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## The “modern” in “modern finance”: A multi-paradigmatic look

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## ABSTRACT

Any adequate understanding of “modern finance” necessarily requires fundamental understanding of what is “modern”. For this purpose, this paper takes the concept of “modern” and discusses it from four different viewpoints, each of which corresponds to one of the four broad worldviews or basic paradigms: functionalist, interpretive, radical humanist, and radical structuralist. The paper emphasizes that the four views expressed are equally scientific and informative; they look at the phenomenon from their certain paradigmatic viewpoint; and together they provide a more balanced understanding of the phenomenon under consideration, i.e., the “modern” in “modern finance”.

## 1. Introduction

Any adequate understanding of “modern finance” necessarily requires fundamental understanding of what is “modern”. For this purpose, this paper takes the concept of “modern” and discusses it from four different viewpoints, each of which corresponds to one of the four broad worldviews or basic paradigms: functionalist, interpretive, radical humanist, and radical structuralist. The paper emphasizes that the four views expressed are equally scientific and informative; they look at the phenomenon from their certain paradigmatic viewpoint; and together they provide a more balanced understanding of the phenomenon under consideration, i.e., the “modern” in “modern finance”.

These different perspectives should be regarded as polar ideal types. The work of certain authors helps to define the logically coherent form of a certain polar ideal type. But, the work of many authors who share more than one perspective is located between the poles of the spectrum defined by the polar ideal types. The purpose of this paper is not to put people into boxes. It is rather to recommend that a satisfactory perspective may draw upon several of the ideal types.

The ancient parable of six blind scholars and their experience with the elephant illustrates the benefits of paradigm diversity. There were six blind scholars who did not know what the elephant looked like and had never even heard its name. They decided to obtain a mental picture, i.e. knowledge, by touching the animal. The first blind scholar felt the elephant’s trunk and argued that the elephant was like a lively snake. The second blind scholar rubbed along one of the elephant’s enormous legs and likened the animal to a rough column of massive proportions. The third blind scholar took hold of the elephant’s tail and insisted that the elephant resembled a large, flexible brush. The fourth blind scholar felt the elephant’s sharp tusk and declared it to be like a great spear. The fifth blind scholar examined the elephant’s waving ear and was convinced that the animal was some sort of a fan. The sixth blind scholar, who occupied the space between the elephant’s front and hind legs, could not touch any parts of the elephant and consequently asserted that there were no such beasts as elephant at all and accused his colleagues of making up fantastic stories about non-existing things. Each of the six blind scholars held firmly to their understanding of an elephant and they argued and fought about which story contained the correct understanding of the elephant. As a result, their entire community was torn apart, and suspicion and distrust became the order of the day.

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This parable contains many valuable lessons. First, probably reality is too complex to be fully grasped by imperfect human beings. Second, although each person might correctly identify one aspect of reality, each may incorrectly attempt to reduce the entire phenomenon to their own partial and narrow experience. Third, the maintenance of communal peace and harmony might be worth much more than stubbornly clinging to one's understanding of the world. Fourth, it might be wise for each person to return to reality and exchange positions with others to better appreciate the whole of the reality.<sup>1</sup>

Social theory can usefully be conceived in terms of four key paradigms: functionalist, interpretive, radical humanist, and radical structuralist. The four paradigms are founded upon different assumptions about the nature of social science and the nature of society. Each generates theories, concepts, and analytical tools which are different from those of other paradigms.

The functionalist paradigm has provided the framework for current mainstream academic fields, and accounts for the largest proportion of theory and research in academia.

In order to understand a new paradigm, theorists should be fully aware of assumptions upon which their own paradigm is based. Moreover, to understand a new paradigm one has to explore it from within, since the concepts in one paradigm cannot easily be interpreted in terms of those of another. No attempt should be made to criticize or evaluate a paradigm from the outside. This is self-defeating since it is based on a separate paradigm. All four paradigms can be easily criticized and ruined in this way.

These four paradigms are of paramount importance to any scientist, because the process of learning about a favored paradigm is also the process of learning what that paradigm is not. The knowledge of paradigms makes scientists aware of the boundaries within which they approach their subject. Each of the four paradigms implies a different way of social theorizing.

Before discussing each paradigm, it is useful to look at the notion of “paradigm.” Burrell and Morgan (1979)<sup>2</sup> regard the:

... four paradigms as being defined by very basic meta-theoretical assumptions which underwrite the frame of reference, mode of theorizing and modus operandi of the social theorists who operate within them. It is a term which is intended to emphasize the commonality of perspective which binds the work of a group of theorists together in such a way that they can be usefully regarded as approaching social theory within the bounds of the same problematic.

The paradigm does ... have an underlying unity in terms of its basic and often “taken for granted” assumptions, which separate a group of theorists in a very fundamental way from theorists located in other paradigms. The “unity” of the paradigm thus derives from reference to alternative views of reality which lie outside its boundaries and which may not necessarily even be recognized as existing. (pages 23–24)

Each theory can be related to one of the four broad worldviews. These adhere to different sets of fundamental assumptions about: the nature of science (i.e., the subjective-objective dimension), and the nature of society (i.e., the dimension of regulation-radical change), as in Exhibit 1.<sup>3</sup>

Assumptions related to the nature of science are assumptions with respect to ontology, epistemology, human nature, and methodology.

The assumptions about ontology are assumptions regarding the very essence of the phenomenon under investigation. That is, to what extent the phenomenon is objective and external to the individual or it is subjective and the product of individual's mind.

The assumptions about epistemology are assumptions about the nature of knowledge – about how one might go about understanding the world, and communicate such knowledge to others. That is, what constitutes knowledge and to what extent it is something which can be acquired or it is something which has to be personally experienced.

The assumptions about human nature are concerned with human nature and, in particular, the relationship between individuals and their environment, which is the object and subject of social sciences. That is, to what extent human beings and their experiences are the products of their environment or human beings are creators of their environment.

<sup>1</sup> This parable is taken from Steger (2002).

<sup>2</sup> This work borrows heavily from the ideas and insights of Burrell and Morgan (1979).

<sup>3</sup> See Burrell and Morgan (1979) for the original work. Ardalan (2008) and Bettner, Robinson, and McGoun (1994) have used this approach.

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