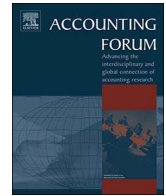


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A response to commentaries on a theoretical model of stakeholder perceptions of a new financial reporting system

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ABSTRACT

This is a response to questions raised by Kuruppu and Lehman (2016) and Thomson (2016) on Fontes, Rodrigues and Craig's (2016) model of Stakeholder Perceptions of a New Financial Reporting System. We clarify some matters that arise from the commentators' concerns about the intended contribution of the model, and its conceptual foundations. We also respond to concerns raised about the need to adopt a holistic and contextualized approach; provide further insights to the complex and dynamic nature of stakeholder perceptions and their formation; and elaborate on methodological assumptions underpinning the model. We argue that interpretative-based research offers an appropriate and challenging way to further improve and extend the model. We encourage researchers to adopt critical and interpretive-based methods to foster a reflective debate that will lead to improvements in the Stakeholder Perceptions model.

1. Introduction

This is a response to the commentaries by Kuruppu and Lehman (2016) and Thomson (2016) of Fontes, Rodrigues and Craig (2016) (henceforth referred to as FRC (2016)). In FRC (2016), we introduced a preliminary model of Stakeholder Perceptions of a New Financial Reporting System (henceforth, the “Stakeholder Perceptions” or SP model), recognized its limitations, and acknowledged the need for its further development.

The two commentaries are welcomed because they are likely to foster productive, critical and reflexive debate about the SP model. Their critical approach seems likely to yield benefits, in broader contexts, for theory development and model refinement. Indeed, the commentaries have prompted us to refine some conceptual foundations of the SP model, and to alert future researchers of the need for caution when considering methodological approaches to testing the SP model.

We did not purport to present a final model in FRC (2016). Rather, we presented a preliminary model composed of a set of propositions that needed to be assessed in different empirical contexts, preferably using an interpretative approach. We submit that the concerns raised in both commentaries stem from a mis-appreciation of the conceptual foundations of the model, and its expected contributions. Here we clarify those specific matters, elaborate on other aspects of FRC (2016), and offer some thoughts on how to develop the SP model further.

This reply is structured as follows. In Section 2, we clarify the objective and expected contribution of the SP model. Then, in Sections 3–6 we address the commentary of Kuruppu and Lehman (2016) specifically. In Sections 7 and 8 we reply to Thomson

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(2016), before offering some concluding remarks in Section 9.

2. Research objective: towards theorizing

We begin by expanding on the proposed contribution of the SP model, stressing that the model represents the preliminary stage of theory development (the “theory borrowing” stage). The adoption of such an approach is crucial in addressing the lack of an established theoretical framework to explain stakeholders’ perceptions of financial reporting processes.¹

The theory borrowing approach used in FRC (2016) followed [Oswick, Fleming, and Hanlon \(2011\)](#) by borrowing theories to construct a theoretical model that would explain stakeholders’ perceptions of financial reporting processes. The SP model should be classified, in accord with [Oswick et al. \(2011\)](#), as a “novel travelling theory”.² Given its “novelty”, subsequent application of the model in differing empirical contexts will enable it to be subject to sound critical evaluation. Accordingly, FRC (2016) argued that future empirical research is needed to generate an improved theory (i.e., a “radical travelling theory” in [Oswick et al.’s \(2011\)](#) terminology). Such further research would contribute to a holistic, enriched, and critical understanding of the model. We re-emphasize that FRC (2016) presented an initial model as a preliminary step in theory development.

We support the use of an interpretative approach to critically assess the SP model in various empirical contexts: indeed, we regard this to be essential in fostering its development ([Hopper and Powell, 1995](#); [Armstrong, 2008](#); [Parker, 2012](#)). An interpretative approach has strong capacity to contribute to theory in general, including to financial reporting theory and practice. Specifically, we suggest that the grounded theory approach to qualitative research is particularly suited to assess and develop the SP model. Such a methodological approach implies a continuous fertilization/interaction of theory and data in which researchers are alert to the need for empirical flexibility, reflection and reflexivity. They must be conscious of the need to revise theory based on data, rather than offer a limited and restricted view based on a prior theoretical focus and pre-conceived position ([Laughlin, 1995](#); [Elharidy, Nicholson, & Scapens, 2008](#); [Joannidès & Berland, 2008](#); [Gurd, 2008](#); [Vaivio, 2008](#)). Exponents of grounded theory often regard prior theories as tentative. They seek to enrich emergent theory by modifying (or even disconfirming) existing propositions.

The SP model does not purport to defend the legitimation of proposed financial reporting change. Rather, operationalization of the model is intended to provide insights and/or political messages to help overcome some obstacles to accounting reform. We provided some examples of these potential insights and messages (FRC, 2016, p. 311–312). However, we did not imply receptiveness to, or uncritical acceptance of, International Financial Reporting Standards (IFRS). Operationalization of the SP model has strong potential to yield critical views about the adoption of IFRS, highlight conflicts of interest, and expose sources and forms of resistance to change. Application of the SP model may also generate practical insights that will promote and sustain the success of any change to IFRS. The model can also reveal potential sources and forms of resistance and conflict that will weaken pillars of support for global adoption of IFRS. The practical potential insights are not mutually exclusive. They are also subject to contextual differences (such as with respect to time, stakeholder group identities, and national context).

Attaining in-depth understanding of stakeholders’ perceptions of financial reporting change has three important outcomes. First, it will provide regulators with critical understanding of the extent to which stakeholders were (or were not) empowered in the process of IFRS change. Second, it will foster broader community debate and involvement. This seems likely to lead different stakeholder groups to challenge different guidelines and opinions on the adoption of IFRS, and to highlight alternative ways of thinking about “international accounting obligations.” Third, understanding of stakeholder perceptions will advance the public interest in the process of financial reporting change. By acknowledging the potential for conflicts and resistance to change, the SP model is capable of contributing well to re-assessments of the role of accounting in organisational change and adaptation ([Hopper and Powell, 1985](#)).

In hindsight, we recognize that FRC (2016) probably overemphasized the constructive insights that were likely to arise from applying the model. These were insights that could be construed as promoting the success of financial reporting change. However, the ultimate goal of FRC (2016) was not to preserve and legitimize IFRS – as postulated in both commentaries. Rather, we stressed the importance of undertaking a “sympathetic adoption process” that would generate awareness among various interest groups, and thereby be conducive to acceptance and effective implementation of a new financial reporting system.

3. Ethical dimension of financial reporting change

We agree with [Kuruppu and Lehman \(2016, p. 316\)](#) that “to theorise change we must not only advance the interests and perceptions of stakeholders, but challenge the social structures that embed principles of neoliberalism.” Additionally, we concur with their view that listening to stakeholders’ voices will be conducive to challenging the “economic and neoliberal logic on which the accounting sphere relies ... [and will help] ... to appreciate the content of reasoning associated with international accounting obligations” (pp. 317–18). We strongly believe that exploring stakeholders’ perceptions will foster dialogue and critical evaluation of whether IFRS are desirable and fair from a societal perspective. The SP model does not neglect the role of stakeholders in the process of financial reporting change (as also claimed by [Thomson \(2016, p. 320\)](#)). We agree that an emphasis on in-depth understanding of

¹ The contribution of this initial model was acknowledged in FRC (2016, p. 361, italics applied), as follows: “The theoretical propositions represent *first approximations* of the phenomenon under scrutiny. Nonetheless, the model contributes to the development of financial reporting by borrowing different approaches, lines of research and theories (hitherto unconnected), to investigate stakeholders’ perceptions of financial reporting change.”

² At this “novel” stage, researchers seek to provide “quirky”, rather than broad and deep insights. We recognize that models such as SP “largely reinforce, build upon, or resonate with prior knowledge rather than offer a more critically oriented perspective” ([Oswick et al., 2011, p. 324](#)).

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