

# A change in the research paradigm in corporate reporting? Some reflections on the role of the accounting academia

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## Abstract

In this paper, I analyse the evolution of corporate reporting regulation in Europe in the last two decades and reflect on the possibility that the traditional usefulness approach is insufficient to solve new issues arising from the current regulatory landscape. The evolution that the concept of “public interest” has undergone within the European Commission implies a change in the objective of corporate reporting from the main aim of targeting investors for decision-making through a change brought about by the financial crisis to the aim of financial stability and economic growth, and finally to the goal of getting of social and environmental objectives. This evolution implies a revolution, raises non-previous existing conflicts of interest among stakeholders, and brings a motivating challenge for researchers. However, in many cases, the existence of a potential crisis of incentives to publish in journals with a “real” impact on academia and to transfer research output to society requires a profound debate for progress.

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*Paradigms are universally recognised scientific achievements that temporarily provide model problems and solutions for a community of researchers*  
(Thomas Kuhn, 1962)<sup>1</sup>

## 1. A change in the accounting paradigm?

The philosopher Thomas Kuhn argued that a paradigm is an essential instrument or tool for good scientific research that dictates both the problems and the solutions to the issues in a given discipline. For an episodic model, periods of conceptual continuity and cumulative progress are called normal science. However, it reaches a certain point where the paradigm no longer solves the proposed problems. The recurrent failure of the paradigm to produce impressive results in the course of research is what Kuhn calls an “anomaly”. The discovery of “anomalies” leads to a period of “crisis”, which, after a period of “confusion”, leads to a “revolution” followed by new paradigms. Kuhn argues that choosing another paradigm governing scientific practices requires a thorough debate among scientists.

The last developments in our discipline in the European corporate external reporting landscape have made me raise some questions, such as: Are we facing a switch in the accounting paradigm? Will accounting researchers be able to adapt fast as required by society? What are the main challenges academics will face in the next few years? What are the potential current obstacles to faster progress? In this paper, I propose some issues that deserve a profound debate in order to be ready to deal with the regulatory changes and, consequently, serve our society.

<sup>1</sup> From Kuhn (1996).

## **1.1. The “dominant paradigm” in accounting research: Decision usefulness**

Accounting cannot be labelled as a single-paradigm discipline, either in principle or in practice, and we cannot deny that methodological development in accounting research over the past decades has been characterised by increasing pluralism. It is also true that the concept of “paradigm” is relatively broad and generic, and some would consider the word “approach” more suitable than “paradigm” in this context. However, regardless of what we call it, it seems evident that one “paradigm” or “approach” has strongly dominated in the last 50 years in corporate external reporting research: the so-called “usefulness” approach or “decision usefulness” paradigm. During this time, the economics-based research agenda has been widely viewed (particularly in the United States but subsequently elsewhere) as the “mainstream” approach.

Traditionally, accounting information has played two main economic roles: valuation and stewardship. Under the decision usefulness paradigm, when these two roles have conflicted, the valuation role generally prevails, at least in the global<sup>2</sup> standard-setting process. While the valuation role has been analysed in research from the capital market/financial theories, the “contracting” or “agency theory” has been the theoretical framework for significant research on incentives and consequences of corporate reporting. Under the usefulness paradigm, consequences or “real effects” of reporting have been traditionally considered “unintended consequences” and primarily based on economic consequences. In this context, most research on corporate external reporting<sup>3</sup> has been based on large archival data sets. Although much research has not been based on the usefulness paradigm since the 1990s, it was considered “critical” accounting for many years, in opposition to the mainstream dominant paradigm.

The prevalence of the usefulness approach in research parallels the regulatory landscape. From the standard setters’ perspective, the usefulness of reporting for investment decisions has always been at the root of the International Accounting Standards Board (IASB) standards. Despite the recognition of the existence of many stakeholders, investors have been considered the primary users of finan-

<sup>2</sup> As, for example, the International Accounting Standards Board or the Financial Accounting Standards Board. It may not be the case for local standard setters whose standards are addressed to entities which are non-listed or smaller companies.

<sup>3</sup> Although it should be acknowledged that the pluralism of methodologies has increased over the years, some relevant studies on financial reporting and other areas, such as auditing, have been increasingly using other quantitative and qualitative methodologies and analytical modelling.

cial statements. The European Commission (EC) took this approach when, at the beginning of this century, it decided to adopt International Financial Reporting Standards (IFRS) and regulate the endorsement process.

However, after the financial crisis at the end of the first decade, the EC concluded that the criterion to endorse IFRS encompasses the “financial stability goal” and, more generally, the protection of the European economy. This encompassed an extended economic objective of corporate financial reporting beyond the usefulness for investors. According to a large body of accounting researchers, the main problem is that the two goals, usefulness for investors and financial stability, are usually in conflict, at least in the short run. Still, most researchers in the accounting field assumed, under the usefulness paradigm, that in case of dispute, usefulness prevails. However, at this stage, something had dramatically changed, not just because of the introduction of potential conflict of interest among stakeholders but also because of the prevalence of what Lambert (2010) calls the use of information to “influence” rather than “predict”.

Additionally, and more importantly, this century has been characterised by switching from a pure economic-based research agenda to a more socially oriented one, and accounting is no exception. The most recent developments in this third decade have driven the Socio-Ecological Market Economy. The conceptual framework of the socially oriented economy, complemented by environmental criteria, has driven a substantial change in corporate reporting regulation, and the Corporate Sustainability Reporting Directive (CSRD) issued in 2023 considers investors, non-governmental associations, social partners, and other stakeholders equally primary users of sustainability reporting.

What are the main consequences of this new regulatory landscape for accounting research? To put a very simple (and generic) example, when there was a (reporting) regulatory change, a traditional way of addressing research questions based on the usefulness approach might be: Is the new information provided (more) relevant for investment decisions? And/or: Does this change have unintended economic consequences (as real effects)? The hypothesis development would be based on the financial/capital markets theories and/or the contracting/agency theory. The current context and the circumstances of corporate reporting standards, particularly the emergence of sustainability reporting, drive new challenges, as the “usefulness approach” based on investors is no longer the primary objective in this report. Some of what was called “unintended” or “real effects” of regulatory changes might now be the primary aims of the standard setter.

When different stakeholders with different interests are equally ranked as users, together with the use of corporate reporting to get political goals, either

economic, social or environmental, it results in a complex scenario. We might address the same questions based on financial theories and contracting hypotheses. However, other research questions are required if we want to contribute to the accounting knowledge and have policy-making implications. This should lead us to ask questions, such as: Whose interest must prevail? Should accounting standard-setting bodies meet the needs of one set of users at the expense of others? Could the standard-setting bodies be captured by the self-interest view or the views of dominant or powerful stakeholders? Will this change have (other types of) “unintended” consequences?

A discipline goes through a crisis when the fundamental theories and models do not explain the empirical evidence well, thus suggesting anomalies. Some of the underlying assumptions of the traditional financial theories and models, such as rational economic decision-making and limited frictions, are being questioned lately, leading to the new field of behavioural economics/finance. However, under current circumstances, not only aspects related to investment decisions should form part of our research agenda. Neither the “decision usefulness” approach nor the traditional contracting theory can predict or explain the needs and behaviours of the “new” primary users of corporate reporting.

## *1.2. The rise of a new paradigm?*

It seems rather evident that current information economics theories and models still offer useful frameworks for examining the impact of corporate reporting, and it can be argued that we are not facing anomalies of the “usefulness paradigm” but a change in the weight of existing (or even new) paradigms. We must admit that many alternative theories and arguments to the “usefulness” approach (primarily used in other fields such as regulatory, political, legal, sociological and even psychological areas) have been used in accounting research in the past, and their use has increased in recent years. Nevertheless, suppose an increasing number of questions cannot be answered based on the “dominant” approach. In that case, we need another at least “equally dominant” paradigm(s) or approach(es) to drive the accounting research. This approach should comply with at least two requirements: explicit positioning on the public importance of the general purpose of corporate reporting and its role in the social, environmental, and ethical aspects, while at the same time, not losing its economic role in the valuation of companies.

Some argued that this approach might be called the “public interest” paradigm. However, it is not clear what public interest means.

*The public interest is about what matters to everyone in society. It is about the common good, the general welfare and the security and well-being of everyone in the community we serve. (Wikipedia).*

If the public, in general, is asked about the meaning of public interest, most might consider this (or a similar) general definition. However, this definition proves the term's lack of substance. The academic literature in law, politics, economics, and other fields highlights that the meaning of public interest differs among stakeholders and jurisdictions and varies over time depending on the circumstances. The term is often used as a justification of action or an underpinning of beliefs and ideology.

The EC has used the term “public interest” or “public good” as a reference to the standard-setting process since the adoption of IFRS, but its meaning has evolved. While Regulation 1606/2002 had implicit that the public interest was linked to users for investors, in 2015, the EC concluded that the criterion of European Public Interest to endorse IFRS encompasses the financial stability goal and the protection of the European economy (EC, 2015). Moreover, more recently, *“the EU endorsement criterion of public good has become much broader than the IASB’s capital provider focus on developing IFRS”* (EC, 2021, p. 90). Furthermore, it adds, *“[t]he difference in focus between the broader public good notion set out in the IAS Regulation and the narrower IASB focus of qualitative improvement may create difficulties for the EU to endorse IASB standards, especially against the broader objective of EU transition towards a more sustainable economy. (...) The focus would be on preventing IFRS accounting treatments from containing disincentives to the allocation of long-term funding needed for the transition to a sustainable economy”* (EC, 2021, p. 91).

This last quote is, in my view, a “revolutionary” perspective. The conflict of interests embedded in this perspective is significantly broader than the mere usefulness *versus* financial stability that emerged after the financial crisis. It seems evident that switching to this broader meaning of “public interest” drives many potential consequences that might dramatically affect the final output of reporting standards. Using reporting as a tool “to change behaviours” and having different stakeholders with different (theoretically but unrealistically equally weighed) interests, at least in the short term, seems challenging. The global environmental sustainability problem is so large, complex, novel, and urgent that considering reporting as one of the measures to solve it entails new frameworks.

## **2. What are the current main challenges for accounting academia?**

Based on the Kuhn theories, if we had a crisis, we would need a revolution to progress. There is a revolution (that might have followed a previous crisis) in the regulatory landscape, and we must adapt. I am unsure if we need to increase the importance of what was considered “alternative” approaches in the past or/and if we need to get new approaches from other disciplines. Indeed, a significant part of the accounting academia is already evolving. An increasing number of high-quality papers use other theories and methods to examine the role and impact of accounting information. Many of those studies address some of the challenges, mainly those related to sustainability issues. However, I firmly believe that several aspects of accounting academia must be subject to deep debates and subsequent actions to adapt faster and serve society.

### *2.1. The research questions and methodologies*

The changes mentioned above in the regulatory landscape happened quickly and should have significant consequences for research and education. Regarding research, acknowledging that progress has been made in a short period, I think we still need a profound debate in the discipline on, as mentioned, the possibility of considering or giving more prominence to other paradigms that might increasingly coexist, complement, or compete with the traditional “dominant” usefulness paradigm to generate new research questions and solve new problems. As in other normal sciences, it is a fact that most people (including editors and reviewers) tend to follow (or favour) the theoretical frameworks and methodologies they are most familiar with. This, in many cases, would lead to the researcher’s (and editors’ and reviewers’) “conservative” attitude, considering new approaches riskier and more challenging to publish in many “relevant” journals<sup>4</sup>. The situation is evolving, but this is a learning process, and time is required for full adaptation. A receptive attitude, learning efforts, and active actions from all players would help to evolve faster.

However, we (at least many of us) also have problems that are not directly related to the changes in the regulatory landscape. Still, they do not help the adaptation process: the incentives driving our research and the target journals to disseminate it.

<sup>4</sup> There are already some changes happening in a set of relevant journals.

## 2.2. *The academic journals*

Publication in relevant journals is the crucial point (when not the only one) to get promotions and finance. The word “relevant” might have different interpretations in the various systems among universities and jurisdictions. In general, I would say that what most Western countries’ accounting academics consider relevant journals in our field goes from the (4-7) so-called “top-tier” journals to the (20-30) well-reputed journals. We can add a list of finance and management journals in which accounting research is welcome and are good targets for our research output. However, suppose we focus on the top-tier accounting journals. In that case, we can argue that there are not many, with not many articles published per year, and they have a high rejection percentage, and in the case of the articles that are published, they have a very long review process. It has always been claimed, and recently evidenced (see Hurley et al., 2024), that there is inequity in publications in these journals, as well-known institutions and researchers have not just more probabilities of publication but also a shorter review process, which might be explained by the amount of resources they have but also by (sometimes intrinsic) bias. This situation is more pronounced in accounting than in other business disciplines. For the vast majority of European accounting researchers, publishing in those journals happens from “occasionally” to (in most cases) “never”. Nevertheless, what happens with the remaining well-reputed accounting journals?

## 2.3. *The role of the “impact factors”*

Many institutions and governmental agencies worldwide use “supposedly objective” metrics (such as Journal Citation Reports-JCR or Scientific Journal Rankings-SJR) to value a journal’s impact, which is used as a proxy to value the research output for promotions and resourcing. We all know the limitations of metrics in general (they can be managed) and these in particular, especially for accounting journals. Consequently, they should be used cautiously, mainly when the output we observe nowadays in these journals’ rankings collides with what most reputed and well-recognised academics might consider a “rational output”.

When the proxy of the “quartile” is often used for promotions and getting resources, the field in which a journal is categorised might (in many institutions around the world) even be from non-determinant to irrelevant. As a result, this has diverted much research, especially in the field of sustainability reporting, to many journals that are outside the discipline, as researchers were

looking for a “higher impact” and /or a much easier and shorter path to publish. Even in some worst-case scenarios, the number of studies sent to “predatory” journals means, at a minimum, a waste of (primarily public) money and valuable human resources. This is affecting the quality of the research, as some studies with potential interest would have benefited from a longer and more serious review process in relevant/well-reputed accounting journals.

I believe this situation might also have a pernicious effect on local/national journals as they are not (or logically should not be if the systems work) among the first positions in such rankings. Many European countries have well-recognised national academic journals with prestigious international editorial boards. There are many reasons to have these journals as a “rational” target for good research studies. We need those journals. The high competition among what we consider the top-tier (primarily American) or even among all the “relevant” international journals makes it challenging to publish high-quality studies focused on specific settings, despite the potential interest they might have for academia and society. However, more than ever, we need to research “specific settings” under the “public interest multi-stakeholder” perspective. The context always matters, even when we consider only investors to be primary users, but I would say that the context is a crucial issue in the current situation. We must be aware, for example, that “*ceteris paribus*”, the value of publishing a good quality and well-motivated study on corporates’ sustainability reporting based on a specific local institutional setting in a locally relevant and well-reputed accounting journal is higher than publishing them in *Sustainability* (to put an example), and with infinitely more potential (real) impact for the discipline.

## *2.4. The social impact*

Last but not least, we need a proper debate on our social impact. We, the academics, need to work on problems and issues that practitioners and policymakers currently have, and of course, we must look for the proper means to transfer our knowledge. This topic has been discussed over the years<sup>5</sup>, and many successful initiatives have been fruitful. However, this is still an issue, and the pernicious side of the incentives and “journals crisis” does not help solve it.

<sup>5</sup> See for example recent discussions on this issue in the opinion piece (Dawkins, 2024) and its discussion (Gotti, 2024) published in this journal, or in García Osma et al. (2023) or Ramassa et al. (2024) among others.

However, we must be cautious about the potential incentives we might create to promote the dissemination of our research. We use metrics, as we need ways to measure what we do and create incentives. Metrics are what they are, and we must be careful with how we use them to avoid them becoming the target “per se.”

Another issue that deserves a much deeper debate is what we should do with accounting education. We are giving great (and necessary) importance to new technologies and artificial intelligence in education, but we should give much more importance to what we teach. Are we adapting quickly to prepare future professionals for this changing reporting landscape?

### 3. Conclusion

In summary, we might not solve many issues arising in the last few years in the accounting landscape just with traditional mainstream theories and methodologies. The revolution in the regulatory landscape leads to challenges that academia should help solve. Society needs researchers’ neutrality, rigour, and critical view to deal with all the challenges.

It can be argued that we are not in a pre-crisis or crisis period (which has a negative connotation) regarding research paradigms but in a challenging and motivating situation for our discipline. Many academics are undoubtedly going the right way, and progress has been made. Researchers need time to adapt to such revolutionary changes. However, at least in some countries and /or institutions, the accounting academia might have internal problems, such as a “crisis of incentives”. We must have a serious debate, act, and try to solve them to impact society. This eventually drives progress. It might take some time, especially in more rigid environments, but I am optimistic.

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