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Towards a Forensic Accounting Paradigm: A Neo-Empiricist Research Agenda

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Abstract

The aim of the discussion paper is to position neo-empiricism as an appropriate theoretical perspective from which to conduct proposed research on how accountants, practitioners and regulators, make sense of the fraud prevention and detection process. It is argued that such a methodological stance provides a rigorous methodological basis whilst facilitating the flexibility of research questioning necessary for effective forensic accounting research.

The paper discusses the nature of forensic accounting research and argues for the need to often adopt an objectivity engagement with our understanding of the social world. From this perspective neo-empiricism is argued as a meaningful alternative to positivism, whilst recognizing through the discussions the theoretical assumptions and limitations this approach makes

Purpose

The aim of this discussion paper is to position neo-empiricism as an appropriate theoretical perspective that provides a rigorous methodological basis whilst facilitating the flexibility of research questioning necessary for effective forensic accounting research.

Research Context

Whilst forensic accounting has long been a key aspect of accounting practice, since the recent and famous accounting scandals of Enron, WorldCom, Olympus, Tesco and Toshiba, it has become much more of a 'hot topic' (Wolosky, 2004).

The frequency with which corporate entities collapse nowadays, because of financial statement frauds, has led to increasing demands for forensic accounting services with respect to fraud prevention, detection and investigation. This has raised serious questions as to whether the current accounting 'paradigms' of reporting, financial controls and procedural auditing are working (Smith & Crumbley, 2009). Hence, it is proposed to explore the possible development of an alternative forensic accounting paradigm, one which might help inform a more robust way to facilitate the reduction of the incidence of fraud in the financial statement.

Forensic accounting according to ACFE is *“the use of professional accounting skills in matters involving potential or actual civil or criminal litigation, including, but not limited to, Generally Acceptable Accounting Principle; the determination of lost profit, income, assets, or damages; evaluation of internal controls; fraud; and any other matter involving accounting expertise in the legal system”*

Following Thomas Kuhn's notion of paradigm as *“a universally recognized scientific achievement that for a time provides model problems and solutions to a community of practitioners”* (Kuhn, 1996, p. x), here the term 'paradigm' is viewed as those set of principles, concepts, regulations, standards, and conventions that govern how financial information are prepared, presented, reported and verified by the actors in the business community.

The proposed research seeks to understand how key 'actors' the accountants, practitioners and regulators, make sense of the fraud prevention and detection process. Through an understanding of their perceptions it is hoped to help develop a greater knowledge of the forensic accounting procedures and policies needed for the transition of the accounting profession towards a 'Forensic Accounting Paradigm'.

Forensic Accounting Research Practice

Just as the field of forensic accounting is getting more attention because of the rising prevalence of occupational frauds and abuse worldwide, interest is now shifting towards forensic accounting research. Much of the research published to date has been dominated by the use of quantitative methods (DiGabriele and Huber 2014) and has often been informed by underlying functionalism and what might be 'loosely' termed a positivistic theoretical perspective. This might well be due to the 'fact' that accounting information is governed by the principle of objectivity. Objectivity in the accounting sense implies that accounting information are prepared and reported in a neutral way and by all standards without bias. The sub-conscious belief, perhaps, being that objectivity can only be achieved by following the positivist paradigm in its epistemological sense.

The domination of the positivist paradigm, however, in forensic accounting research limits the type of questions and methods accordingly (Moerman 2010). With the continuing interest in forensic accounting (Wolosky, 2004), it is argued that there is need for more diversity in forensic accounting research. Thus, it is suggested that within forensic accounting research, the subjective processes of the 'key actors' is very important to our theoretical explanations of the social world even though there is still, perhaps, a strong desire to retain the idea that there is a world out-there that awaits discovery which may be investigated in an objective manner (Johnson & Clark, 2006).

So, for forensic accounting researchers there is a strong argument to make for seeing the actors' subjective realm, as central to the development of theoretical understanding of fraud and its detection. Within the dominant positivist philosophical position in forensic accounting research, however, as Johnson & Clark (2006) would suggest, positivists see 'inner' subjective processes' or the perceptions of key 'actors' as unobservable. 'This leads us to argue for the adoption of an *interpretive neo-empiricist* stance as an appropriate methodological positioning for forensic accounting research. As neo-empiricists argue that not only is the 'subjective realm' important for our conceptual understanding *'but it is also possible to access it, describe it, and hence theoretically use it to explain aspects of human behaviour'* (Johnson & Clark, 2006). p.xxxv).

Alvesson & Deetz (2000) have argued that research conducted by social scientists through the neo-empiricist stance is normative in nature and seeks to develop consensus. Such research is seen to seek order and treat order production as the dominant feature of natural and social systems. The aim being to gain an understanding of how social actors make sense of their social world and in so doing develop theoretical understanding of the social relationships. This 'consensus seeking' we argue, should be the primary focus of much forensic accounting research. Thus, central to the proposed research is the positioning of forensic accounting research as neo-empiricist.

Neo-empiricism

Neo-empiricism (Alvesson & Deetz, 2000: 62) refers to 'interpretative' focused theoretical perspectives that assume the possibility of unbiased and objective collection of qualitative empirical data and here it is used to 'denote those management researchers who place a reliance upon empirical evidence as capable of ensuring objective truth yet simultaneously reject the positivist ideal of discovering laws through deploying hypothetico-deductive methods' (Johnson & Duberley, 2003:1298). Although rival assumptions about the ontological status of human behaviour or action can be seen to differentiate neo-empiricism from positivism, Johnson & Duberley (2003) argue that, both theoretical perspectives articulate objective epistemological assumptions combined with realist ontological assumptions concerning reality.

Neo-empiricists argue that it is possible to access and describe the *subjective realm* of the research subjects and that it is possible to 'objectively' develop theoretical conceptualisations of how the research subjects make sense of their lived experiences. Thus, the qualitative methods used by neo-empiricists to pursue their interpretive agenda have enabled them to increasingly assert its relevance to business and management research (Johnson & Clark, 2006).

Of key importance here is the neo-empiricist commitment to *verstehen* (Gill & Johnson, 2010). *Verstehen* literally means 'understanding' and the Oxford English Dictionary defines it as the empathic understanding of human behaviour. In the social sciences *verstehen* is used to refer to the idea that, unlike objects in the natural world, human actions are not simply the result of external forces. Rather individuals give meaning to the world through their own interpretation of it. Neo-empiricists thus reject the idea of following a natural science methodology to research human action and suggest we need to understand the meaning of actions from the actor's point of view. By treating human actors as subjects, rather than the objects of our observations, neo-empiricists take the view that humans have an internal subjective logic, which must be understood in order to, make it intelligible and it is this notion of subjectivity that is often confused with subjectivity in an epistemological sense.

Neo-empiricist researchers are concerned with accessing the research respondents' subjective logics (which may be seen as being internal and culturally derived) in order to explain behaviour. They use inductive processes that they believe may be undertaken in an objective manner so that the resulting data, the 'qualitative' descriptions are not contaminated by the researcher who, as in mainstream positivist research, remains separate from the 'objects' of research so as to produce neutral findings (Johnson & Clark, 2006). Hence, the term neo-empiricist is used of for those management researchers who view the collection of qualitative empirical data as capable of ensuring objective truth in a correspondence sense (see Alvesson and Deetz, 2000: 60–74) even though they reject deductive methodology in favour of the inductive generation of theory 'grounded' in observation. The result is a separation of the knower-researcher from his/her inductive descriptions of other actors' intersubjective cultural experience which awaits discovery (Johnson & Clark, 2006: xxxiii).

We, therefore, take our lead from Gill and Johnson (2010) in suggesting that research subjects have subjective abilities (both emotional and cognitive) which influence how they consciously make choices about how to behave, where and when. How people behave and act is, therefore, based on their perceptions and interpretation of the world which make neo-empiricism a viable option for forensic accounting researcher.

Conclusions

The arguments being developed in this discussion paper suggest the forensic accounting researcher can benefit greatly by adopting the Neo-empiricists paradigm. Neo-empiricists consider the subjective realm of their research subject to be an important factor to the theoretical explanation of behaviour and assume that it is possible to access and describe the subjective realm of the research subject and theoretically use it to explain an aspect of behaviour, in an objective manner.

There is, of course, a case to be made for social constructivist approaches to undertaking management research. These entail questioning the possibility of a neutral observation language and claims to objective knowledge as problematic (Johnson & Clark, 2006:xli). As most forensic accounting is, however, associated with fraud examination or fraud auditing (Apostolon & Crumbley, 2005) it seeks to develop objective explanations through a methodological perspective that embraces an objective epistemological positioning that would appeal to many end users of such research.

Researching the issue of how a paradigm shift to forensic accounting procedures might be conceptualized it has been suggested that the notion of seeking consensus and treating order production should be dominant features of the research and that a neo-empiricist positioning would facilitate this aim.

It is, also, important to say here that the neo-empiricist objectivist epistemological stance is sometimes misconstrued by researchers. When the neo-empiricist talks about the subjective nature of their research, they often mistakenly take this as subjectivity in the epistemological sense rather than the subjectivity of the social actors (Alvesson and Deetz 2000). Therefore, it is the subjectivity of the social actors that the neo-empiricist access and describe in an objective manner and it is this that has been argued as a key factor for the developing field of forensic accounting research looking at understanding fraudulent practices.

Hence, adopting the ontological and epistemological assumptions of the neo-empiricist approach will enable this study to pursue an interpretive agenda that is theory neutral. This then raises questions concerning the appropriate methodological reflection on the design of the necessary systematic interpretive process of data collection and analysis through which we may begin to attempt to understand how others make sense of their experiences

Neo-empiricism can therefore serve as an alternative world view to the forensic accounting researcher who wants to explore deeper meanings of events and who still wants to maintain objectivity, as it will serve the desire for objectivity in an epistemological sense as applicable in the main stream positivist paradigm.

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