# ONTOLOGY AND EPISTEMOLOGY: A TRANSCENDENTAL REFLECTION ON DECISION-USEFULNESS AS AN ACCOUNTING OBJECTIVE

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### **Abstract**

As key global accounting regulators, the FASB and the IASB have accorded much importance to the concept of decision-usefulness, especially in the context of the capital providers as a specific user group. However, a vague reference to the usefulness of accounting information means nothing unless the utility being sought is properly defined. This paper reflects on the relevancy of decision-usefulness as a key financial reporting objective from two perspectives. Firstly, the ontology of accountancy with specific reference to decision-usefulness and utility versus ophelimity are considered. Secondly, epistemological issues around the quantification of accounting data and its predictive abilities are discussed.

The article does not deny the importance of the usefulness criterion, but rather argues against a vacuous concept of decision-usefulness, which, as a key accounting and financial reporting objective, is devoid of any substantive meaning. Instead, a more realistic key objective of accounting should be to provide factual economic and financial information, which, since it presents any user with information in a unique company-specific context, can be considered *judgement*-useful, rather than *decision*-useful.

Key words: accountancy, accounting ethics, decision-usefulness, financial reporting, stewardship

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### 1 Background

"The quality of decision is like the well-timed swoop of a falcon which enables it to strike and destroy its victim."

(Sun Tzu, The Art of War)

This age-old advice of the great Chinese general and philosopher, Sun Tzu, is just as true in the modern business environment as in ancient warfare – perhaps even more so. In the current fast-paced, competitive environment, quality decisions are crucial, and according to Wild (2008) and Fellingham (2005), accounting is viewed as the measurement activity that provides financial reports in support of decision makers and their business decisions. In recent times, these decision makers have been accorded much importance by key accounting regulators, so much so that contemporary accounting theory textbooks declare the primacy of users' decision support as underlying to the external financial statements (Young, 2006; Ijiri, 1980).

The conceptual framework of the US-based Financial Accounting Standards Board (FASB) maintains that a primary purpose of the financial statements is to provide information that is useful to investors and creditors in making their economic decisions (Williams, 2009; Young, 2006). This focus is echoed by UK-based International Accounting Standards Board, or IASB (IFRS, 2008), when they state that the objective of the general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers.

At the current juncture in financial reporting history, though, it is evident that these *investors*, *lenders* and *other creditors* have made and concealed some astonishingly poor business decisions. Furthermore, as capital providers, current-day investors seem to be disconnected from the real economy (Mitchell, 2008), and engage in trading that largely

serves to finance the finance industry (Williams, 2009).

Williams (2009) states that accounting research of the past four decades has focussed heavily on the concept of decision-usefulness, which then also became the agreed-upon guide for judging the effectiveness of accounting and financial reporting. This connection between i) the users of financial statements, ii) the objective of decision-usefulness and iii) accounting standard setting was forged fairly recently and was initially quite controversial (Young, 2006). According to Schuetze (1983) and Armstrong (1977), more than 60 per cent of the respondents to the FASB's discussion memorandum on the objectives of financial reporting opposed adopting the provision of information for economic decision making as an accounting objective. In fact, Spiller (1964) earlier argued that an emphasis on this pragmatic aspect of accounting requires answering to whom the information was to be useful, and what purpose it was to be useful for. According to Young (2006), this is where the danger lies; it can become easy to get trapped into defining accounting theory and formulating its postulates and principles, in terms of some special-interest group(s).

According to accounting theorists, such as Cluskey, Ehlen and Rivers (2007), Schroeder, Clark and Cathey (2005) and Riahi-Belkaoui (2000), accounting theory is the framework of accounting principles that directs the practice of accounting, which is presented as the accounting concept of GAAP. In South Africa, GAAP is typically taken as Generally Accepted Accounting Practices (Everingham, Kleynhans & Posthumus, 2007:2; Sowden-Service, 2007:6), and encompasses the conventions and rules required to define acceptable accounting practices at a given point in time (Epstein, Nach & Bragg, 2005). It may therefore seem that what gets taught as accounting theory is in actuality prescribed accounting practice, which then questions the validity of what gets taught at academic institutions as theory. It also raises the concern of the role of the accounting regulators in describing and prescribing what accounting theory should be.

Notwithstanding the aforementioned, accounting has long been searching for criteria

that can be used to identify and select the best financial measurement techniques (Ijiri, 1980; Ijiri & Jaedicke, 1966). To confuse the matter somewhat, accounting is plagued by the existence of many alternative techniques and methods. The accounting method selection, however, is not a whimsical decision and vague references to *usefulness* mean absolutely nothing unless the specific utility sought by such an objective is clearly defined.

### 2 Problem statement

The question begs whether decisionusefulness, as currently understood, articulates a minimally coherent basis for accountancy, including accounting theory. Considering cases in recent corporate reporting history, it may be an opportune time to reflect somewhat on the concept of decision-usefulness. Therefore, the primary question under consideration can be formulated as follows:

 Is decision-usefulness as straightforward and unquestionable a way to classify the intellectual and policy making aspects of accounting as it might seem to be?

### 3 Method and objectives

The research method used in this article comprised a combination of literature study and philosophical discussion, which is based on a transcendental criticism aiming to further individuate the foundations of the concept of decision-usefulness. The primary aim is to consider the development of decision-usefulness as is currently being articulated by the authoritative accounting regulatory institutions and to highlight certain key conceptual and operational flaws therein. To achieve this aim, two philosophical concepts, namely ontology and epistemology, are used as the basis for the discussion.

• Firstly, the term ontological refers to the nature of the reality that is to be studied (Terre Blanche, Durrheim & Painter, 2008), while ontology refers to the *study of reality* and the improvement of the phenomena in the social world by the

generation of knowledge regarding the nature of being (Brynard & Hanekom, 2008; Hole & Hawker, 2004). Within the context of this article, the first objective is therefore a consideration of the reality in which accounting is practised and the accounting history that gave rise to the concept of decision-usefulness. Furthermore, key in the consideration of this reality is especially the issue of social utility versus individual ophelimity seen against accounting's decision-usefulness objective.

Secondly, the term epistemological refers to the search of knowledge with the objective of arriving at a result that is as close to the truth as possible (Mouton, 2009; Brynard & Hanekom, 2008: Audi, 2005), while epistemology is defined as the theory of knowledge (Terre Blanche et al., 2008). Within the context of this article, the second objective is therefore to analyse key epistemological issues regarding the theoretical foundations put forward by the accounting regulators in justification of their version of accounting theory (i.e. that of decision-usefulness). Crucial to this analysis is the consideration of accounting data's predictive capabilities, which in turn is based on the quantification of such data.

### The ontology of the decisionusefulness objective

Young (2006) states that the connection between the user of financial statements (as decision maker) and the standard-setting process was made amid a confluence of events, ideas and people. Starting with the American Accounting Association's (AAA) Committee on Accounting Procedure through to the FASB and the IASB, accounting regulators have sought to bind their responsibilities via some kind of coherent accounting theory statement that provides a rationale for the rules they propagate. According to Williams (2009), many accounting theorists have been preoccupied with the creation of an accounting theory that neither clarifies a logical accounting foundation, nor describes current accounting practices, but rather attempts to shape future choices by choosing between different accounting and financial reporting techniques. As a point of departure in this article's reflection on accounting's decision-usefulness objective, a brief overview of the history of how the concept of decision-usefulness became a prominent accounting objective is provided.

### 4.1 The evolution of the decisionusefulness objective

According to Young (2006), the focus area of equity investments shifted during the mid 20<sup>th</sup> century from dividend yield to capital gains, institutional investors becoming increasingly significant in financial market participation. As these patterns changed, the number of investment analysts increased, which resulted in, among other the Financial Analysts Federation being founded in 1947. These changes resulted in financial statements being subjected to increased scrutiny, which resulted in the increased significance of the audited financial statements at that time (Corbin, 1958); West (1959) also reiterated the importance of comparability of financial statements to ensure the usefulness thereof to the various users thereof.

Amid various accounting information concerns, the AAA appointed a committee in 1964 to consider the role, nature and limitations of accounting (Young, 2006), which produced a report entitled A Statement of Basic Accounting Theory, hence ASOBAT. According to Staubus (1999), the first prominent publication on the topic of decisionusefulness was the ASOBAT<sup>1</sup> report of 1966. This committee's primary mission was to define a basic statement of accounting theory by providing a cohesive set of hypothetical, conceptual and pragmatic principles forming a general accounting reference (Young, 2006). The ASOBAT I defined accounting as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions (AAA, 1966). Even though ASOBAT I recognised that decision-usefulness is an encompassing principle that is dependent upon the user, it did not explicitly identify the actual

users of the accounting data (Young, 2006). Furthermore, according to the AAA (1966), the ASOBAT I also cautioned i) that the users of accounting information often do not possess adequate competency to determine what information would be most useful for them, and ii) against accountants implying that the information supplied is wholly adequate for such prediction, while iii) also stating that relevance should be the primary criterion when choosing between accounting alternatives. Notwithstanding its emphasis on individual decision making, the ASOBAT I committee added additional objectives with a social welfare orientation by stating that a purpose of accounting is to provide information for the maintenance and reporting custodianship of resources and to facilitate social functions and controls (AAA, 1966).

The next phase in the evolution of the decision-usefulness objective was entered into with the formation of the FASB in 1973, which, according to Young (2006), embarked on a conceptual framework project to rationalise its promulgated accounting standards. This framework's format resembled ASOBAT I in that i) the FASB specified the objectives of financial reporting in their Statement on Financial Accounting Standards (SFAC) No. 1 (FASB, 1978), and ii) listed the characteristics that accounting information should possess in order to fulfil those objectives in SFAC No. 2 (FASB, 1980). The FASB, however, was more specific about the users and the types of decisions they consider the accounting information to be relevant for. According to the FASB, financial reporting should provide information that is useful to present and potential investors and creditors in assessing the amounts, timing and uncertainty of prospective cashflows (FASB, 1978). The statement that financial reporting should provide information useful to certain decision makers regarding prospective cashflows can be considered a normative instruction rather than a foundational summary of accounting theory (Williams, 2009). The peculiarity of this as a statement of theory was objected to by many who espoused the more traditional stewardship objective as accounting's primary function (Young, 2006), which is now limited only to how management discharged its stewardship responsibility to the company's owners (FASB, 1978). Therefore, according to the FASB, accounting information is to be evaluated based on its decision-usefulness, which means that data that best helps certain types of decision makers to make certain types of decisions are preferred. The declaration that decision-usefulness is to serve as the primary purpose of financial reporting and the basis for selecting among accounting alternatives, however, raises questions about this user group. Furthermore, the FASB failed to address the empirical issue of how to determine which alternative is most helpful to actual users (Young, 2006), users whose ability ASOBAT I had cast doubt upon.

normative In disputing accounting standards, Demski (1973) asserted standards that deviate from individual preferences cannot offer guidance in selecting accounting alternatives. In defining normative, Demski (1973) stated that such previously failed standards (theories) relied on relevance, usefulness, objectivity, fairness verifiability to delineate the desired alternatives. A second ASOBAT Committee (ASOBAT II) assembled in 1977 and asserted that since normative standards are divorced from individual preferences, the imposition of such standards presents serious difficulties (AAA, 1977). Thus, ASOBAT II reiterated the key role of individual preferences and decision makers as the focus of financial reporting, thereby supporting both the original ASOBAT theory and the FASB's conceptual framework. While the ASOBAT II Committee criticises earlier normative standards as problematic, it elected not to acknowledge that the original ASOBAT theory and the FASB statements are indeed normative as well (Williams, 2009).

The last phase in the evolution of the decision-usefulness objective is set against the background of global accounting convergence efforts. Accounting's most recent conceptual framework is a joint effort by the FASB and the IASB. Since the FASB is coordinating and cooperating in developing this framework, surprising it is to find framework reiterating many earlier FASB pronouncements (Barth, 2008). The proposed framework's objective for general-purpose financial reporting is to provide financial information about the reporting entity that is useful to the primary users of financial reporting, which are, according to IFRS (2008), the present and potential equity investors, lenders and other creditors, in making decisions in their capacity as **IFRS** capital providers. (2008)notes that it is accounting information's qualitative characteristics of relevance and representational faithfulness that render it useful to the users in their capacity as capital providers. Representational faithfulness refers to the appropriate presentation and portrayal of the economic phenomena deemed to be relevant, which is enhanced by the four of comparability, verifiability, timeliness and understandability (IFRS, 2008). Seen from the accounting regulators' perspective, relevance is concerned with the economic phenomena of the capital providers' decisions and it is the application of the qualitative characteristic of relevance that will identify the economic phenomena to be depicted in the financial reports. To the IASB, relevance therefore refers to and delimits the scope of what content should appear in the financial reports.

Considering all the above, it seems that decision-usefulness has been narrowly circumscribed to be defined as the actual decision needs of the capital providers and those others whose decisions are analogous to that of such capital providers. These objectives subsume stewardship under decision-usefulness and all but abolish an explicit stewardship reporting objective.

## 4.2 Social utility versus individual ophelimity

The ASOBAT and FASB were seen as groundbreaking because they shifted the focus from accounting information's normative qualities to its decision-usefulness objective (Williams, 2009). The next section of the article analyses in more detail who the potential users of this information are and what they might consider decision-usefulness to be, within the context of a lexicological consideration of *decision utility*. Decision-usefulness is not only the current underlying principle of promulgating accounting standards, but according to Staubus (1999),

also the current research focus of many accounting academics. Earlier, however, Sterling (1972) stated that decision-usefulness is such a broad and vague concept that there is no real reason researching it as a single paradigm. Furthermore, Beaver, Kennely and Voss (1968) also acknowledged that the is problematic decision-useful criterion because the decision model is often either unknown, or it does not allow identification of the better accounting alternative. As was illustrated earlier, the concept of decision-usefulness as currently presented is based on the fulfilment of individual preferences. It is, however, not clear whether it serves to create individual or social 2009). The implied utility (Williams, presumption may be that a general form of decision-usefulness will lead to increased utility for all individual decision makers. The question in this ambiguous presumption remains as to which decision makers and what types of utility are being referred to.

There is a certain degree of ambiguity between the concepts of utility, which is defined as the state of being useful (Livingstone, 2008; Webster's Dictionary and Thesaurus, 2006), and usefulness, which is defined as being able to be used for a practical purpose (Livingstone, 2008; Webster's Dictionary and Thesaurus, 2006). Williams (2009) goes a bit further and aligns utility/usefulness with classical economics, which, according to Sen (1998) as well as Cooter and Rappaport (1984), focused on material welfare. Classical economists used the term utility to denote something that was conducive to the development and prosperity of an individual, a people or the human race (Pareto, 1896 as quoted in Cooter & Rappaport, 1984; Burchfield, 1982). However, since the term *utility* can be ambiguous, Pareto substitutes it with ophélimité to delineate individual subjectively-defined preferences (Sen, 1998; Cooter & Rappaport, 1984), which means the capacity to satisfy any rational or irrational want and designates a relationship of convenience, which makes a thing satisfy a need or desire, legitimate or not (Burchfield, 1982). Therefore, in contrast to utility, the concept of ophelimity refers to subjective, individually-based and ordinal economic gratification. It can be argued that it is doubtful that accountants possess either the linguistic or the conceptual abilities to distinguish between social utility (welfare) and individual ophelimity. It might therefore seem that what is currently propagated as accounting theory is based on a perplexed blend of two essentially different concepts (Schipper, 2002). On the one hand, as the stated goal of financial reporting, decision-usefulness is embedded within implicit concepts of welfare economics based on *social utility*, while on the other, the justification of decision-usefulness springs from a theory of markets based on *individual ophelimity*.

When reading the IASB's objective of financial reporting as contained in IFRS (2008), it is clear that the regulator considers the capital providers as the prominent user class. Within the context of this user class, the information contained in the financial statement serves, according to Beaver (1972), two key roles: i) as an aid to establish security prices to facilitate resource allocation between companies and security allocation among investors, and ii) as an aid to the individual investor in the selection of optimal security portfolios. The question of the nature of such investors (capital providers) immediately arises (Beaver, 1972). Assuming on the one hand homogeneous capital providers, the regulators must choose from accounting alternatives by relating them to the decision makers' responses. If the assumption is made that all investors have the same utility function, then would they not all make similar decisions and select similar accounting choices? In contrast, assuming heterogeneous capital providers, attempting to optimise ophelimity would entail overwhelming informational needs by the regulators to specify how decision makers will use the information in altering their behaviour. Can the regulators presume to know which accounting alternatives would provide information that would enable individual decision makers to their individual preferences? Ophelimity is known only by the individual, which means that interpersonal utilities are not comparable. Furthermore, Beaver and Demski (1974) argue that since non-investors may be affected by decisions based on the financial reports, they

are also users thereof. In an environment where the regulators understand utility as the ophelimity of a delimited grouping of decision makers, the notion of *general purpose* financial statements, as defined by the IASB, becomes undetermined.

If the regulators did not seek to maximise individual ophelimity, the obvious alternative is social utility, which opens up the possibility that they are pursuing the ASOBAT I goal of improving social welfare. Williams (2009) states that such an objective would aim to alleviate need by increasing the material means available to a society and then allocating such means in a manner to achieve the greatest material well-being for the greatest number beneficiaries. In SFAC No. 1, the FASB (1978) notes that the role of financial reporting in the economy is to provide information that is useful in making business and economic decisions, it does not attempt to be specific on what those decisions should be. Thus, the FASB explicitly excuses itself from any responsibility for its standards on the premise that it can ascertain what information is actually useful to rational decision-makers.

The capital providers' utility orients the regulators' decisions and fosters the rationale provided for the capital market research paradigm centred on the efficient market hypothesis (Williams, 2009). Accounting data is useful if it correlates with share prices, share returns, solvency measures, etc. The logic is that if one accounting reporting system leads to higher values for capital providers than another, then that reporting system is preferred. Beaver (1972), however, warned against the fallacy of composition and stated the securities market should be distinguished from the individual investors that compose the market. This distinction is somewhat artificial, because the aggregate actions of the individuals determine market process behaviour. However. the aggregation is often deceptive, because in many cases, what is 'true' for the group as a whole is not 'true' for any individual of that group, and vice versa (Williams, 2009). Beaver and Demski (1974) expatiated on the difficulty of moving from individual to group and stated that the payoff-relevant partition of future states will vary considerably

between these two, and even within the different major user categories a lack of unanimity exists due to the heterogeneity of preferences and expectations.

### 5 An epistemological consideration of decision-usefulness

The second objective of the article revolves around the theoretical foundations upon which accounting's decision-usefulness objective is based. When considering the basic nature of quantitative accounting information within the context of whether such data is indeed appropriate for delivering on decision-usefulness as defined by the FASB and IASB, two key problems come to mind. Firstly, there are questions around the quantification of the data presented in the financial reports, and secondly, there are questions around these financial reports' predictive abilities.

### **5.1** The question of quantification

The FASB (1978) states that the information in the financial statements must be quantifiable in monetary terms. The IFRS (2006) further reiterates this quantification's pre-eminence by declaring that the financial statement information should be about resources, claims and the changes therein. According to Williams (2009), much of current accounting research is then also focussed on:

- the quantitative nature of accounting information manifested in elaborate mathematical and statistical models, correlations and forecast errors;
- analytical models of accounting phenomena that are reliant on calculations that presume quantification; and
- economic and business decisions that are modelled on accounting inputs, as are the development of various prediction models.

However, although current-day accountants do produce numbers, these numbers are no longer necessarily actual quantities. West (2003) argues that i) the basic arithmetic functions of addition and subtraction may only be performed with concrete numbers of the same type, and ii) modern-day accounting numbers lack such characteristics. Even though modern

financial statements comprise many different types of numbers, varying from historical costs to value-based numbers (such as fair value, market value and present value), conventional accounting practices and rules treat all amounts as being of the same kind. The aggregation of numbers that signify dissimilar types may very well result in totals whose connotation becomes, by definition, inexplicable. A further aspect to remember is the fact that operational numbers are the numerical depiction of an original reality that is qualitative in nature. However, in reality, these operational numbers do not correspond to any real quantities per se (Williams, 2009); it is merely an opportune technique of summarising a complex, qualitative situation. Furthermore, these disclosed values often depend on subjective decisions and are therefore somewhat arbitrary. Gillies (2004) warns that operational numbers should only be used to the extent that measurement connotes an action characterised by actual quantification. It can therefore be argued that accounting is not a measurement activity, or it could be construed as such only in a feeble sense by providing an arbitrary and rough indication of a more intricate and qualitative reality. As long as the accounting numbers are perceived in this manner, it remains a useful tool, but the risk lies in regarding it as a more precise mathematical quantity existing in reality.

The nature of accounting information as operational data has even further significant implications on the domain of accounting epistemology. The paradigm, which, according to Beaver (1997), outlined accounting research's positive economic approach, turned academic accounting into a sub-discipline of neoclassical economics (Reiter & Williams, 2002). As a result, empirical accounting research is now the central mode of scholarly dialogue (Williams, Jenkins & Ingraham, 2006), which is notable for its mathematical rigor and construction of statistical models aimed to fashion economic explanations to all manner of behaviour. For example, in the December 2008 edition of The Accounting Review, six of the seven main articles involved multivariate regression equations, measured with accounting information. Each article culminated in aimed equations determining at contribution of the variables to the modelled phenomenon before explaining what these equations mean - as if the numbers in these equations were representative of quantities of some authentic economic thing. The numbers used in the calculations were mostly operational numbers from financial statements. So what the equations in reality calculate is indeterminate. As argued earlier, operational numbers provide only guides to a complex qualitative reality. Once we start performing intricate mathematical calculations with such numbers, the end result can easily stop bearing any relation to reality. So what do the hundreds of accounting and financial studies over the years actually mean? What sense is there in a study with 10 variables measured primarily by operational numbers on 400 organisations condensed into a linear equation calculation? Who knows? The significance of many of these studies is contained in their outset. Defined by naive ontological economic assumptions, the significance given to these studies also comprise naive neoclassical economic assumptions.

In spite of all the rigorous research and the regulatory discussions, accountants are still trapped in the world where they do not know with any degree of exactness what decision-usefulness actually is. However, this is to be expected when setting out to chase a chimera. Since accounting information is operational data, accounting regulators can never decisively demonstrate which arbitrary technique or assignment is more decision-useful than another.

### **5.2** The question of prediction

A further weakness under consideration is that of accounting information's (in-)ability to predict future business events or trends. As mentioned earlier, the regulators note a forward-looking feature of useful information as assessing the amounts, timing and uncertainty of prospective cashflows. Furthermore, the FASB (1978) also states that well-developed securities markets tend to allocate scarce resources to enterprises that use them efficiently and away from inefficient

enterprises. Williams (2009), however, does not consider this as representative of the real world, but as an allegory of a romanticised market economy where impartial and invisible market forces guide human action to some natural optimum of resource allocation. The FASB's statement is therefore a prediction of sorts in itself by stating what well-developed securities markets will do, not what they have done, and implies that if a well-developed securities market were introduced, the natural end result would be a more efficient allocation of resources.

The broader social sciences have never been, and probably will never be, able to develop explanatory and predictive theories due to the context and judgments that are pivotal to the understanding of human actions (Gordon, 2001; Flyvberg, 2001). However, in order for decision-usefulness (as accounting objective) to have some validity, economic prediction must be possible and the accounting information must be noticeably useful for such prediction. This is unlikely because of at least two key reasons intrinsic to the environment in which the accounting data is generated. Firstly, the user/s for which the information is being prepared for is/are unpredictable. secondly, the decision/s for which the information is being prepared for is/are also unpredictable.

The unpredictable user: In ascertaining decision-usefulness, the user seems to be the central point; business users consume accounting information in their decisionmaking functions, while academic users, reliant on the same data, attempt to construct models of how other users behave abstract beings. Regulators academics alike assume that it is possible to show that accounting information is useful for predicting 'something' and that this prediction will result in rational economic decisions. Williams (2009) considers the users offered as the objects for standard-setting as idealised economic actors whose behaviour is predictable with respect to some scripted explanation. As stated earlier, the ASOBAT noted that the actual users may not know what information is most useful to them.

- Ariely (2008) and Schipper (2002) share a similar sentiment when arguing that individuals may not be introspectively accurate and may not be aware of what information they will use most efficaciously, and even if they have the needed information, they may not use it consistently.
- When considering the diminished motives ascribed to the rational utility maximiser, Sen (1977) concludes that the purely economic man is indeed close to being a social moron. Galbraith (2009) concurs by stating that instead of considering the consequences of their decisions in a manner predicted by the view that they are responding purely to the market, individuals act as social beings, they are concerned about their reputation with their peers and the fairness of the offered deal or matters unrelated to the utility of the object or money on offer. These subversive findings suggest that even if there was perfect information and foresight with no externalities of monopolies, financial markets composed of real people would in all likeliness still not perform as the conservative vision suggests. According to Flyvberg (2001), social scientists do not have a theory for how the people they research determine what counts as an action, because such determination derives from unique personal skills defined by unique individual situations. Simon (1993) concurs that individuals do not form their preferences in isolation from others, but rather in response to others. Knowledge technical information have an and irremovably social component (Arrow, 1994) and seen within that context, accounting information is socially derived and socially applied. No single user of accounting information uses such independently of information some contextual background. Each individual user brings his/her personally defined skills and perceptions. It can therefore be argued that it is beyond the understanding of any accounting regulator to grasp what any user is going to do with accounting information. Individual actions are of such specificity
- and so socially entwined that to assert that any specific datum is more useful than another, is beyond the ken of any regulator.
- The unpredictable market: Even though it may be difficult to illustrate decisionusefulness to the actual users, it may be conceivable to illustrate that a particular configuration of accounting information is better in assessing individual scenarios than another. This prospect of an illustrative demonstration of usefulness underlies the current predictive-ability criterion and the capital market research (Williams, 2009). Investors or creditors trying to assess the future cash flows, share price or any future economic event, face a very intricate task. Each individual is embedded in a global economic system with many other companies and its future cashflows or share price cannot be determined simply by its own circumstances, but rather by the circumstances of all companies, including its own. Though proclaimed with great fanfare as the financial reporting revolution (Beaver, 1997), the shift to decisionusefulness has accomplished very little. Orrell (2007) states that there are valid reasons to suspect that accounting information developed and prepared in such an environment would not be able to establish decision-usefulness, including the facts that i) predictive models are based on sets of equations, ii) the intricate underlying economic systems cannot be condensed into such equations because they are based on the local rules, and iii) their global developing characteristics cannot be computed. Furthermore, the models of these systems tend to be sensitive to changes in parameters and while it can be adjusted to fit historical data, it does not mean they can predict the future. Future cash flows or security prices are not computable and the best that could be done would be a biased estimate produced by any number of possible configurations of the accounting information.

Orrell (2007) uses the *Efficient Market Hypothesis* (EMH) as a classic example of a mistaken theory because it alleges

computability of an inherently uncomputable system. The EMH assumes that market fluctuations are the result of random external shocks, and that their response is governed by rational laws. The economy represents a dynamic balance between contrasting forces, feedback loops, buyers and sellers. The standard-setter's assertion that creating information useful for predicting is just to make it appear as though we know what we are doing. The unpredictability of economic phenomena (Ball, 2004; Keen, 2002; Ormerod, 1997) makes it problematic, if not impossible, to demonstrate decision-usefulness, which leaves both the FASB's and the IASB's decision-useful objective without substance.

### 6 Concluding discussion and recommendations

The purpose of this article is not to deny the importance of the usefulness criterion, but rather to reflect on the concept as a primary foundation of promulgated accounting theory and the bastion of much of current-day accounting research. In addressing the stated research problem, it is clear that decisionusefulness as the primary financial reporting objective is not as clear or simplistic in classifying the intellectual and policy-making aspects of accounting as it may initially seem to be. The usefulness of accounting information is made up of many factors, which, according to Dzinkowski (2010), Buys (2008) and as Ijiri and Jaedicke (1966), includes the timeliness, reliability, relevancy and materiality of the presented accounting data.

The first objective of this article was an ontological consideration of the FASB's and IASB's the decision-usefulness objective, in which the historical context is considered to provide a reference point for current day accounting theory, practice and research. Even though more than four decades have passed since ASOBAT I, it is still being debated by the FASB and the IASB. The article further argued that a major weakness in the objective of decision-usefulness is accounting's failure to

deal with the continuing tension between the concepts and objectives of individual ophelimity and those of social utility (welfare). highlighted that although decisionusefulness seems to be theoretically motivated by ophelimity, it is operationalised in terms of social welfare, and researched on the basis of an uneasy marriage of the two concepts. The concept of usefulness in an ophelimity sense makes decision-usefulness vacuous, since what has been declared as useful has not been determined as the result of an empirical study (Young, 2006). This is so because any individual's rational, resource allocation decision perforce depends on that individual's utility. Thus, developing decision-useful information when individuals' utilities are integral parts of their disparate decisions is an insurmountable task, because what is useful is determinate only from the perspective of those individuals making the decisions. Decisionuseful information is therefore little more than a cliché, devoid of any substantive meaning that could guide the regulators in choosing between alternative rules.

The second objective focused on certain epistemological misconceptions relating to the theoretical foundation upon which the decision-usefulness objective is based. The article highlights a fundamental flaw in the perception that quantitative accounting data is representative of actual quantities of something. This noteworthy weakness arises because the quantities used in accounting information bear only a partial connection to the more basic and meaningful notion of a measure, and instead deal in operational numbers. Further conceptual weaknesses underlie the inherent unpredictability of exactly what the proponents of decisionusefulness hope to predict. On the one hand the unpredictability of the user within this context is problematic. It was highlighted that besides the problem of the many individual users of accounting information (each with its own frame of reference), many users may in fact not even grasp what is useful for themselves. On the other hand, the unpredictability of the market is also problematic. The reality is that there are so many variables influencing organisational actions and reactions, that any kind of proper prediction effort of the market is in effect futile.

Information usefulness to investors and creditors may sound like a good thing, but it is exceptionally difficult. In light of the noted weaknesses, a dark shadow of doubt is cast on the quality aspect of accounting and business decisions. This doubt is not so much only because of inherent human nature and related ethical concerns, but also the fundamental flaws that are part and parcel of the generation of accounting data and financial reports. The profession has regulatory bodies promulgating regulations without any persuasive foundation to prove that these regulations contribute to what they are alleged to be accomplishing. If the regulators mean to apply a social welfare interpretation to decision-usefulness, perhaps the view should shift from decision-usefulness to judgment-usefulness. A decision implies a motive and a goal because an action is the end result of a decision. But before a choice is made, individuals must make judgments about a particular scenario.

Coming back to Sun Tzu's Chinese proverb and the many dismal corporate failures and questionable business decisions, it may very well be that the *quality* of the actual decision is sound, but that instead the misunderstood accounting information (and accounting's true purpose as discussed by Buys (2008)) is to blame for many such failures. The provision of economic and financial facts rather than decision-useful information may be a more useful way to think about the mission for a regulatory accounting institution, as a key objective of accounting and ultimately of financial reporting. In doing so, it may even provide a way out of the confusion between social utility and individual ophelimity that currently promulgated accounting theory and research is based on.

#### **Endnotes**

1 Since this was the first of two such committees, we will refer to it as ASOBAT I.

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