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A genealogy of accounting materiality



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ABSTRACT

This study explores the relevance of the historical dimensions of the materiality concept and its past role. Metaphors applied to materiality provide insights into conditions and traces of power that have shaped its discursive configuration. Rather than viewing materiality as the gradual development of a technical idea over time, metaphorical discourses suggest that it has been constituted as multiple categories of knowledge, with divergent roles, as: a moral responsibility; a solution to the problem of over-auditing; a solid epistemic foundation for financial reporting; a scientific technique; a quantitative rule of thumb; a risk management concept; and a mysterious shield. The malleable nature of the concept has allowed the profession to realign and reinvent it to meet shifting priorities and challenges. Divergence in the trajectories of materiality discourses is relative to certain conditions, events, actors and financial scandals. The paper draws on the metaphor of performance, to interpret materiality as a performative activity at the crux of truth games about making visible, controlling, taming, managing and hiding translation errors in accounting inscriptions. The extent to which a genealogical analysis identifies different styles of reasoning that have shaped its meaning over time has implications for debate about its future development.

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1. Introduction

Materiality is a fundamentally important accounting concept (Messier et al., 2005), generally understood to involve the determination of the importance of a matter for financial reporting purposes (FASB, 1975). It also has a fuzzy ontology that has persistently evaded precise codification in professional guidance (Power, 1997, p. 36 Ling Lee, 2004). Decisions about materiality are a matter of professional judgement and no set of rules can be applied to determine thresholds in all circumstances (Gray and Manson, 2008; IFAC, 2010a,b). Nevertheless, it is a seemingly time-honoured concept (Lackritz, 2004; Wilcox, 2007), familiar to agents involved in the preparation, audit, analysis and regulation of financial statements (European Securities and Markets Authority – ESMA, 2012).

Scholarship has explored the nature and operationalisation of materiality. Detailed literature reviews have been conducted by, amongst others, Iskandar and Iselin (1999), Messier et al. (2005) and Brennan and Gray (2005). Yet, scant information exists about its beginnings. Little was written about materiality until after the Second World War (Hicks, 1964) and the importance of its past role, in a social and professional context, has perhaps been overlooked.

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The current study seeks to address this gap by exploring materiality's historical ontology (Hacking, 2004). Historical ontology is a form of enquiry that considers how concepts retain traces of the influence of their historical dimensions.¹ To this end, the paper undertakes a genealogical analysis, drawing on Foucault, to investigate conditions that have shaped our knowledge of materiality. Foucault developed genealogy as a tool to query what lies beneath the emergence of discourses. His ambition was to fragment and de-familiarize beliefs that “we tend to feel are without history” (Foucault, 1980, p. 139). Concepts are not the gradual, seamless, teleological development of ideas over time (Foucault, 1970) but are configured through discourses (Macintosh, 2009). Therefore, truths provided for us by our discourses have a history contingent upon certain past events, happenings, ruptures and struggles between power blocs (Foucault, 1986; Kearns and Hooper, 2002; Macintosh, 2009). By power, Foucault was referring, not to a specific authority, but to anonymous arrangements that exercise control over systems of thought (Hacking, 2004). Our beliefs change, relative to systems of domination that are powerful enough to influence ways in which we think about the world (Macintosh, 2009; Jones et al., 2011).

The objective of this historical analysis is therefore not to ask what materiality ‘is’ or unveil misconceptions or hidden truths in discourses but to question how others have sought to construct it (Foucault, 1986; Bartleson, 1995; Hacking, 2004). The focus is on the constitutings of materiality (Hacking, 2004), particularly on the conditions, events, traces of power and expert discourses that have shaped its existence.

As a precedent for this type of critical history, prior scholarship has investigated the past of other key accounting concepts and practices. Miller and O’Leary (1987) interpreted standard costing and budgeting as an apparatus of control over the performance of individuals. Sikka and Willmott (1995) explored the power of independence in building and defending a professional accounting jurisdiction. Maltby (2000) identified links between prudence and the practice of the social regulation of capital. Power (2012) explored fraud risk as a system of intense organisational governance and discipline. The current study reflects on the role of materiality as attempts by competing powers and expertises (Samiolo, 2012) to make visible, mediate, control, tame, manage, ignore, hide or downplay errors and ambiguities in the process of translating the elements of an organisational context into accounting inscriptions (Robson, 1992).

The specific contribution of the paper lies in developing two, related ideas. First, different expertises and metaphorical discourses have constituted materiality as a multiplicity of knowledge objects including: a moral responsibility; a commercial solution to over-auditing; a solid ‘thing’ and epistemic foundation for reporting; a scientific technique; a rule of thumb, a risk management tool, a mysterious professional lens and shield. Second, the paper explores how assemblages of factors, actors, powers and events have shaped the trajectories of materiality discourses.

The paper attempts to adopt a novel method. Discursive figures of speech are used, as a linguistic tool, to unearth clues about relevant genealogical factors. Metaphors and similes complement a genealogical approach because they provide an insight into traces of power, systems of thought and truth games that underlie meanings. Themes within metaphors applied to materiality and modes of use (whether strategic, reflective or critical) demonstrate how its construction has not been the product of any single, dominant, primary logic. Multiple factors have sculpted its complex ontology. The study also builds on the seminal work of Carpenter et al. (1994) who were amongst the first to explore materiality as a social and behavioural rather than a technical or cognitive phenomenon.

The findings of the current study seek to contribute to the accounting literature. Materiality is often referenced, as if its meaning, technical discourses and expertises that have constructed it, are solid and timeless. This critical analysis questions such assumptions. The paper may also have a practical significance for practitioners in understanding how materiality has historical dimensions, shaped by different, at times conflicting, expertises. Viewing materiality decisions as a performance by a group of actors, where expertises are drawn upon and ranked, may broaden horizons within which materiality decisions are reached.

Section 2 of the paper contextualises the study and begins with a review of the materiality concept in accounting and auditing. Section 3 explains why a Foucauldian methodological approach provides a relevant framework for an analysis of materiality and discusses the method of analysis adopted. Section 4 evaluates themes in metaphor applied to materiality to probe factors that have underpinned the development of materiality discourses, with a discussion of findings in Section 5. Concluding remarks summarise the paper in Section 6.

2. Materiality in accounting and auditing

The following section provides a context for the current study. First, the obscure beginnings of materiality and early references to the concept are considered. Problematics associated with inconsistencies and vagueness in definitions are discussed. Second, themes in scholarship on the subject are explored. Sections 3 and 4 attempt to suggest that a genealogical analysis may assist reflexivity about materiality by considering its historical dimensions and systems of thought that have shaped it as an object of knowledge.

¹ This term was originally put forward by Michel Foucault, concerned with truth through which we constitute ourselves as objects of knowledge, with power, through which we constitute ourselves as subjects acting on others and with ethics through which we constitute ourselves as moral agents. Ian Hacking expands this term to examine all manner of constitutings and the relevance of the historical dimensions of concepts. Some problems with concepts may be traced back to their past (Hacking, 2002, p. 37).

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