

Chapter II

CHANGING OBJECTIVES OF ACCOUNTING

Objectives of accounting have undergone significant changes in recent decades. This is evidenced by a series of statements concerning what accounting is or should be. One of the earliest attempts was made in 1941 by the Committee on Terminology of the American Institute of Certified Public Accountants (AICPA). The committee considered accounting to be

the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.¹

The essence of this definition of accounting was present in a number of subsequent statements. Notably the Committee to Prepare a Statement of Basic Accounting Theory (ASOBAT) of the American Accounting Association (AAA) defined accounting as

the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions of users of the information.²

With the exception of explicitly relating accounting information to its users, this definition appears rather traditional. However, one should not overlook the rather expansive tendency of ASOBAT in projecting the scope of the accounting discipline. Namely, “[m]easurement and communication of data revealing past, present, and prospective socio-economic activities” were considered to be an objective of the accounting function.³ Indeed the social dimension of accounting was formally incorporated into a definition of accounting authored by Langenderfer in 1973:

Accounting is a measurement and communication system to provide economic and social information about an identifiable entity to permit users to make informed judgments and decisions leading to an optimum allocation of resources and accomplishments of the organization’s objectives.

Also notable in the Langenderfer definition is its specific reference to the objectives of the accounting entity. This theme was also expressed by the Study Group on the Objectives of Financial Statements of the AICPA:

An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organization’s goals. Performance measures should be quantified in terms of identified goals.⁵

Certainly there are other statements of the objectives of accounting. However, those quoted above appear to capture the evolutionary trends of the accounting discipline. First, there has been a definite expansion of the scope of accounting. Accounting for social and future activities is now considered to be legitimate, at least from a theoretical standpoint. The chronological development of accounting may be represented by the path in the following diagram (Figure 1).

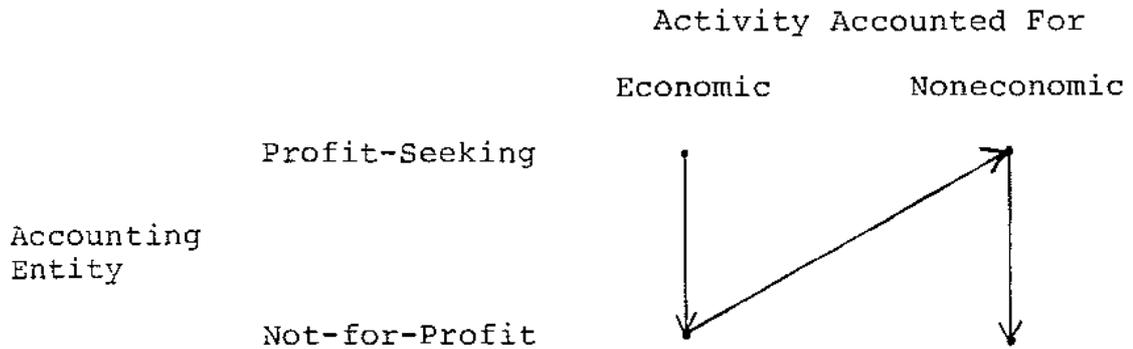


Figure 1. Stages in the Development of Accounting

Second, the traditional view of accounting as a service function is reinforced. Not only is accounting charged to be responsive to users' needs, accounting information is also considered to be an instrument of organizational evaluation of goal achievement. In accounting for economic activities of profit-seeking entities, profit serves as a conventional criterion of evaluation. Even in accounting for the economic activities of not-for-profit entities, there are criteria based on the comparison of economic benefits and costs. However, in accounting for noneconomic aspects of the operations of both profit-seeking and not-for-profit entities, economic criteria become less, if at all, valid. The reasons were pointed out by the Study Group on the Objectives of Financial Statements as follows:

Since the goals of governmental and not-for-profit institutions are primarily nonmonetary, the indicators of earning power in commercial enterprises have limited values for assessing their performance. Most useful indicators are those based on the not-for-profit organization's principal goals, . . . But these are more difficult to measure and communicate in monetary terms, because the goals themselves are qualitative, not monetary. Goals vary widely and, when identified, are frequently difficult to measure. Useful measures of performance of one organization may be meaningless for another. Still, performance of each must be measured.

The study group's statement reflects a dilemma facing accounting for not-for-profit organizations: the goal paradigm, which serves the business sector so well, especially when it is reduced to the sole dimension of profitability, become less potent in situations where goals are diverse and qualitative. Yet the study group still advised accountants to rely on the goal paradigm. A particular manifestation of this dilemma occurs in the higher

education sector, where the call for accountability is translated by some proponents into an insistence on measurable benefits and costs. This area has received relatively little attention from the accounting profession. The present inquiry attempts to address this situation by considering specifically the performance measures of academic research. The next chapter surveys the current status of research and practice in this area and points out the need for further research.

Footnotes for Chapter II

¹ American Institute of Certified Public Accountants, Committee on Terminology, Accounting Terminology Bulletin, No. 1 (New York; AICPA, 1953), p. 3.

² American Accounting Association, Committee to Prepare a Statement of Basic Accounting Theory, A Statement of Basic Accounting Theory (Evanston, Illinois: AAA, 1966), p. 1.

³ Ibid., p. 68. 4

⁴ Harold Q. Langenderfer, "A Conceptual Framework for Financial Accounting," The Journal of Accountancy 136 (July 1973): 50.

⁵ American Institute of Certified Public Accountants, Study Group on the Objectives of Financial Statements, Objectives of Financial Statements (New York: AICPA, 1973), p. 66.

⁶ Ibid., p. 50.

Chapter IV

SOCIAL EXCHANGE THEORIES

A. Introduction

The outputs of an entity are what it produces and distributes to its environment. Unless the distribution is an unilateral benefaction, typically there is an exchange of benefits. For instance, since institutions of higher education are not given resources free of obligations, they are called upon to demonstrate the benefits generated wholly or partly by the resources endowed. One type of benefits a university produces is knowledge—the results of research activities. Knowledge is embodied in outputs of research, which are selectively disseminated partly to parties outside of the university. Researchers in return receive resource supports and symbolic recognitions. The concept of exchange encompasses the flows in both directions. Indeed, the Hagstrom study fruitfully used the concept to formulate an information-recognition exchange model of the scientific community.¹ The next section recognizes Hagstrom's contribution and the need for a more general model of exchange for formal organizations.

B. Hagstrom's Information-Recognition Exchange Model

As was noted earlier, the Outcome Measures Identification Study was weak in that it did not provide a theoretical framework for interpreting the proposed indicators. A possibly useful, though limited, framework already existed in the work of Hagstrom, who investigated the informal organization of the basic sciences. Hagstrom's thesis was that "social control in science is exercised in an exchange system, a system wherein gifts of information are exchanged for recognition from scientific colleagues."² The rationale for this thesis was that, by postulating the scientists' desire for social recognition, the awarding or withholding of social recognition would induce the scientists to conform to the norms of the scientific community.³ By recognition, Hagstrom meant "the written and verbal behavior and the 'expressive gestures' of scientists that indicate their approval and esteem of a colleague because of his research accomplishments."⁴ Hagstrom drew some instructive distinctions between elementary recognition and institutionalized recognition: elementary recognition is expressed in direct communication among individual scientists, and institutionalized recognition is given through the formal channels of communication in science.⁵

Hagstrom identified the following as examples of formal channels of communication in science:⁶

1. Articles in scientific journals
2. Books
3. Papers read at public meetings
4. Footnote citations to specific articles and acknowledgments
5. Collective honors, such as prizes and medals, invited lectures, collections of papers in honor of distinguished scientists, and review articles by leading scientists

6. Invitations to do prepublication review of articles

Virtually all of the above channels were included in the list proposed by the NCHEMS Outcome Measures Identification Study. But it is significant that they could, and were, explained by the information-recognition exchange model. Hagstrom's model is an application of the more general concept of exchange to a particular area. His model is restricted to the informal social control of a segment of the scientific community. One should extend the inquiry to the fundamental processes of exchange and draw some implications from them. Accounting has long been dependent upon economic exchange processes to generate original data. A broadened view of accounting to the social sphere would also need a generalized concept of exchange to encompass both material and symbolic exchanges. Thus in the next section the literature of social exchange theories is reviewed.

C. Social Exchange Theories

Introduction

The objective of this section is to review the major contributions to social exchange theories in the hope of obtaining some useful concepts and theoretical perspectives to guide the conceptualization of research output indicators. These contributions are diverse in methodology, content, and scope. Some are specific anthropological case studies; others are theorizations. Some deal with behaviors in primitive societies; others address themselves to contemporary Western societies. Some study particular types of exchange; others are quite encompassing. Since only the concepts and theories in these contributions are of primary interest to the present study, the essence of each contribution is abstracted. Ekeh provides a good analysis for readers who are interested in the polemics among writers in this area.⁷

Anthropological case studies in the first quarter of this century provided fertile grounds for subsequent theoretical developments. These case studies were about the exchange behaviors of non-Western primitive societies. Frazer (1919) studied kinship and marriage behaviors of Australian aborigines.⁸ Malinowski (1922) observed the Kula exchange of necklaces and armshells among the Trobriand Islanders of the South Pacific.⁹ Though Malinowski, in contrast to Frazer, did impute social and psychological natives to the Kula exchange, he was criticized by Mauss for tending to overemphasize the latter.¹⁰ Frazer's utilitarian interpretations of social exchange were disputed by Levi-Strauss, who provided a relatively comprehensive statement of social exchange.¹¹ While Homans and Blau broadened the anthropologists' exchange items to include intangible items, their contributions were limited for other reasons. Homans' exchanges were more restricted than Levi-Strauss'; also his attempt to reduce human behavior to behavioral psychology was criticized. Blau's utilitarian interpretation of social exchange had been anticipated by Frazer long ago.

Early Anthropological Studies

Frazer was credited for having offered the first theory of social exchange, on the basis of his economic interpretation of the prevalence of cross-cousin marriage among the Australian aborigines.¹³ Transcending the particular exchange items and context, Frazer's contributions were seminal. He imputed utilitarian economic values to the exchange items. Furthermore, he observed that social exchange processes were motivated by the economic needs of the population, and exploited by individuals to gain power and prestige. Besides, social institutions were set up to facilitate the exchange.¹⁴

Malinowski's social exchange theory was also grounded on his observations of a phenomenon in a primitive non-Western society. Noting the nonutilitarian nature of the Kula exchange of armshells and necklaces, Malinowski was led to make a distinction between economic and social (symbolic) exchanges. He felt that the Kula exchange was conducted to satisfy social and psychological needs, rather than for economic reasons. He also perceived the role of exchange relations in inducing social differentiation and solidarity, since the exchange, while conducted by a pair of actors, was part of a social network.¹⁵

Malinowski's functionalism was criticized by later authors such as sociologist Merton.¹⁶ His early critic, however, was Mauss who stressed that the actors in an exchange were performing their social roles. Mauss was also notable for his recognition that exchanges gave rise to and simultaneously reinforced the normative structure of the society.¹⁷

The Contribution of Levi-Strauss

Thirty years after Frazer's utilitarian interpretation of social exchange, Levi-Strauss undertook a searching examination of the cross-cousin marriage phenomenon and gave a comparatively comprehensive version of social exchange theory. Levi-Strauss' work was critiqued and elaborated by Ekeh in 1974.¹⁸ Only the briefest summary of their effort is possible here.

Levi-Strauss emphasized the cultural meaning of social exchange items and attributed greater weight to their symbolic extrinsic value than to their economic intrinsic value. In addition, he stressed that social exchange was a human activity, and the behavior of subhuman animals would therefore be incapable of providing a model of human exchange. Levi-Strauss' most significant contribution was his discussion of the institutional basis of social exchange and the structure of reciprocity in exchange. He traced the necessity of social norms to regulate the distribution and exchange of exchange items to the social scarcity of these items. He also attributed the cost of social exchange to the social norms governing the exchange. Moreover, he felt that exploitation should not occur in exchange; if it did, it would endanger the viability of the process, for he considered social exchange as performing an integrative role in society, both structurally and functionally. While Frazer and Malinowski dealt with exchanges involving two parties, Levi-Strauss' system, as supplemented by Ekeh, was substantially more elaborate (Figure 2).

As Figure 2 shows, there are two types of exchanges – restricted and generalized.²⁰ The basic unit in a restricted exchange is a pair, and mutual reciprocity is the guiding principle. An exclusive restricted exchange is conducted by isolated pairs, while inclusive restricted exchange is a network of multiple exclusive restricted exchanges. When there

are three or more parties to an exchange, it is characterized as a generalized exchange operating on the principle of univocal or directional reciprocity among the actors who benefit each other indirectly. There are two types of generalized exchanges – chain and net:

a. In a chain generalized exchange, the actors are so situated that each is benefited sequentially. For example, if there are five members in the chain and the arrow means “give to,” the chain reciprocity may be shown in this way: $A \rightarrow B \rightarrow C \rightarrow D \rightarrow E \rightarrow A$.

b. There are two types of net generalized exchange – the individual-focused and group-focused. In the former, each member receives benefit from the rest of the group consecutively; for example, $ABCD \rightarrow E$, $ABCE \rightarrow D$, $ABDE \rightarrow C$, $ACDE \rightarrow B$, and $BCDE \rightarrow A$. In the group-focused situation, the members successively contribute to the group and then gain back as one of the recipient subgroup; for example, $A \rightarrow BCDE$, $B \rightarrow ACDE$, $C \rightarrow ABDE$, $D \rightarrow ABCE$, and $E \rightarrow ABCD$.

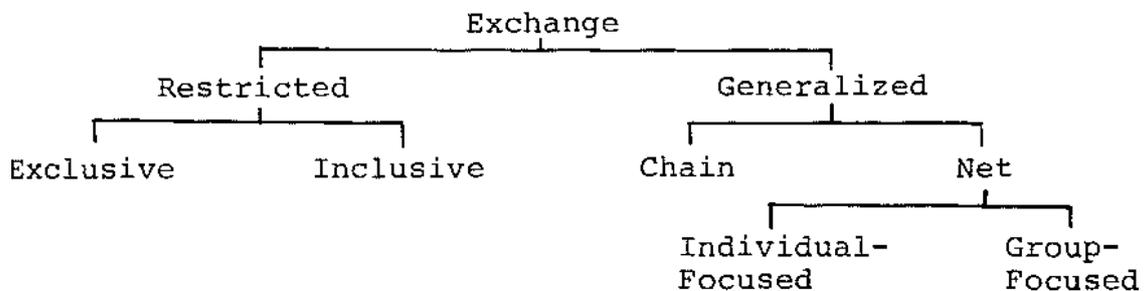


Figure 2. Levi-Strauss' Typology of Exchanges¹⁹

The Contributions of Homans and Blau

Sociologists Homans expanded the specialized exchange items in the theories of Frazer, Malinowski, and Levi-Strauss to include a range of tangible and intangible items. He also attempted to exhaustively explain human social exchange behavior in terms of conditioned behavior common to animals and human beings. This psychological reductionism approach has been controversial. Other than these innovations, Homans' exchange theory was not as sophisticated as that of Levi-Strauss. It dealt with face-to-face direct relations between two parties, with an emphasis on both the psychological and economic needs of the exchange participants, and on the utilitarian values of exchange items.²¹

Another major contributor to social exchange theory is Blau, whose strategy was to build complex and indirect processes on the basis of simple and direct ones. Utilitarian thinking permeated his whole work and would be best illustrated by his definition of social exchange as “actions that are contingent on rewarding reactions from others and that cease when these expected reactions are not forthcoming.”²² Thus social exchange is characterized by double contingency and is a trial-and-error process threatened by uncertain reciprocity.²³

When an exchange occurs between macrostructures, as contrasted with that between persons, personal attraction would be replaced by shared values. At this level, values

and norms are institutionalized and perpetuated, and value consensus provides a mechanism which mediates indirect exchanges. Blau mentioned four types of social values:²⁴

- a. Particularistic values as media of solidarity
- b. Universalistic values as media of exchange and differentiation
- c. Legitimizing values as media of organization
- d. Opposition ideals as media of reorganization

Universalistic values serve the role of media of exchange because they provide standards for setting the relative values of exchange items and performance, and allow the diverse contributions to collective welfare to be converted into differential social statuses. Thus high social status is a social acknowledgment of contributions and can benefit those who possess it. The universality of values assumes prominence in indirect exchanges because it makes it possible for persons to render service to some and receive rewards from others. In these ways, universalistic values in social exchanges serve the function of money in economic exchanges.²⁵

On the whole, Blau's utilitarianism, which was foreshadowed by that of Frazer, blurred the distinction between economic and social exchanges. Nevertheless he did observe a number of differences between the two types of exchanges:

1. Economic exchanges gave rise to contractual obligations, and social exchanges engendered moral obligations.
2. Correlatively, social benefits were less detached from their sources of supply than economic benefits would be.
3. Economic exchanges were facilitated by money as a single medium of transactions, and social exchanges were lacking in this respect, though as explained earlier, universalistic values performed a similar function.²⁶

Gouldner on Reciprocity

Romans and Blau have been identified as two major contributors to social exchange theories. It would be evident from the analysis thus far that they stood on the shoulders of some other giants. It would only be fair to trace the intellectual debt and give credit where it is due. In this regard, the central idea of mutual contingency identified previously with Blau should be linked with names such as Parsons and Gouldner. Gouldner's elucidation of the concept of reciprocity was carried out in the pretext of pointing out a hidden assumption in functional analysis as exemplified by Parsons. His chief criticism was that the functional approach did not make the concept of reciprocity explicit.²⁷ In the words of one of its chief proponents, functionalism interprets data "by establishing their consequences for larger structures in which they are implicated."²⁸ Gouldner wished that the functionalist would make explicit analysis of the feedback from the larger.²⁹ The main target of his criticism was Parsons, who allegedly failed to make a distinction between complementarity and reciprocity. This was in spite of Parsons' recognition of "a double contingency inherent in interaction."³⁰ "Complementarity," said Gouldner, "connotes that one's rights are another's obligation, and vice versa."

Reciprocity, however, connotes that each party has rights and duties.³¹ Gouldner considered internalized general moral norms of reciprocity as the starting mechanism for an exchange even when the specific terms of reciprocity had not been set. In another way, the norm of reciprocity would also stabilize social systems by rewarding conformity and discouraging deviance, as recognized in functional theory.³² In terms of intellectual lineage, then, Blau built upon the achievements of Parsons and Gouldner.

D. Reconciling Exchange and Functional Theories

Gouldner criticized the functional approach for failing to explicitly consider the feedback from the larger structure to the object of inquiry which produced the consequences. This criticism has been weakened by the incorporation of what Stinchcombe called “reverse causal processes” into a functional explanation.³³ It appears reasonable to equate reverse causal processes with feedback to the extent that the feedback influences the behavior whose consequences induced the feedback. By this line of reasoning, then, exchange becomes a part of the functional explanation. On the other hand, when reciprocity is contingent upon the consequences of some prior actions, the essence of the functional explanation may be considered to be a part of the exchange perspective. These clarifications would bring about a reconciliation between exchange and functional theories are considered to be a major theoretical perspective which includes the functional point of view.

Footnotes for Chapter IV

¹ Warren O. Hagstrom, The Scientific Community (New York: Basic Books, 1965).

² Ibid., p. 52.

³ Ibid., pp. 1-2.

⁴ Ibid., p. 61.

⁵ Ibid., p. 23.

⁶ Ibid., pp. 23-8.

⁷ Peter P. Ekeh, Social Exchange Theory: The Two Traditions (Cambridge, Mass.: Harvard University Press, 1974).

⁸ Sir James G. Frazer, Folklore in the Old Testaments, Vol. 2 (London: Macmillan & Co., 1919).

⁹ Bronislaw Malinowski, Argonauts of the Western Pacific (London: Routledge & Kegan Paul, 1922).

¹⁰ Marcel Mauss, The Gift: Forms and Functions of Exchange in Primitive Societies (Glencoe, Ill.: Free Press, 1954).

¹¹ Claude Levi-Strauss, The Elementary Structure of Kinship (Boston: Beacon Press, 1969).

¹² George C. Homans, Social Behavior: Its Elementary Forms (New York: Harcourt, Brace & World, 1961); Peter M. Blau, Exchange and Power in Social Life (New York: John Wiley & Sons, 1964) .

¹³ Ekeh, Social Exchange Theory, p. 24.

¹⁴ Ibid.

¹⁵ Ibid., pp. 24-30; Jonathan H. Turner, The Structure of Sociological Theory (Homewood, Ill.: The Dorsey Press, 1974), p. 217.

¹⁶ Robert K. Merton, Social Theory and Social Structure, enlarged ed. (New York: The Free Press, 1968), Part III on functional theory.

¹⁷ Ekeh, Social Exchange Theory, pp. 30-3; Turner, Sociological Theory, p. 218.

¹⁸ Ekeh, Social Exchange Theory, pp. 37-60.

¹⁹ Derived from Ibid., pp. 49-56.

²⁰ Ibid.

²¹ Ibid., pp. 84-165.

²² Blau, Exchange and Power, p. 6.

²³ International Encyclopedia of the Social Sciences, Vol. 7. "Interaction: Social Exchange," by Peter M. Blau.

²⁴ Blau, Exchange and Power, pp. 253-265.

²⁵ Ibid., pp. 269-70.

²⁶ Ibid., pp. 93-95.

²⁷ Alvin W. Gouldner, "The Norms of Reciprocity," American Sociological Review 25 (April, 1960) : 161-78.

²⁸ Merton, Social Theory, p. 100-1.

²⁹ Gouldner, "Reciprocity," p. 169.

³⁰ Talcott Parsons and Edward Shils, ed., Toward a General Theory of Action (Cambridge, Mass.: Harvard University Press, 1931; Harper Torchbook ec., 1962), p. 16.

³¹ Gouldner, "Reciprocity," p. 169.

³² Ibid., p. 176: Parsons and Shils, Theory of Action, pp. 14-16.

³³ Arthur L. Stinchcombe, Constructing Social Theories (New York: Harcourt, Brace & World, Inc., 1968), p. 100.