would welcome the addition of a normative viewpoint to accounting theories in order to assess the desirability of results.⁽¹⁵⁾ For example, the viewpoint that "corporate reports should be just as informative to suppliers of labor as to suppliers of capital". A type-2 normativist would welcome the development of different theoretical systems based on a number of divergent viewpoints. Both would insist that these viewpoints be

explicitly incorporated in theories to allow theoretical debate about them.

An Assessment

Reviewing the debate, the following points of agreement can be established between most positivists and normativists:

1. the indispensability of value judgments in the design of scientific research.
Positivists, however, would argue that these value judgments are "pre-scientific" and/or "of a different kind" (Albert's first problem) than the judgments the real debate focuses on; a distinction normativists cannot accept.
2. the necessity of making value judgments in the practical application of scientific knowledge;
3. the value-laden character of the postulate of value-freedom itself (albeit in meta-language according to the positivists);
4. the meaningfulness of value discussions or, as Popper would say, metaphysical systems of belief.

The basic difference between the two positions can perhaps be illustrated most clearly by interpreting the postulate of value-freedom as an operationalized criterion of demarcation. A criterion of demarcation is "designed to demarcate systems of scientific statements from perfectly meaningful systems of metaphysical statements" (Popper, 1975, p. 312) and thus to differentiate between science and non-science. His criterion is "a proposal for an agreement or convention" (p. 37). In arriving at this proposal he has been "guided, in the last analysis, by value judgments and predilections" (p. 38). His proposal is to accept only those empirical systems as scientific which can be refuted by experience. Thus, he arrives at the (negative) criterion of demarcation known as "falsifiability". The fundamental objection to inclusion of value judgments in the empirical sciences is that they are not falsifiable.

By interpreting the postulate of value-neutrality as an operationalized demarcation criterion, it becomes clear why Albert (1963, p. 207) can agree with many critical points raised by neonormativists but at the same time feels that their objectives can be reached without rendering the empirical sciences normative. What is at stake is the exact function of scientific knowledge in achieving these objectives. Is its function only to "enlighten" and to "indicate the hypothetically possible courses of action", as the positivist position would imply or is it more than that? Positivists agree that in arriving at their "hypothetical premises" they have made all kinds of value judgments ranging from the acceptance of a certain concept of science to the specific design of a research study. These value judgments should not, however, be included in the theoretical systems as such, as they would hamper testability. Normativists argue that they should be included, mainly to make explicit the value judgments which would otherwise remain implicit and to show the correspondence between theory and practice (or, more specifically, interests existing in practice).

Comparing both positions, it is clear that the decision to accept the Popperian criterion of demarcation leads to narrower margins within which to conduct scientific activity. The value judgments pertaining to the hypothetical premises, the normative evaluation of theoretical results as well as the practical evaluations of their implications are excluded. On the one hand, this is its strength; requiring, as it does, that scientific theories be intersubjectively testable and open to critical discussion of their empirical content. On the other hand, this restrictive definition of the scientific domain raises questions about the "missing links" in the relationships between theory and practice. Which values have spurred the research undertaken? How are these connected with practical interests? Which interest groups in the real world will find the results useful? Are the abilities to contract for research and/or to use its

results evenly distributed over society's interest groups? And who is responsible for the use made of the resulting theories? These questions indicate that a theory of social knowledge production and use is a necessary complement to any scientific methodology or epistemology. If we label these areas "extrascientific" we cannot leave them to be no man's land. (16)

Furthermore, there is merit to some of the more specific elements of the normativist critique, as many positivists would admit. It is, for instance, very difficult to distinguish between facts and values and, as we are never completely aware of the influence of our values upon our observations and analyses, these may in fact be value-laden. If, in addition and because of necessary selectivity, we can only offer partial explanations, we may invite "one-sidedness" (i.e., partiality) not only in the hypotheses selected but subsequently in the results as well.

On the other hand, many normativists should be willing to admit that there is at least some usefulness in distinguishing between facts and value judgments. After all, they themselves often criticize the implicit value judgments in positive theories and point out their impact on the "facts" reported. Such criticism, it will be clear, rests on some kind of separation of facts and value judgments. Exactly such a separation is a necessary condition for the inter-subjective agreement on "facts".

Finally, with respect to the partiality of theoretical knowledge, we may consider Albert's remark (1963, p. 186) that a theory of revolutions is not only interesting for revolutionaries but also for their opponents. I am tempted to add that the reverse is true for theories of the status quo. However, whether theories of revolutions will develop is, of course, a function of social conditions, again highlighting the need for an analysis of the relationships between theory and practice.

Some General Implications

Finally, we may attempt to derive some general implications from the foregoing discussion. If the preceding overview and assessment are correct, these implications can be stated as follows:

1. The postulate of value-freedom depends, in the last analysis, on the value judgments guiding the choice of a concept of science and a corresponding demarcation criterion. Therefore, there is no "inherent" or "objective" superiority in any of the positions surveyed here. (17)
2. If this is so, there is no reason to disqualify either positive research or normative research on the basis of this characteristic alone. Likewise, no opinion as to whether such research is "scientific" or not can be drawn without reference to the choices indicated above.
3. The Popperian criterion of demarcation--falsifiability--requires that empirical systems are "capable of being tested by experience" (Popper, 1975, p. 40). The requirement of testability is less restrictive than the requirement that it should be possible to test these systems immediately. To state it differently: positive theories do not necessarily deal with "what is" but with "what can be". (18)
4. If the only positivist problem with a normative theory were the endorsement of a goal premise by the theoretician, this goal premise could be treated as hypothetical and its desirability could be expressed in a supplementary statement. Excluding this latter statement, the theory should be testable. The fact that this "solution" is normally not feasible or acceptable to those involved points toward the deeper issues discussed here.
5. The more one restricts the scientific domain, the more need there is for a theory of social knowledge production and use. If one accepts Habermas' "principle of identity of theory and practice" such a theory and methodology

are collapsed. The more one argues for separation of theory and practical interests, however, the more one needs such a social theory to assess the likely consequences of this separation.

Some Observations on Accounting Theory, Practice and Policy

We can now turn to the last area to be examined in this essay: the usefulness of positive and normative theories in accounting policy and practice. A comprehensive treatment of this vast area will, of course, not be possible here. All we can do is offer a few observations. This amounts, in fact, to an elaboration of point 5 above.

Figure 1 gives a very basic model of the relationships between research, theory, practice and policy.⁽¹⁹⁾ It conveys the view that accounting research is directed toward an empirical domain which consists of (1) accounting policy, (2) accounting practice and (3) their interface. The dotted lines indicate that, in turn, pressures from policy or practice may be exerted on research in specific circumstances. Accounting theories arise out of research activity. The whole process is, of course, embedded in a certain social context.

Figure 1. about here

Simple as Figure 1. may be, it does serve to highlight the following points:

- a. The old debate as to whether accounting is an art or a science does not pertain to our discussion. Whatever accounting is, research is a scientific activity, and accounting research can therefore be judged by scientific standards, in our case methodological ones.
- b. However, research is not conducted in a social vacuum. It is shaped by its social setting and it, in turn, shapes at least our image of social

reality, if not reality itself. Therefore, the overall evaluation of the research activity cannot be based only on methodological standards but should take these social considerations into account as well. These complementary evaluations should therefore be based on the "theory of social knowledge production and use" referred to in general implication 5. in the preceding section.

Returning to the problems addressed in this essay, we may ask ourselves whether positive or normative theories will be most useful from a policy or practice perspective. For an answer to this question, we may recall one area of agreement between positivists and normativists, namely that any decision to apply scientific knowledge is necessarily based on a value judgment.⁽²⁰⁾ Our question can therefore be rephrased as: Should this value judgment already be contained in the theory or separated from it in order to enhance its practical or political usefulness? Rephrasing the question in this way suggests some answers. A normative theory will be useful to those who subscribe to the value judgment contained in it. The extent to which normative theories are useful, therefore, depends on the agreement in society concerning these value judgments. If the value judgment is widely shared, a normative theory may be useful to many decision makers in policy and practice.⁽²¹⁾ If the value judgments are not widely shared, however, the normative theory will be of limited usefulness. It will, of course, still be of use to the specific (interest) group sharing these values. For others, such theories will serve only to further an understanding of the world view of that interest group. The normative theories as such will be unacceptable to them.

For positive theories the answer to our question is much harder to formulate. The difficulty lies partly in the differences between the positivist and normativist accounts of positive theories. However, in order to arrive at our main

conclusion it will suffice to proceed on the basis of the positivist account.

Furthermore, we may examine the ideal situation in which positive research would have overcome all difficulties and would have produced a social theory free of value judgments. This would leave all evaluations as to the usefulness of the theory up to the users. As a consequence, the usefulness of such a theory would not be evident from the theory itself. Whether the theory would be useful in the real world would depend on the match between:

- the "scientific interest" (Weber, 1917, p. 250) or the "purely scientific values" (Popper, 1976, p. 97) which gave rise to it, and
- the interests and values represented in practical decision-making or policy formulation.

Positivist methodology has no guidance to offer in this respect.⁽²²⁾ Thus our main conclusion is that positivist methodology leaves the question of the practical or political usefulness of theories entirely open.

Let us briefly explore some implications of this conclusion. One such implication is that, if methodological considerations preclude making the "value-links" to the real world explicit, the usefulness of positive theories has to be determined entirely in what has been referred to as "a theory of social knowledge production and use" above. For if a methodological assessment of research and theories is to be conducted relatively independently of their linkages with policy, practice and society in general (see Figure 1), we need a complementary theory to deal with these linkages. However, positivism has, in general, remained rather silent on this matter. Furthermore, the scarce positivist writings on this subject (e.g., Popper, 1966) have hardly been used in the positivist contributions to the value debate. The reason is clear: from most positivists' point of view this debate concerns a purely methodological matter, namely the separation of science from non-science by a methodological criterion

of demarcation.

But it is exactly this reduction of science to methodology against which the normativists protest! They find it unacceptable to characterize science only by its abstract methodological characteristics. This is much too narrow in their view. Worse, the attempt to abstract science (through methodology) from social considerations will render it a will-o'-the-wisp at the mercy of potent social forces. It will enable ideology to present itself as "social facts" or "objective knowledge". Furthermore, the positivist methodology does not encourage scientists to reflect upon these possibilities. To the contrary, it urges them to distinguish between purely scientific interests and values, on the one hand, and extra-scientific interests and values on the other (Popper, 1976, pp. 96-97). For a normativist the notion that such a distinction is possible represents extreme naiveté, to say the least, or outright complicity in a process of social repression, to say the worst.

This then, is the basic choice at the heart of the value debate. It is not the choice whether to include value judgments in our object-language, it is the choice which value judgment to exert in the choice of our meta-language, our methodology. We may recall that the methodology of a science is its rationale for accepting or rejecting theories or hypotheses (Blaug, 1980). If the normativist view is adopted, this rationale includes external considerations; science is not assessed independently from its societal context. Therefore, we could make some, albeit fairly general, observations on the usefulness of normative theories from such external viewpoints. However, if external considerations are not included in methodology, as is the case in the positivists' view, no methodological answer can be given regarding the usefulness of theories from a policy or practice perspective. These answers must then be provided by the social philosophy concerning the aims and role of science in society (such as Popper's

views on "piecemeal" versus "utopian social engineering"). From this it is evident that the positivists' and normativists' conception of "methodology" are far from equivalent. Which kind of methodology to adopt is a basic choice the scientist has to make. In making this choice each of us will be "guided, in the last analysis, by value judgments and predilections" (Popper, 1975, p. 38), just as the proposals from among which we chose.

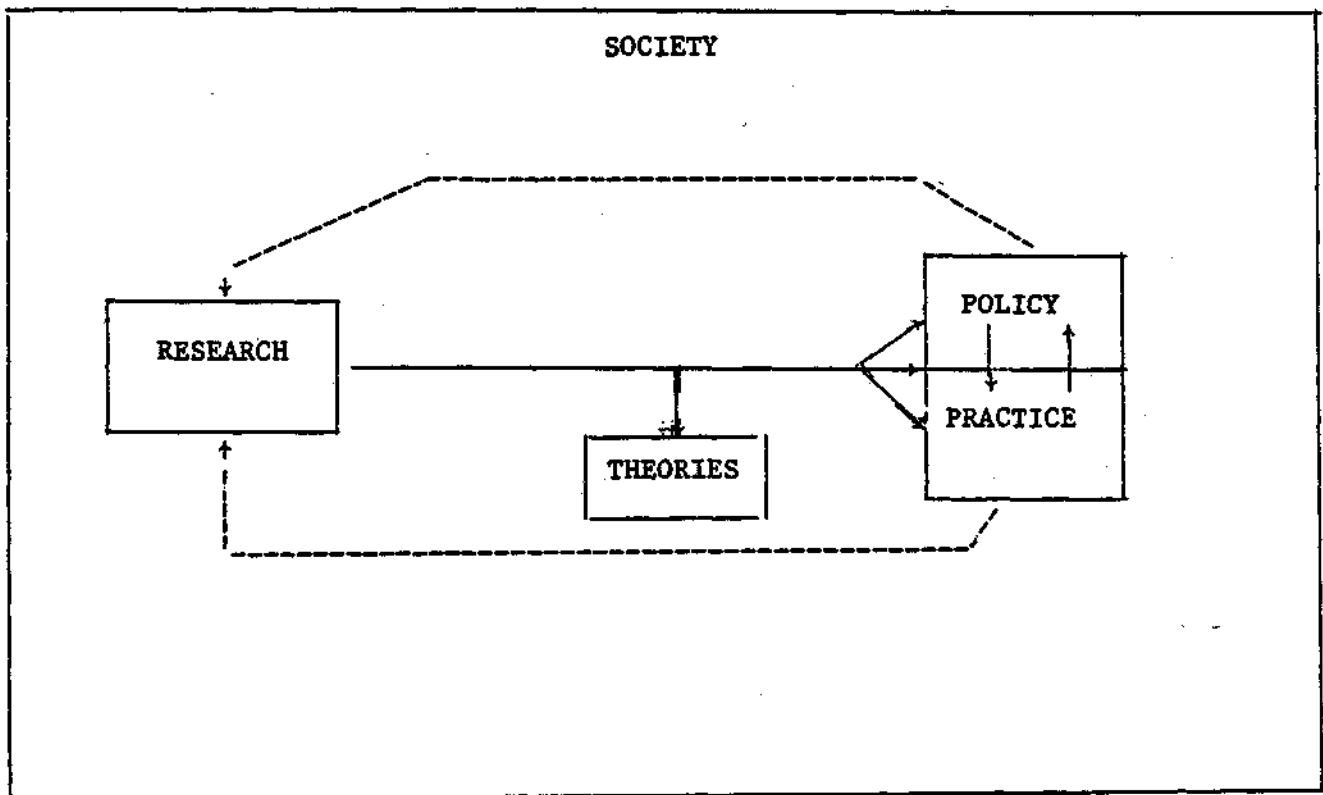
Comparing the broader philosophical stances involved in this choice obviously transcends the limits of this essay. For the purposes pursued here it suffices to conclude that methodological considerations alone will not reveal the usefulness of positive versus normative theories. Although nominally we could compare one methodology with the other, in substance we would not be comparing equivalent rationales. The usefulness of theories can only be determined from a perspective which includes all elements of figure 1., no matter how these are subdivided over methodology and social philosophy.

A Concluding Note

As noted in the introduction, the topic treated in this essay often evokes rather strong emotions, to the point that we can even speak in terms of positivistic and normativistic camps. This contribution has attempted to show both sides of the argument. For anyone with strong views toward either side of the argument, however, that view has probably been done incomplete justice. Nevertheless, the purpose of this essay has been not if the reader feels that another separation has been achieved, namely, that between the basic choices involved and the many minor issues, terminological confusion and mutual misunderstandings which have traditionally haunted this debate.

Figure 1

Accounting Research, Theories, Policy and Practice



Notes

- (1) SATTA (p. 50) hints at this when introducing its "basic message... that all theory approaches are flawed when viewed from the perspective of some alternative approach". It alludes to "real issues underlying debates" concerning theory acceptance and to "partialities...[which] may not have been widely recognized as inherent in various theory approaches". The different cultural and institutional values which may be involved in accounting and accounting research are exemplified in Busse von Colbes contribution to this book.
- (2) See also Jensen (1983) for somewhat moderated views and Kaplan (1983) for a critique of these.
- (3) Thus, we cannot deduce the results from the stated assumptions without applying a value judgment in the process. Such a value judgment may be so "basic" to the author that its application has escaped his notice (cf. Myrdal, 1955). Indeed, only such "basic" value judgments, as defined by Sen (1970, pp. 59-64), render theories untestable in principle and thus normative in the sense used in this essay. Non-basic value judgments may be (partly) based on a factual premise which is susceptible to empirical testing (cf. Mattessich, 1974 and 1975).
- (4) See Christenson (1983) for a brief history of the term "positive" in this context. For some time normativist authors used the term "positivist" as a sort of disqualifying label for their opponents. These, e.g. Popper (1976, pp. 298-300), repeatedly and justifiably denied any positivist inclinations. In fact, a major thrust of Popper's work was directed against certain tenets of (logical) positivism (cf. Popper, 1975). Only the Friedman-Rochester School authors

seem willing to apply the label "positivist" to themselves. Unfortunately, this label has been so widely used in the literature to be summarized in the next sections that I shall be forced to use it to denote those who argue for expulsion of value judgments from scientific reasoning to as total an extent as possible.

- (5) Note that the class of empirical theories will thus be broader than the class of "positive" theories as defined by the Rochester School. It will, e.g., contain a priori theories which are not yet tested but are testable.
- (6) This maybe explains why Zimmerman (1980) has such a hard time distinguishing "positive" from "descriptive" theory asserting that "Descriptive research generally precedes positive research and provides the basic foundation upon which positive propositions can be constructed," (p. 6) while at the same time, "It should be pointed out that descriptive research, by its very nature, must be based on positive propositions" (p. 7) which, of course, brings us full circle.
- (7) The translations of Weber (1904, 1917) are taken from Shils and Finch (1949); those of Weber (1919) from Gerth and Wright Mills (1946). In an earlier definition of "value judgments" in the same essay Weber (1917, p. 229) refers to "phenomena subject to our influence" instead of "social facts". As will be clear from the following discussions, exactly this distinction forms one of the bases for the normativist critique.

- (8) All further translations from or interpretations of the original texts were made by the present author for the purpose of this essay. They have not been approved by the original authors themselves.
- (9) Such fallibility, therefore, also applies to the scientific methodology adopted and, by implication, to the postulate of value-freedom!
- (10) Therefore, Popperian methodology would certainly not support Friedman's (1953, p. 14) view that "Truly important and significant hypotheses will be found to have "assumptions" that are wildly inaccurate descriptive representations of reality and, in general, the more significant the theory, the more unrealistic the assumptions (in this sense)."
- (11) For these reasons, among others, "naive falsificationism" has been criticized by philosophers such as Feyerabend, Kuhn, Lakatos and Stegmüller. Lakatos (1970), for example, provides a more evolutionary view of theory acceptance by focussing on research programmes rather than on individual theories.
- (12) Of course, theories might be used in different ways and for different ends, but Habermas' point is that these uses are implicated in the act of theory production. Note further that his view that the separation of theorizing and decisions is not desirable is, of course, a value judgment. It has, however, exactly the same status as the view that such separation is desirable.
- (13) This leads Popper (1976, p. 298) to remark that "...Professor Habermas seems to think that only one who is a practical critic of existing society can produce serious theoretical arguments about society, since social knowledge cannot be divorced from fundamental attitudes".
- (14) Consider the dominance of efficiency over equity considerations in economic theory, as the latter require value judgments in the interpersonal comparison of utility.

- (15) Much like some welfare economists plead for addition of an income distribution evaluation after theoretical results have been obtained with respect to allocative efficiency.
- (16) A Popperian answer to these questions is contained in his "The Open Society and Its Enemies." (1966) It is interesting that Popper combines a methodological position which is revolutionary--i.e. overthrow of existing theoretical systems by falsifying them--with an evolutionary social philosophy, that of piecemeal engineering.
- (17) There may be an instrumental superiority as soon as the aims of the scientific activity are made clear.
- (18) Or formulated more strictly: "what cannot be." This refers to the requirement that empirical theories should be able to generate falsifiable statements (cf. Popper, 1975; Christenson, 1983).
- (19) This is a further elaboration of a model in Klaassen and Schreuder (1979). For a further specification of the policy and practice domain see May and Sundem (1976).
- (20) In Albert's (1963) terminology there are two steps involved in the application of theoretical knowledge to real world problems. The first step involves a judgment as to whether the theory yields a relevant technology. The second step requires a value judgment as to whether the technology should be applied. The relevance of a technology as such does not imply the justification of its application in practice (cf. note 9.).
- (21) In the extreme case of a generally accepted value judgment, the evaluation involved might not even be recognized as such, and the theory containing it might be considered to be "positive".

- (22) In fact, it is precisely an attempt to separate relevance, interest, and significance "relative to a purely scientific problem situation" from relevance, interest and significance for various extra-scientific problems ("for example, problems of human welfare"). See Popper (1976, pp. 96-97).

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