Abstract

This paper introduces New Essentialism (NE) as a basis for a significant repositioning of accounting. Essentialism has a long history and part A of this paper recounts a little of that history and some of the more important criticisms of essentialism in order to more clearly distinguish the new from the old. NE is then defined and, for reasons of authentication, some consideration is given to its significance in critical theory, social and environmental accounting, accounting for sustainable development and other disciplines. In part B of this paper, a NE approach is used to analyse aspects cases involving accounting scandals and the capital market. In part C, the significance of NE analyses are critically discussed and directions for further research are provided. A conclusion is provided.

Introduction

New Essentialism (NE) is new. The key publications of this understanding were made in this millennium hence much of the discussion relating to essentialism has been about “old” essentialism. It is important to bear this in mind and to approach this paper with an open mind. In part A of this paper, we provide a brief history of the “old” essentialism in order to address some of the misgivings associated with the old understanding and then provide a definition of NE with examples. Part B presents some NE case analyses of accounting scandals and the capital market which were selected to be representative of the core values that NE is able to call into question. A critical discussion section in part C extrapolates from the case analyses and further considers the implications of NE analyses for accounting. Finally, a NE research agenda is outlined and conclusions are drawn.
Part A: Introduction to New Essentialism

A Brief History of Old Essentialism

It was the ancient Greeks who first developed the idea of essentialism. In 585 BC, Thales predicted an eclipse of the sun and is thereby attributed with introducing the study of the natural world to Greeks. Thales and those who followed are known as the Pre-Socratic philosophers. They are the first scientists since they observed the world and used reason to explain what they saw. In their understanding, any natural object has a power and a propensity to act, to grow, according to its own nature. In this way, the methods of those first scientists were realistic since they saw the natural world as having its own, independent reality to which they could return to test the truth of their arguments. This understanding is known as essentialism, the search for the fundamental, internal and defining causal powers of things (Barnes, 1987).

Aristotle (384-322 BC) became well known for an essentialist view of the world. In the Middle Ages and the Renaissance, Christian universities and theologians drew heavily upon the works of Aristotle but in doing so, they adapted his understanding of essentialism so that the Christian deity, not nature, was the only causal power. The mediaeval version of essentialism was rigid, fixed according to God’s eternal plan.

The scientific revolution brought about by Copernicus, Galileo, Descartes, Bacon, Newton and others first had to struggle against entrenched Scholasticism. But when scholasticism was overcome (by a scientific understanding and a humanistic Rationalism), it was not simply a case of essentialism being cast out with the mediaeval world view. The scientific revolution from the 15th to the 19th regard the world as consisting of passive elements (e.g. Descartes’ corpuscles) which were “moved” by forces such as gravity or, later, the “life-force” of electricity. This world view is sometimes called mechanistic since a dominant technology was clockwork and it was the dominant understanding that was, for example, successfully applied to understanding the body (Harvey), gases (Boyle), society (Hobbes and Locke) and economics (Smith). This still-dominant world-view is called “passivism” and that even today “[i]t is such an established way of thinking that to many it seems to be plain common sense” (Ellis, 2002; p. 2).

Because of the influence of passivism, there remains widespread scepticism that intrinsic causal powers exist. The idea of an unchanging essence is particularly repugnant to social theorists and liberalists who regard any permanent “fixtures” in human nature or the world as the antithesis of principles of equality and free will. For example, racial or ethnic group essentialism has been widely criticised (Banton, 1987; Rothbart and Taylor, 1990); and the “essentialist” association claimed for women and nature by some feminists has prompted others to point out the need to deconstruct this “sterile dichotomy” (Haraway, 1991; Grant, 1993). There are also theoretical problems posed by essentialism to those who argue for autonomous (Luhmann, 1986a; Luhmann, 1986b; Laughlin, 1991) or
empirically studied social systems where structure exists “outside time and space” (Giddens, 1979; p. 64). One such social constructivist’s position is expounded in “Against Essentialism: A Theory of Culture and Society” (Fuchs, 2001).

New Essentialism

NE rejects Aristotle’s fixed essentialism relating to animal and plant species. An explanation of NE is best started with chemical elements and compounds that exhibit natural kinds that may be defined according to these strict criteria:

1. Differences between elements and their compounds are all real and absolute;
2. The elements and their various compounds are categorically distinct from one another so that there is no gradual transition from one chemical kind to another;
3. The distinctions between chemical kinds are based on intrinsic differences;
4. Chemical kinds exist in hierarchies ranging from isotopes at the lowest levels up to complex molecules of thousands of atoms; and
5. Chemical kinds all have essential properties that are known in most cases as their atomic-molecular structures.

The water molecule, for example, has an essential structure of two hydrogen atoms and one oxygen atom set at a specific angle and a propensity to act in particular ways. These are the defining properties of water and if in another universe there was something that did not have this structure or this particular propensity to act, then it would not be water. For these reason, the scientific descriptions of water and its propensities to act are taken to be properties of water. Furthermore, these properties are taken to be real, not empirical. NE analyses are concerned with scientific realism, how the world is – not how it appears.

NE may be best exemplified in chemistry but this particular explication of essentialism also applies to more fundamental and to higher levels of the natural world, and to the world of human making. Atomic particles are “fixed natural kinds” since at these levels of the world the identified members of each natural kind are identical. However, in more complex natural kind aggregates such as iron or water the causal powers are capable of being modified. For example, iron may be magnetised and water may be vaporised or frozen. So whilst iron atoms and individual water molecules may remain strictly true to their fixed natural kinds, in the aggregate they are intrinsically variable. Whilst these aggregates still comply with the natural kind criteria, their intrinsic variability requires that they be identified as “variable natural kinds”.

The increasing complexity found in animals and plants fails to meet the natural kind criteria for both categorical distinction and essential properties, criterion 2 and 5 above. They fail the categorical distinction test because individual species are not clearly discrete either in the present day where continuous variation is found between some species or in the past where there is evolution from common ancestors. Essential properties are also not found in animals and plants since there is genetic variation among members of the same species such as
*Homo sapiens*. Plants and animals, including human beings, are hence identified as “variable natural kind clusters”.

*Homo sapiens* however is not variable in the way that an aggregate of iron atoms is variable. We can also determine how we are going to vary. We can decide to a degree how we are going to change our causal powers, our behaviour, or how we are going to adapt to new circumstances. Some of our variability is hence deliberate and may be described as a “meta-causal power” (Ellis, 2002: p. 31). In this way human agency is understood as something special, but not that special. In a new essentialist view of the world, nature is constituted by active agents and not by passive matter. It is therefore more plausible to a new essentialist that humans acquired their agency in the normal processes of evolution along with other advanced animal species.

Genetic research into ethnic and racial origins has also prompted reviews of essentialism. With regard to anthropology, Brodwin (2002) observes that scholarly and left-liberal opposition to “genetic essentialism” is not so much against genetic research but against the popular interpretation of such research. Racial and ethnic differences do exist culturally but such groupings are not clearly differentiated by NE since they do not constitute natural kinds and the closest natural kind cluster is *Homo sapiens*.

Seminal works on the role of essentialism in semantics (Kripke, 1972; Putnam, 1975; Quine, 1977) prompted interest in “psychological essentialism”. Medin and Ortony (1989) argue that people assume a kind of essentialism even though they might not know what an essence is. Medin and Ortony introduce the term “essence placeholder” to refer to the unknown-yet-believed-in essence. According to this argument, people believe that a wolf for example has some “wolf essence” that confers on the wolf category identity and is the cause of identifiable wolf features even though the “wolf essence” itself is not known. Similarly, Strevens (2000) argues that only the category membership is required for cognition and that no reference need be made to an essence but nonetheless the core features of an essentialist account, such as intrinsic cause, are maintained by Strevens. Empirical research has shown that children naturally use an essentialist approach (Keil, 1989; Gelman and Markman, 1986). Essentialism also promises to be a promising functional guide for inductive inference (Atran, 1994; Coley, Medin et al., 1999). Psychological essentialism is regarded as an evolved mechanism that identifies essential kinds in the world, builds appropriate representations of them and constrains inductive inferences to those sorts of properties that would be caused by the essential kinds. If true, this particular branch of psychology has considerable significance for intuition, judgement, decision-making and the construction of theories and social systems.

Apart from the formative role assigned loosely to essentialism in psychology, NE finds less realism in more complex organisation since no appropriate natural kinds are found. In ecological, social and economic systems, for example, there are no natural kinds identifiable at a higher systems level that satisfy the intrinsic causal and categorical criteria. Similarly, complex ecological, social and economic systems do not possess sets of intrinsic criteria that might be used to distinguish natural kinds of “microspecies” that could be used like genidentical clusters in biology. Complex organisational systems are not amenable to a realistic analysis for they are constructed theoretical entities, model theories.
In social theory, the NE approach to knowledge would agree that a constructivist approach to systems is one that usefully summarises and logically classifies our observations (Duhem, 1954), and this is a key differentiation from the physical and chemical sciences that are amenable to a scientific, realistic analysis. But even within the constructed theoretical models of social theory, NE realism analysis is an instructive, guiding principle. For example, the works of Luhmann (1986a; 1986b) are abstract and are not based on natural kinds or natural kind clusters and are hence of less value from the perspective of a new essentialist theorist. On the other hand, the social theories of Habermas do require the intrinsic causal agency of a natural kind. Habermas is concerned about the conditions for an ideal speech community and that in itself is an abstraction without a natural kind foundation. But he regards the function of this ideal speech community to be one of establishing the right circumstances within which reasons or “utterances” may be expressed with validity claims that satisfy transcendental truth, truthfulness and rightness criteria (Habermas, 1984). It is these transcendental valid “utterances” whose origins may be traced to a natural kind cluster, Homo sapiens. This is a comparable orientation to the role that the empiricist Mill allotted to “the state of the speculative faculties of mankind” and human nature in his account of history and sociology (Mill, 1987).

NE may be most strictly observed in particle physics and chemistry but it does also provide an analytical method for understanding and revealing some reality within the world at greater levels of complexity. Because human beings constitute a natural kind cluster, it is human values, behaviour and constitution that are the source of the intrinsic causal power within social organisations. Ellis (2002; p. 147) explains: “The fundamental questions for new essentialists are likely to be: (1) what are our basic human values, and (2) how do they operate to generate our belief and attitudinal systems, and hence the kinds of social structures we have?” The relationship between a new essentialist understanding and social theory is hence potentially one of mutual support at the level of people, of Homo sapiens.

It is at the philosophical level that a NE approach will be controversial. A new essentialist, for example, argues that philosophy needs to change direction and focus on reality and not on language and visual image (Ellis, 2002; p. 137).

However, the greatest practical impact of a NE understanding relates to classical economic and free market theory. These theories are seen by new essentialists as theoretical constructs lacking the realism conferred by a natural kind or a natural kind cluster. As Ellis (Ellis, 2002; p. 32) observes “We should not, for example, be tempted to believe that there are pure market economies, characterized by perfect competition among ideally rational agents, all committed to maximising their personal utility functions, for that is just economic fantasy”.

**Part B: Case Analyses using Accounting Realism**

NE provides a basis for a fundamental rethinking of accounting theories, principles and practices. In this part of the paper, we use a new essentialist understanding to analyse the causes of some accounting scandals that have become widely known, at least to those who regularly read the financial press. For the purposes of the analyses in this part, we adopt a NE point of view.
Historically there have always been scandals, although the levels of intensity of their reporting vary through time, as does the economic sector from which they emanate (Edwards and Shaoul 1999). They bring to public attention characteristics of the business environment that attract public opprobrium, and which indicate that the assumptions about the beneficial operation of the capital markets may be flawed. What is noteworthy is that while the details of the events that trigger attention may vary over time, the characteristics retain familiar forms. We examine some recent perceptions of the present wave of scandals before proceeding to consider them in the light of a new essentialist understanding. Evidence of behaviour and perceptions about that behaviour are drawn from the Financial Times. Although this source has its limitations, it does publish its stories against a background of a litigious society and, especially given its standing in the financial environment, it must take reasonable care about the accuracy of its reports. We have chosen at random a one month reporting period from 8\textsuperscript{th} October 2002 to 7\textsuperscript{th} November 2002 from which to extract our selected corporate behaviours. These have been categorised according to four characteristics of the capitalist business environment that have attracted public opprobrium and each of these is now briefly outlined. In the following brief case analyses, the expression “human nature” is used as shorthand for the properties and propensities to act possessed by the \textit{Homo sapiens} variable natural kind cluster as revealed by multidisciplinary studies.

1) \textit{Playing the Earnings Game}

Although there has long been a debate about the relationship between quoted companies and stock markets in economies where the capital markets are especially well developed and hence significant providers of finance, proponents of free market forces argue that the capital market is supportive of long term planning and investment by companies that will create sustainable wealth over the long term. However, the nature of capitalism has also been encapsulated in the phrase ‘playing the earnings game’. Finance directors are under pressure to continuously produce upbeat profit forecasts and this in turn raises expectations about meeting those forecasts. This practice may prove especially harmful if the objective of meeting the current numbers is achieved at the expense of long-term health of the business (Urquhart and Garrahan 2002). Allegations that companies have played a short-term earnings game have been widely reported in relation to companies such as WorldCom and Enron, but are also made against other companies. For example, Qwest Communications is facing criminal and regulatory inquiries as a result of an accounting scandal that led it to reduce previously reported revenues by $1B (Larsen 2002), and Amey has been forced to make changes to accounting practice on bid costs and revenue recognition for large projects. Furthermore the phenomenon is not restricted to these \textit{causes célèbres}. Michaels (2002) reports on a survey from the General Accounting Office, an investigative arm of the US Congress, that shows a significant increase in the numbers of financial restatements, which are up almost 170\% from 1997. The most startling aspect of this trend is that 10\% of US public companies have restated their accounts in a 6 month period. Michaels argues that improper revenue accounting has been the largest reason for restatement. The flurry of recent restatements may well be an opportunistic desire to get out into the open long festering wounds but it does indicate that the underlying problem is substantial.
The same syndrome may take alternative forms. Writing of BP’s recent downwards revision of oil and gas production targets, Plender (2002a) argues that the internal reporting system had failed to report the news on a timely basis because managers were under intense pressure not to give the Chief Executive bad news. Plender notes that this atmosphere of fear has parallels with the probing performance assessment to which employees at Enron were subjected, and then argues that the problem is ‘the incentives at the heart of the capital market system’ (Plender 2002b).

Hence the performance reporting both outside and within corporations is deliberately distorted which _per se_ is indicative of causes other than those described by classical market theory. To understand and explain behaviour observed in “playing the earnings game”, analyses using scientific realism may draw upon human nature and its interactions with such as peers and prevalent belief systems. This kind of approach will result in richer, more specific and more accurate analyses and, consequentially, more effective solutions. Significantly, unlike an analysis using free market and classical economic theory, a NE analysis has the freedom and theoretical foundation to seriously question the prevalent belief system and, if necessary, dismiss it.

2) _Conflicts Of Interest_

Public belief is that organisations and their members should avoid situations where there is an apparent conflict of interest. So, for example, the UK Companies Act requires that directors must act for the benefit of members and that they should declare potential conflicts of interest in contractual situations. In addition, legislation exists to prevent the use of insider information to profit from the sale or purchase of shares ahead of disclosure to the general market.

Previously there have been concerns raised about share options held by directors, and insider trading, both of which have again been raised during this current wave of scandal. For example, the ImClone CEO has been charged with passing insider information to family and friends, although in this instance it is reported that two separate brokers refused to execute his order to sell his own shares (Chaffin 2002). While the regulatory regime worked to prevent the CEO benefiting, what is interesting about this case is that ImClone was given two days advance warning by the Food and Drugs Agency that it was about to reject an application for approval of a new drug Erbitux. A warning period may possibly be justified, but in providing it the regulatory environment has enabled, and may even have encouraged, insider dealing.

Similar concerns about organisational conflict have also been raised in relation to the quality of investment research provided by investment banks. Here the issue has been the potential conflict of interest between the users of the research and the bank as a selling organisation (Cleland and Eade 2002).

By their existence, conflicts of interest provide evidence of multiple causes and other agendas. Belief in a free market theory severely restricts the ability of analysts to deal adequately with such instances. Such behaviour is irrational according to classical economic theory and it is only by an examination of underlying causes, free of insubstantial theoretical limitations, can the interplay of human nature, beliefs and restrictions on behaviour be revealed.
The issue of executive compensation has been emotive, demonstrating very clear distinctions between on the one hand public values, guided by idealistic theories, and on the other private behaviours, caused by human nature. During the 1980s there was concern expressed in the public press about the excessive size of executive directors’ compensation packages, although these perceptions were not necessarily accepted by the Cadbury Committee, which was established to investigate the financial aspects of corporate governance by the accounting profession and the London Stock Exchange. Nevertheless, Cadbury recommended that companies empower Compensation or Remuneration Committees to oversee directors’ remuneration (Cadbury 1992). Such committees ideally were to be composed of outside independent directors and the public perception was that consequently there would be a moderating effect on the size of payments. However, recent scandals in the USA have produced allegations that similar internal watchdogs have lacked power. For example, in the reporting of the Tyco case, it has been alleged that Tyco International’s Board of Directors had a Compensation Committee, which failed to stop abuse of the company’s relocation expense, loan and bonus schemes. In particular, it is argued that the Compensation Committee was unaware that a senior executive was in receipt of unauthorised compensation and that perquisites were not always reported. In its form 8-k report to the SEC on the improper conduct of former management, Tyco’s new management argued that the system of oversight by the Compensation Committee failed because some employees were mislead into believing that such arrangements had been authorised, and there was collusion between two very senior executives to maintain secrecy over the nature of these arrangements. Similar concerns have been raised in relation to WorldCom, where $400M in personal loans to Ebbers, former chief executive of the company, were approved by the compensation committee (Kirchgassner 2002), at an interest rate which is reported as being 2.18 – 2.21% compared to a more usual rate of 3.5 – 4% (ibid., 2002).

According to classical economic theory, excessive compensations should not happen – but it does. Market imperfections are poor explanations for what repeated widespread events. Scientific realism and a search for the intrinsic causes of human nature could once more provide better analyses. The point here is that free market and classical economic theory are used to cloak behaviour that in other, more transparent, circumstances would be shameful.

4) Secretive Lobbying and Control over Regulators

Publicly it is generally agreed that appointments to regulatory positions should be made in an open and transparent manner, however during the course of our random month much attention was directed to the debacle surrounding the appointment of the head of the Public Company Accounting Oversight Board, the new US accountancy regulatory board. Exhibiting what has been described as ‘foolish behaviour’, the accountancy profession and its congressional allies were reported to have delayed the appointment of a chair and opposed a candidate deemed to be too radical. Subsequently, a different candidate, Webster was controversially appointed by the extant SEC chair Pitt, despite a split vote from the SEC Commissioners along party political lines hence undermining the credibility of this new role holder and the oversight board. Secrecy rather than transparency of decision-making has been a perceived feature of this process.
After the appointment of Webster, information quickly emerged that eventually caused the demise of both Webster and Pitt, but was not made known to the SEC Commissioners, with the exception of Pitt, before the crucial vote. Webster was, at the time of his appointment, also a director of NextWave, a bankrupt telecom group, which was involved in a Supreme Court case. However this alone did not necessarily render him an unsuitable choice as he had Board experience of successful companies also. Of greater concern was his role at US Technologies where he had headed the audit committee. The financial deals at this company have been questioned (Michaels 2002), and the company and its chief executive are facing suits from investors who allege fraud. Perhaps most significantly, Webster led the audit committee, which voted to remove the external auditors who had raised concerns about internal financial controls in 2001 (Larsen and Harding 2002). As events unwind, the personal integrity and professional competence of both Webster and Pitt may prove to be unsullied but the circumstance of this appointment and the resignations raised many questions about the underlying behaviours that affected the regulatory system. Not only about the way in which the regulatees appeared to exercise such power over the original choice for such an important role, but also about the transparency of the selection process.

Secret lobbying and overt controls exercised over regulators are not part of classical free market theory – but they exist and need explaining. The effective cause in this example is better explained by other agendas the causes of which are to be found in the specificities of human nature.

This summary represents the major issues that were reported upon during our random month, but there were also reports that raised concerns about the following: anti-competitive behaviour in a magic circle of UK trusts that were cross-investing to prop up prices and management fees (Burgess and Brown 2002; Burgess 2002); the complicity of experts in questionable financial deals, especially in the case of Enron where it was reported that such concerns were being raised by US senators; and the nature of advise provided by a UK accounting firm to prospective clients (Plender 2002b). In the following part we consider the context in which these problems have arisen and consider the wider implications.

Part C: Discussion

The brief cases provided in part B above, all indicate that the causes of the identified events are other than those described by classical economics or free market theory. From the point of view of NE, two kinds of explanations are possible: (i) those made usually in public in accordance with the received (and asserted) beliefs in the forces of free markets and classical economic theory; and (ii) those dependent upon intrinsic causal powers which, in this paper, we summarise as human nature. Whatever class of explanations is accepted, the case study situations are both widespread and significantly disfunctional. ‘Playing the earnings game’ indicates a distinction between the values espoused by outsiders to the case, and the internal behaviours of corporate staff. Conflicts of interest undermine the role of competition in regulating the market. Cleland and Eade (2002) regard the present considerations to split organisations into
separate research and investment subsidiaries to reinforce independence and hence restore the arm’s length transactions required by free market theory as simply another version of Chinese Walls. The theory of an efficient free market predicts that compensation packages are just sufficient to attract the appropriate calibre of person to be a director, and that this requires packages to be competitive in a global market. However, if this were true then there would be no reason for directors to mislead Compensation Committees or to keep secret arrangements from them. Finally, the role of secrecy is also evident in decision-making processes and powerful regulatees seek to and actually do exercise control over the regulatory system. These actions, and significantly the use of secrecy, are indicative of duplicity, representing public and private causes.

What is interesting about the cases cited in this paper, and many others, is that they provide a view about the ways in which these business corporations operate which varies markedly from the often repeated assumptions about the ways in which market forces are supposed to efficiently control the economy. Real behaviour, at least in some corporations, varies significantly from that of the model of competitive market forces. Thus we argue the capital markets model is not describing the real behaviour of corporations. If we are to accept a NE explanation, then the rhetoric and appearances are to be stripped away and the underlying causes are of business systems driven by human nature often operating to further self-interest without regard to the efficient allocation of resources. If NE is correct, a different kind of action is required to correct the dysfunctions; for example, the kind of action provided by psychological and counselling. This is presently not the case and corrective action is taken with the assumption that classical economic and free market theory are sufficient and need no change.

An important response to business scandal has been to argue that a specific event is merely a ‘one-off’ perpetrated by an incompetent or criminal actor, and that while small changes may be necessary the system is fundamentally sound (Cadbury 1992). However, in an analysis of accounting cause célèbres covering the 20 year life of the Accounting Standards Committee, Edwards and Shaou (1999) have shown that accounting scandals are such regular events that it is not possible to sustain the argument that they are one off failures of an otherwise efficient system. In other instances where there has been a sequence of scandals, the response has taken the form of new statutory requirements, new professional requirements or codes of practice, or the creation of new regulatory bodies, for example the creation of the Accounting Standards Steering Committee in 1970 and the Accounting Standards Board in 1990. Interestingly the response in the US to the current wave of scandal has not focused on individual malefactors but has seen calls for more significant adjustments, which have taken shape at various levels in the business community and have been reflected internationally. The US authorities moved quickly to introduce new legislation in the form of the Sarbanes-Oxley Act, and they have attempted to make executives more directly responsible for the results. As well as the statutory response, various regulatory or professional bodies have issued codes of practice or have considered alternative modes of operation. For example, Michaels (2002) notes that the accounting profession has recently updated its fraud instructions to auditors because auditors’ responsibility for detecting fraud has been a difficult aspect of their role and presumably requires fresh consideration in light of recent allegations of fraud in headline scandals. The design of business procedures to ensure adequate functioning and governance
of operations has heralded a movement away from trust in people and towards trust in systems.

A new essentialist perspective would see these responses as fundamentally flawed in conception because cause in business systems is due to *Homo sapiens* – admittedly influenced by belief but not necessarily constrained by beliefs such as in fantasy forces. It is human values, behaviour and propensities to act, that are the source of the intrinsic causal power within social organisations. If people act inappropriately or alternatively, fail to act appropriately, systems - no matter how well designed - will fail. Thus we argue there is a need for a more fundamental change to corporate culture. While it may not be possible to prevent some unwanted human behaviours such as excessive greed, the recognition that people cause things to happen in social systems will shift attention from theoretical fantasy towards a reality where realistic issues may be faced.

The regulatory responses to ongoing problems are in accordance with Lakatos’ (1970) description of a scientific research programme in which there is a “hard core” of beliefs maintained by a “protective belt” of subsidiary theories or hypothesis whose purpose is to explain the observed failures and anomalies of the core beliefs without actually questioning the core beliefs themselves. The core beliefs are in this way held dogmatically and are not themselves falsifiable. The unassailable core beliefs of classical economic theory are concerned with the structures and dynamics of market economies. The assumed and protected economic theory suggests an environment of market forces combined with explicit and effective regulation as the norm which is not to be questioned. As we have discussed above, a new essentialist can find no core to protect within traditional expositions of classical economic and free market theory; all of this body of theory is hence available for scrutiny and change. From a NE perspective, there is hence no basis for adopting a Lakatosian methodology to protect classical economic theory. The free market is a fiction, “There is no such thing, except in the mind of the theorist” (Ellis 2002, p. 165). The basic principle of free market theory needs to be seriously challenged and not merely assumed and reiterated by believers.

On the other hand, if we are going to challenge the NE position it is not enough to assert classical economic and free market theory. NE is concerned with an ontological state of affairs and is hence larger than these. As discussed in previous parts of this paper, the fundamental distinction between the two positions is to do with active versus passive nature. If nature (i.e. nature and human nature) is passive, the deductive system of classical economic theory and free markets is acceptable in the absence of anything better. If nature is passive, there is little point in studying passive nature and making inferences from our observations.

Hume is remembered for making the point that inference cannot be proved. What is not so commonly remembered about Hume is that he actually constructed his arguments not to disprove (what was for him) empirical research but to disprove the grand Rationalist approaches to knowledge initiated by Descartes and developing in his time. Indeed, Hume’s argument invalidating inference is equally damaging to deductive systems. There is no way of proving that a deductive truth has any relevance for the real world. Ultimately, Hume conceded that knowledge based on experience of the world was the best reliable option for knowledge
accumulation – a position that clearly favours an analysis based on scientific realism (Beauchamp, 1999).

As stated above, many scientists assume that what they study is real. Karl Popper’s falsification thesis assumes an objective reality (i.e. a scientific theory makes predictions that can be tested against reality). Timing is a critical issue here - Marx may yet be proved accurate. Furthermore, the anti-realism debate is not about realism in the observed world but about scientists making unjustified assumptions about worlds that cannot be observed such as particle physics.

Accepting realism is not to dismiss the socialisation of science when such as instrumentalism or politics are said to intervene in the processes of scientific discovery. Darwin’s theory of evolution for example may well have identified competition between species as a significant factor because of the free market economy in which he lived. What we, Homo sapiens, make of scientific knowledge is a matter independent of the realism or idealism debate – even instrumentalists and phenomenologists may actual employ information about a real world whether they recognise this or not. We await a fervent antirealists or relativists to disprove some basic scientific reality such as defying gravity or extremes of temperature.

Nonetheless after Hume, realism is indeed a belief and perhaps an empirical approach is better. But scientists do find remarkable consistency in the world. The oxygen molecule has a particular structure and a propensity to act that has been found to apply universally (i.e. to the limits of our known universe). Other elements and molecules are the same. Animals may not be fixed in species but certainly provide evidence of consistent behaviour and form. Furthermore, Darwin’s theory of evolution clearly depends upon intrinsic causal powers. Genetic information explains how consistency is maintained – and changed minutely and it is emerging as a source of information about human nature.

But it is perhaps the diversity of information that corporations are now providing as part of social and environmental accounting, corporate social responsibility or sustainable development that supports realism; i.e. for NE, intrinsic causes other than those asserted by classical economics or free market theory. There is, and always has been, much more going on in the world than classical economics or free market theory allows. NE provides a way of both explaining and unifying this diversity of information; as emanating from the intrinsic causal powers of an active world.

*Implication for Accounting*

In this first paper looking at NE and accounting, the emphasis has been to address high-profile, core values of accounting as expressed publicly in defence of scandal. Further research is needed to explore how NE affects in detail the approaches, concepts and tools of accounting. Nonetheless, some broad observations about NE and accounting can be made.

Traditional accounting finds much theory within the confines of neo-classical economics and hence the arguments made above have a direct impact on traditional concepts of accounting such as double entry bookkeeping. This
mechanism was designed hundreds of years ago to enable the accurate recording of simple business transactions and cash flows. However in a modern global environment it is necessary to consider whether we expect too much from a system designed for small business and whether it is possible that it has become overloaded in a much more complex business environment. The accounting scandals discussed above may suggest that assumptions regarding the accuracy and reliability of accounting as a measuring system are flawed. The scandals focus attention on the importance of judgements made about asset values, the timing of revenue recognition and decision making and approval routines none of which are challenged by double entry bookkeeping. Some parts of accounting, such as marginal costing, are directly dependent upon classical economic theory but there is also a much wider indirect dependency since free markets, economic algorithms, and personal utility maximisation establish much of the context within which mainstream accounting has developed.

The principle exemptions from this dependency in accounting may be found in what has been the radical and marginalised accounting for social, environmental and ecological aspects. Social and environmental accounting assesses an organisation’s performance across a range of performance indicators that offer greater opportunities to assess corporate performance in ways that describe more accurately intrinsic causes.

For these reasons, we are proposing that the basic accounting approach is to be developed from those techniques using a scientific realism, and not an axiomatic-deductive, analysis: an evolved social and environmental accounting as opposed to financial/applied economics.

NE advances critical accounting theory. Horkheimer (1974, 1999), Marcuse (1991), various commentators (such as Bottomore, 1984; Geuss, 1981; Jay, 1973) and accounting researchers (including Reiter, 1998; Tinker, Merino, and Neimark, 1982) have already provided extended critiques of the consequences of positivism, neoclassical economics, and radical abstraction as well as the application of natural science objectification to the social sciences. It is appropriate to bring this discussion to a close by considering what is new that new essentialism brings to these debates.

To focus our response we refer to Geuss (1981, pp. 1-2) who summarized the basic features of critical theories as follows:

“1. Critical theories have special standing as guides for human action in that:
   (a) they are aimed at producing enlightenment in the agents who hold them, i.e. at enabling those agents to determine what their interests are;
   (b) they are inherently emancipatory, i.e. they free agents from a kind of coercion which is at least partly self-imposed, from self-frustration of conscious human action.

2. Critical theories have cognitive content, i.e. they are forms of knowledge.

3. Critical theories differ epistemologically in essential ways from theories in the natural sciences. Theories in natural science are ‘objectifying’; critical theories are reflective.”

NE supports points 1 and 2 above for it is an informative emancipating guide to human action since it works to identify human nature and to acknowledge knowledge of this nature as the source of causal power in accounting and also as a way of overcoming artificial conceptual locks. Whilst critical theory may talk of
emancipation, NE is very specific about what it is that may be emancipated and furthermore embeds critical theory not only in science but also in the natural world.

It is with regard to point 3 above that NE makes a controversial contribution. Point 3 identifies polar opposites without recourse to reconciliation. New essentialism is clearly ‘objectifying’ since it depends upon human nature as a natural kind that exists independently of human language, thought and understanding. For this reason, a new essentialist would reject subjectivist or relativist conceptions of reality. But whilst we are world-bound, unable to stand outside our world to designate what kind of world we inhabit, we are nonetheless able to acquire or dispose of dispositional properties by an exercise of our own causal power.

To explain this, consider iron with natural kinds that vary according to the action of an extrinsic causal power: iron may be fatigued and become brittle or it may be magnetized to attract other pieces of iron, it may be heated and become molten and so on. But whilst iron may exhibit these variable natural kinds, it remains iron. People are similar in so far as extrinsic powers cause us to behave differently, but we remain the variable natural kind identified as *Homo sapiens*. Now consider that we may change our dispositional properties by an exercise of our own intrinsic causal power. This would constitute a reflective act, a “meta-power”, brought about by an intentional state of mind. In the course of evolution, human beings and other higher animals would have acquired such meta-powers to improve survival chances. The decision made by a lion to attack or walk by a specific prey depends upon a lion’s evaluation of range of factors external and internal to the lion: it is the lion’s reflective decision that determines how it will act. In a similar but more complicated set of circumstances, some of us decide to be practicing accountants or academics. NE accommodates the reflective decisions that we make and hence reconciles reflection and objectivity. In this way, human nature and the natures of other higher animals are both a part of intrinsically causal natural processes and independent of the processes to the extent they may decide which of their intrinsic causal powers they will employ in particular circumstances. Natural and critical social sciences could stand side by side in NE in a commonwealth of knowledge.

**Conclusion**

We have used NE as a theoretical vehicle to help search for a better knowledge and understanding of human values, the natural world and our institutions. We have argued that human nature, the intrinsic causal powers of the natural kind clusters that are *Homo sapiens*, are central to the operation of corporations, and that these causal powers vary markedly from free market or classical economic forces. From a NE perspective, the persistence and variety of the variations found in the case studies are in themselves indicative of causal powers other than those described by classical economic and free market theory. Furthermore, since a new essentialist cannot find any natural kind or natural kind cluster within or framing classical economic theory and hence is obliged to conclude that classical economics and free market theory constitutes an elaborate imaginative act or a logical belief system. The arguments of free market theory or classical economics make big ontological assumptions that are certainly not justified either
by the level of present debate (about realism and anti-realism or passivism and essentialism) or present experiences of unsustainable development (which reflects developments conducted according to the incomplete script of free market theory and classical economics). Hence, as a result of NE we should at least be far more cautious about applying free market concepts and distributions.

NE provides a powerful critique of classical economic theories and free markets and for this reason alone it is of significance for accounting. But similarly, a new essentialist has good reason to be wary of some of the tools of accounting, such as double entry bookkeeping, that are logical and consistent but that have no association with a natural kind or natural kind cluster. On the other hand, some more recent accounting tools and approaches such as social and environmental accounting, the balanced scorecard and environmental management accounting could be used to measure, analyse and report on the performance of natural kinds and natural kind clusters, viz. *Homo sapiens*, chemicals, biological entities etc. It is not without significance that many of the more recent forms of accounting have also used scientific realism and not deductive theoretical abstraction.

NE is a way of perceiving a world that is both rich in potential and diversity and also integrating with regard to the social and natural sciences. It is a way of re-enchanting the world and overcoming deep alienation and as such may prove an invaluable part of the cultural transition to sustainable development.

To end this paper, we offer some suggestions for a future research agenda by identifying a number of new essentialist research tasks for business and accounting:

(1) Significant natural kind clusters and their behavioural propensities within business need to be identified;
(2) Appropriate representations need to made of the significant natural kind clusters within businesses;
(3) Organised knowledge of the significant natural kind clusters within businesses needs to be accumulated;
(4) Inferences need to be made and tested concerning the behavioural propensities of the significant natural kind clusters within businesses;
(5) More new accounting tools are needed to implement a new essentialist approach to measuring and reporting business performance and such tools are likely to draw upon the balanced scorecard, environmental and social accounting and the Cloverleaf account of sustainable development (Birkin, 2000);
(6) New essentialist accounting tools will challenge the meaning as well as the measurement of business success or failure so that fundamental business and personal goals need to be re-evaluated; and finally
(7) There is a need to develop new essentialist policies for business and political institutions.
References


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Biographies

Professor Frank Birkin held appointments in the UK and in Africa as financial accountant, management accountant, financial analyst and systems analyst before entering higher education. In recent years, Frank has collaborated within Sheffield University to win over £1 million in funding relating to the social and environmental aspects of accounting and management. All Frank’s grants over the last ten years have also contributed to the development of an account of sustainable development. He is at the School of Management, University of Sheffield.

Professor Pam Stapleton (nee Edwards) held a variety of accounting and financial positions before becoming an academic in 1986. Her current teaching interests are mainly in the area of financial accounting and reporting, with a special interest in bringing together technical accounting procedures and notions of corporate governance and social responsibility reporting. Her research interests include the public sector; public private partnerships, especially in the areas of schools and information technology projects; corporate governance - social and environmental; the role of accounting and the budgeting process in the management of schools. A previous project was concerned with public sector schools, and a new developing project will involve the independent sector. Pam is now at the Manchester Business School.

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