CHAPTER 1
INTRODUCTION AND THE UTILITY OF THEORY

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1.1 INTRODUCTION

The book consists of eight chapters on various topics in accounting and finance. Nevertheless, one theme unites them all. They are epistemologically positive in the empirical sense of rigorous statistical testing. However, as a clarification, this should not be confounded with positive accounting theory (PAT). Although inferential statistics are central, hence "positive" in one perspective, PAT is an altogether different school of thought as it has a distinct set of hypotheses, granting an aspect of it – "economic men" – remains a recurring theme. Precisely (and expectedly), six of the seven papers laid here took a deductive approach to research. The days of nascent normative investigation a la Luca-Piccioli have been relegated to history, although a level of interposition between them when formulating the objectives of the studies is inevitable.

To the point, the objectives set in each paper are drawn from agency theory; the importance of environmental, social, and governance; theory of planned behaviour; the benefits of generic skills; and the merits of crowdfunding though some are not explicitly stated. This phase of research methodology, i.e., its theoretical foundation, is thorough and rigorous. In fact, if anything, it only strengthens one prevailing point –

that the scientific principle of concluding what accounting "is" and "should be" will remain dominant and central for foreseeable long years. Thus far, there has not been a superior alternative.

Another overriding point is that traditional accounting and finance issues remain relevant – as evidenced by the topics covered. Chapter two, for example, investigates the age-old question of audit report effectiveness in the public sector; as are Chapters four and eight on the relationship between ethics and accounting; Chapter three on accounting graduates and generic skills; and Chapter five on environmental, social, and governance. Perhaps the only departure from this trend is analysing skills requirements amidst the 4th Industrial Revolution (Chapter six) and the appeal of equity crowdfunding as an alternative form of raising capital for aspiring entrepreneurs (Chapter seven).

On a related matter, the chapter on crowdfunding is particularly revealing – not least because it enlightens us on a swifter and more cost-effective method of attracting capital – but because if this method of financing does take off spectacularly (imagine hundreds and thousands of small investors, and as far as Kiribati and the Solomon Islands) – it will undoubtedly put greater pressure on the accountants and lawyers to ensure the transactions are justly accounted for and protected. A whole gamut of elaborate systems and procedures might now have to be developed, tested, audited, and thoroughly evaluated.

1.2 THE ROLE AND UTILITY OF THEORY

Regardless, back to the fundamental – a solid theoretical underpinning of research is essential in understanding the behind-the-scenes dilemmas and dramas of trade and finance – especially from an ethical, moral, and equitable society perspective. At the heart of most issues is "why" humans behave the way they do. Is the tendency to help oneself as espoused by John Stuart Mill central to our well-being? Or is the "sense of duty" of Immanuel Kant a more sensible explanation? The answer to these questions is vital, given how modern corporations have grown in size and reach (Barle & Means, 1932). Owners have little recourse but to recruit outsiders as executives and CEOs to manage the companies on their behalf. But what are the owners' mutual thoughts on the attitude of these appointed agents? Perhaps the more popular answer is the "self-interest" tendency as theorised by Mill – the foundation that is also evidenced by the dominance of agency theory in accounting research. Jensen and Meckling (1976) underlying assumption that managers are predisposed to act for their own benefit, hence the pivotal role of sound compensation contracts to curb this ill-practice remains to this day. In contrast, the proposition that managers are truthful servants of the company and hence should be left to their own devices and creativity (Donaldson & Davies,1991) has been left to the periphery of research.

Notwithstanding, at its foundation is the meaning of the word "theory" itself. The Oxford Advanced Learner's Dictionary defines it as "a formal set of ideas intended to explain why something occurs or exists." (Oxford Learner's Dictionary, n.d.). At its rudimentary ease, a theory is explained as a proper clarification of why an event or outcome is the way it is. From the accounting and finance perspective, the analogy is similar in principle to employing purchase cost as the company's policy on inventory valuation – due to its robust state of evidence, and its state of faithfulness.

Moving the definition forward, Donleavy (2016) clarifies that the role of theory is not limited to explaining, but also asserting and predicting that a similar outcome will prevail if certain conditions are replicated. In this aspect, the theory or its close predecessor, i.e., postulates, should be tested in actual space and time before it can be roundly accepted by the scholarly fraternity. Regardless, theories that underpin studies in social science – unlike physical science – have never been expected to be overwhelmingly irrefutable at all junctures and instances. They are required only to be right on most cases and occasions. In the context of inventory valuation, this only means that cost as the basis of valuation can be discarded where deemed necessary; net realisable value is a viable option if it better reflects the real-world scene. This change of policy is certainly more pressing if we move the examples forward to the values of real estate, technology, and banks of data on users and consumers. In