

## Persuasion as a Prelude to Proof: Theory Acceptance in Accounting Research

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*In his 2013 presidential scholar address to the American Accounting Association, Michael Jensen, an early author of agency theory, makes an appeal for a new language and new paradigm to introduce his proposed theory of integrity in accounting. In the 1970s, agency theory was promoted over other theories because it demonstrated empirical evidence of the accounting procedures actually used in practice, compared to those that “should” be used according to established rules (see Jensen and Meckling, 1976). Contrarily, in this paper, we show scientific theories (Latour, 1987), and in particular accounting theories, are actually accepted by a larger persuasion than just the empirical evidence. The early empirical evidence on agency theory was often not even statistically significant. As Jensen now demonstrates, consistent with Latour (1987), this persuasion begins with a new language and a new world view, and continues with a strategy of properly framing expectations for the data outcomes and the empirical evidence.*

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In his 2013 presidential scholar address to the American Accounting Association, Michael Jensen describes how he helped to create the contracting (agency) theory of accounting research. Taking issue with Friedman's (1953) 'positive economics' theory of corporate behavior, Jensen claimed that it was in fact managers, and not corporations, that generate revenue; and so began the self-interest theory of accountancy, referred to as 'positive accounting theory' (PAT), and more recently as 'agency theory' (Watts and Zimmerman, 1978; 1986; 1990). This theory argues that because the costs and benefits of accounting decisions (e.g., depreciation methods and other accruals) may apply to managers and not necessarily to the firm, managers make these decisions not necessarily based on providing the greatest accuracy or clarity to the financial statements, but on the benefits to the creators of these statements. For example, compensation interests may motivate managers to create the right accounting numbers (the bonus hypothesis); creditor interests limit may dividend payments (the debt-equity hypothesis); and costs of regulation on income and tax expenses may reduce manager benefits and thereby limit firm behavior (the political cost hypothesis) (Watts and Zimmerman, 1978). By challenging the Statement on Theory Acceptance (AAA, 1977), which argues that accountants ought to choose the appropriate procedure to improve statement accuracy and clarity, this new positive theory of 1978 argued for an axiomatic intuition (everyone is assumed to follow self-interest) that could be observed in "empirical regularities" (Watts and Zimmerman, 1990, p. 152).

We will show evidence against these “regularities” and conclude that this theory promotion process was more consistent with that used in promoting new scientific theories (Latour, 1987), a form of methodology itself (McCloskey, 1983). We show that this larger persuasion is not limited to McCloskey's rhetoric, although agency has been described as the “rhetoric of revolt” (Mouck, 1992). Instead, this persuasion established by Latour (1987) requires a basis of agreement, a recognizable paradigm, and a common language for describing events, in order to establish, as first suggested by Kuhn (1974), “a prelude to proof.” And in 2013, this is now explicitly mentioned by Jensen, the author of agency theory himself (Erhard and Jensen, 2013).

This paper begins with the necessity of rhetoric for any theory acceptance: the necessary appeal to the rationality of specific constituencies. Rhetorical strategies used by scientists and described by Latour (1987) are introduced as part of the internal rhetoric used to enroll followers and to frame, fortify, and then to stack the evidence for the promoted theory as ‘generally accepted.’ We then show that early agency advocates 'fortify' their descriptions with the familiar language of economics and appeals to authorities such as the social citation index used by the agency journal, the Journal of Accounting and Economics (JAE), the Nobel Prize, and the results obtained from scientific modeling. This ‘stacking of

the evidence' then establishes the agency point of view that managers act out of self-interest. Next, statistical empirical 'irregularities' are framed as approximate 'regularities' for this pre-established point of view. Finally, agency advocates do not even bother to consider alternative hypotheses to those available under agency theory. From this point of view, since there are no financial economics critics, Watts and Zimmerman (1990) point to a 'non-engagement' of their own critics. This is consistent with the Latour (1987) final procedure of 'closing the argument.' We begin with the rhetoric necessary for 'proof.'

### Rhetorical Strategies

Rhetoric, the language used to persuade, or according to Latour (1987), "the language used to mobilize resources" (p. 41), has been elevated from its supplementary or "unnecessary" role (Whittington, 1987, p. 330) to a form of methodology (see Simons, 1990; Nelson et. al., 1987) necessary for the "conduct of [accounting] research" and for the "content and quality of its produce - knowledge" (Arrington and Schweiker, 1992, p. 512). Persuasion relies fundamentally on rhetoric (Lavoie, 1987, p. 586). Even empirical research begins with a reliance on rhetorical persuasion with statements such as: "In the absence of a persuasive theoretical structure on which to build a causal chain, the results cannot be used to make inferences about the effect of one variable on another" (Abdel-Khalik and Ajinkya, 1979, p. 23).

There are many broad classes of rhetorical strategies found in several research areas (see, for example, Simons (1990). Each may be divided into two categories: (1) an internal appeal to a specific constituency which requires the language of that constituency and many other strategies and devices, or (2) an external appeal to as many followers as possible:

"[T]he ... sciences are becoming increasingly rhetorically self-conscious. They are beginning to recognize that their discursive practices, both internal and external, contain an unavoidable rhetorical component. Internal here refers to those discursive practices that are internal to the specific scientific language community; external refers to the discursive practices of that scientific (or non-scientific) language communities and the society in general (Gaonkar, D.P., in Simons, 1990, p. 352).

Both internal and external rhetoric build a consensus of belief with an intersubjective appeal for a common understanding made by the writer. Such an appeal is a result of the writers' "having actually penetrated (or if you prefer, been penetrated by) another form of life, or having, one way or another truly "been there". And that, persuading us that this offstage miracle has occurred, is where the writing comes in" (Geertz, 1988, p. 4).

**Table 1: Rhetoric as Methodology**

Subject	Reference
I. The Use of Language to Persuade ((Rhetoric) 1. McCloskey (1983) 2. Arrington and Schweiker (1992) 3. Mouck (1992)	Intersubjective Agreement • The rhetoric of economics • Rhetoric as methodology • Rhetorical strategies and devices; the rhetoric of economics, of science and of revolt in agency
II. The Use of Specific Language For Constituencies (Latour, 1987) 1. Preston et al. (1992) and Bloomfield et al. (1992) 2. Chua (1992) 3. Watts and Zimmerman (1986; 1990)	Rhetoric to reduce controversy; arguments to(1) fortify, (2) stack, (3) frame, and (4) close rhetorical persuasions, given language specific to a discipline. • The enrolling of physicians and others for the establishment of a national health information system • Enrolling hospital administrators toward DRG costing • Enrolling allies and reducing controversy for agency research in accounting

Table 1 attempts to illustrate the application of these two rhetorical strategies. The use of language to persuade (in part I) makes broad appeals to fairness, justice, and concepts of morality; it appeals to the generic everyman. For example, McCloskey (1983) with a broad external appeal claims that the internal rhetoric of economics is an "unofficial" methodology. Generally speaking, both internal and external rhetoric use those conditions that would otherwise be considered "in context of discovery" (p. 511):

upbringing, politics, introspection, theology, history, case study, and devices such as metaphors, allegories, parables, and strategies such as simplicity, symmetry, fashion, and appeals to authority. The external and internal rhetorical strategies differ only in the subjects of their appeal.

For example, presented next in Table 1 is a reference to Arrington and Schweiker (1992) who, through a broad appeal, establish that an internal rhetoric is a necessary condition for accounting research. Next in Table 1, Mouck (1992) establishes that the appeal of early agency theory is to a specific internal economics constituency and that it uses a rhetoric of science and economics described in part by McCloskey (1983). Mouck presents the rhetoric of science agency as having both strategies and devices. The strategies include scientific positioning (objective, independent) and devices include appeals to authority, expertise, and the evolution of accounting theory. Although Mouck does consider the acceptance of agency theory as socio-historical, the rationality given by Mouck for theory acceptance is more sociopolitical:

“... to the extent that the story was successful it was due to the fact that it was read by an audience attuned to the rhetoric of science, on one hand, and to the Reagan era rhetoric of revolt on the other hand, thus allowing the lack of scientific substance to be overlooked...” (Mouck, 1992, p.55)

Contrary to Mouck (1992), we propose that (1) the rhetoric of agency theory and the rationality for its acceptance (Table 1, part 1) is more historic, hence (2) it will have continued social acceptance by its constituencies, but most importantly (3) the advocacy of agency theory (Watts and Zimmerman, 1986; 1990) is consistent with the rhetorical strategies used by successful scientists as described by Latour (1987) and now used by Erhard and Jensen (2013). Through Latour's analysis, this paper attempts to answer questions raised by Mouck (1992) and others on the acceptance of accounting research.

Latour (1987) presents a model of how scientists and technologists who "discover" facts actually enroll others into a particular scientific process of representing what has been observed. Briefly, after observing events which are initially described by a weak rhetoric of indecision about what has been observed, scientists form opinions, perform laboratory tests, begin to take positions, and then seek to defend these positions with evidence that is said to be 'fabricated' and enhanced with rhetoric designed to enroll users and reduce controversy.

Whether to enroll new users or just to reduce controversy, this rhetoric includes arguments (1) to fortify a particular position taken, (2) to stack the evidence incrementally in favor of that position, (3) to frame its understanding, and (4) to close arguments against it (see Latour, 1987, pp. 21-57; see applications in Preston et al., 1992, pp.574-575, and also Figure 1, later, adopted from p.566).

In order to aid in a practical understanding, we provide an example of Latour's (1987) persuasive rhetoric strategy points. This process starts with the fortification of a basis of agreement, established by calling upon the familiar. For example, in the development of a hospital information system, it may be necessary to enroll users, such as physicians (see Preston et. al., 1992 and Bloomfield et. al., 1992 in Table 1, part II). Physicians, not primarily interested in such a computer system, must be persuaded. The basis of agreement is patient care: their primary concern. Quality patient care is framed as requiring the best possible diagnostic information, which can only be provided by the desired hospital information system.

Further, the system has “ease and efficiency” (as framed) for physicians. This framing can then establish the closing argument that, "to ignore such an information system is to ignore patient care." Physicians are then "enrolled" and become part of a larger constituency of accountants, managers, auditors, and others at the hospital who "need" this system. Similarly, Chua (1992) uses Latour's (1987) model to describe the enrolling of hospital administrators to a special costing system.

Latour's rhetorical strategies also can be used to defend positions taken with evidence properly framed (not falsified but 'fabricated'). One example describes how the DNA molecule was first discovered (1987,

p.14). First observed as a possible triple helix, the molecule's final description as a double helix resulted after the evidence had been properly examined under the many (fortified and stacked) reasons supporting the double helix.

**Figure 1: Creation of Facts from Scientific Discoveries  
(Based on Latour, 1987, p.44; Preston et al., 1992, p.566)**

Sequence of Acts	Act
1	Events Observed
2	Weak Descriptions Recorded
3	Descriptions Framed By Positions Taken
4	Positions Fortified, Evidence Stacked
5	Positions Closed, Objections Isolated
6	Facts Accepted

Figure 1 presents a model of Latour's description of how facts are 'fabricated' (Latour, 1987, p.44, Figure 1.6; Preston et al., 1992, p.566). From the observance of events comes weak and hesitant possible descriptions when scientists begin to form theories, build convincing arguments, modify theory and form closing arguments, and finally reduce controversy to a point where 'facts' are created and objectors are silenced. Along the way, networks of resolved controversies are formed through operational and rhetorical strategies.

The focus of this essay is limited to the use of rhetorical strategies described by Latour and is not intended to be comprehensive enough to cover all of Latour's concepts, such as his rules of method or his principles used to describe scientific discoveries. Nor can we do Latour (1987) justice in the omission of all his descriptions of how scientists attempt to increase the number of allies, laboratories, and machines to increase the acceptance of their theories. We present a limited form of Latour's analysis here since Watts and Zimmerman (1990) use Latour's rhetorical strategies mostly to defend positions taken.

We begin with analysis of the first strategy, what Latour calls the process of 'enrolling,' which actually is the process of fortifying accepted 'facts,' found here in the economic language and paradigms of financial economics.

### **Enrolling and Fortifying the Basis of Agreement**

The self-interest economic values, paradigms, and internal language necessary to accept agency theory are discussed by many authors, including Tinker et al. (1982) and Mouck (1992). Accounting policy is said to serve the firm and management's interests if accounting procedures are chosen to minimize the contracting costs to the firm. A bonus plan, for example, is said to direct the self-interests of the manager to those of the firm, thereby reducing agency costs to the firm. Since the manager's earnings depend on the firm's, *ceteris paribus*, earnings are less likely to be deferred.

### **Fortifying**

Watts and Zimmerman (1986), consistent with financial economics of their time (and now challenged by behavioral economics), take a cost-benefit approach to theory acceptance, arguing that although the predictions of agency may not be perfect, the theory's benefits, such as its "intuitive appeal," far exceed its costs of imperfect predictions (p. 12). Following this school of thought, agency advocates had potentially many allies, starting with Jensen's first notable paper entitled 'The contracting cost theory of the firm' (Jensen and Meckling, 1976), and his *Journal of Financial Economics*.

### **Stacking the Evidence**

At that time, there were at least three more reasons beyond those mentioned by Whitley (1988) for the continued acceptance of agency. First, having financial economics as a home provided these accounting

deny agency theory is to deny the authority of well-grounded and accepted economic theory. Finally, to refute agency theory is to refute the very authority of Friedman's Nobel Prize in 1953, the beginning of the 'positive theory of economics.'

As suggested by Sterling (1990) with regard to the initial acceptance of Friedman's theory in the 1950's, even if "a majority of economists" do not believe in 'positive economics,' the Nobel Prize still has a higher authority than a "majority of economists" (p. 122). Indeed by 1978, the majority of financial economists from Jensen's *Journal of Financial Economics* favored agency theory. Accordingly, Latour (1987) explains that "truths" are only verified when an overwhelming number of authorities claim acceptance, in this case, accounting research authorities (p. 61).

With particular regard to accounting professors, the Nobel Prize may have a special allure. There are few occasions for North American accounting professors to be internationally recognized outside of the actions of public accountants, such as those from the AICPA or CICA. Accordingly, such actions may bring pride or tarnish upon the image of accounting professors. But the possibility that the Nobel Prize may be awarded to an accounting professor elevates the entire academic profession of accounting.

Other authorities were recruited. Watts and Zimmerman accrued a certain status when their *Journal of Accounting and Economics (JAE)* was ranked above both the University of Chicago's *Journal of Accounting Research* and the American Accounting Association's *The Accounting Review* by the citation index of outside references (Editorial, 1992, pp.3-6).

Another authority, this one taken from science, was the practice of economic modeling, seen as more scientific than non-mathematical modeling. The self-interest economics theory is supported the 1992 Nobel Prize of another University of Chicago Economics Professor, Gary Becker, for his research on the economic motivation of social choices (such as those made by women in the workforce). Whitley (1988) chronicles this kind of modeling and the rise of mathematical sciences in social research, which began in the United States prior to Friedman's 'positive economics' (1953):

This belief in scientific knowledge as a crucial resource in maintaining and improving the social order has been particularly strong in the U.S.A. since the Progressive era (Bledstein, 1976, pp. 123-127, 324-331; Wiebe, 1967, Chapter 6) and received considerable reinforcement from its evident military utility in World War II (Kevles, 1977, pp. 367- 392, as given by Whitley, 1988, p. 641).

Whitley (1988) adds that many other reasons existed for the acceptance of agency theory in North America, including (1) the prestige of the 1959 Carnegie and Ford Foundations which supported scientific research in reports found in business education publications, (2) the dominance of universities in their contribution to professional training in this area, and (3) the related growth of legal interventions, which use the same objective functionalist approach in presenting scientific evidence as used in economics. The Latour (1987) analysis would consider of all these aspects as comprising the fortifying process for theory acceptance.

### **Acknowledging Controversy and Creating Acceptable Forms of Evidence**

Consistent with Latour's (1987) rules of rhetoric method, which require investigators to study the conditions and processes under which facts are created, we will now investigate the conditions under which agency theory was created in 1978, and the subsequent controversy and fabrication of research evidence. An earlier North American controversy in financial reporting that arose from the American Accounting Association's Committee on Concepts and Standards for External Financial Reports led to the statement that, "until consensus paradigm acceptance occurs, the utility of accounting theories in aiding policy decisions is partial" (AAA, 1977, p.51). Further, because no one theory could satisfy all paradigms, "defenders of a particular paradigm are forced to rely on persuasion rather than logic and empirics in attempting to defend a proposal" (AAA, 1977, p.48).

In search of paradigms, Professor Robert R. Sterling, a member of this Committee, suggested that future theories for accounting come from established theories and paradigms in the behavioral and economic sciences (Sterling, 1970). With perfect timing, agency theory was introduced by Watts and Zimmerman (1978), in part using the size hypothesis (a proxy for the political cost hypothesis), an economics paradigm solution for accounting procedure choice: the larger the firm, the larger the firm's exposure to the political costs of windfall profits taxes, labor strikes, government regulation, and the like; therefore, the firm will be more likely to defer earnings to later periods.

Ignoring the Committee's appeal for 'persuasion,' the empirical evidence on this size hypothesis was presented and argued as probative (Watts and Zimmerman, 1978). Later, a corresponding theory-driven persuasion was given in Watts and Zimmerman (1979), but this exacerbated rather than reduced the controversy (Watts and Zimmerman, 1990). Table 2 presents some of the subsequent works that addresses this controversy, most of which are summarized in Watts and Zimmerman (1986) or by Watts and Zimmerman (1990). These studies directly correlate the size and other agency theory hypotheses with the choice of accounting procedures used to defer earnings, and these studies were offered in response to design, validity, and statistical questions that arose in the 1978 study.

**Table 2: Summary of Results: Size and Choice of Accounting Procedures to Defer Earnings\***

Topic	Author(s)	Statistically significant size variable (p-value<0.05)?	Comments
General price level adjustments (GPLA)	Watts and Zimmerman (1978)	Yes	1. This was the original size hypothesis. No hold out sample is used in this or in any "confirming" study. 2. This study and its results were challenged by McKee et al. (1984). 3. Model R <sup>2</sup> is 0.20, for in-sample data only
GPLA	McKee et al. (1984)	No	1. Not significant for a holdout sample and Watts and Zimmerman (1978). 2. The Watts and Zimmerman (1978) best model, properly stated, was not as successful as the naive alternative. 3. Model R <sup>2</sup> for holdout data is only 0.09.
Depreciation	Hagerman and Zmijewski (1979)	Yes	The large firm strategy is not superior to the naive strategy (no holdout sample) and is not confirming.
Oil and Gas	Dhaliwal (1980)	No	The D/E ratio is significant; size has a p-value of 0.10.
Depreciation, ITC, Inventory	Zmijewski and Hagerman (1981)	Yes	The poor R <sup>2</sup> occurred despite the fact that there was no holdout sample and even then, the success rate was only 40% (R <sup>2</sup> = .09). The result is not superior to naive alternative
Interest capitalization	Bowen, Noreen and Lacey (1981)	No	The size variable is significant, but only for oil industry
Depreciation	Dhaliwal et al. (1982)	No	The size variable is significant only at the 0.15 level.
Oil and Gas	Lilien and Pastena (1989)	No	Significance level is 0.06.
Research and Development	Daley and Vigilant (1983)	No	Results show that increasing earnings occur for smaller firms, but paradoxically, as the firms get larger, the importance of size diminishes rather than increases.
Income Tax	Zimmerman (1983)	Yes	1. "Size" limited to industry, limited in time. 2. Smaller, not larger trade firms defer (opposite results). 3. Size is considered a poor proxy for political cost.
Oil and Gas	Deakin (1979; 1989)	No	Since size is only significant for largest 24 firms, considered size not related/poor predictor.

\* taken in part from Watts and Zimmerman (1986, p. 258)

The design and validity questions of Ball and Foster (1982) and later Williams (1989) discredited the size hypothesis because of its weak construct validity. Christenson (1983) and McKee et al. (1984) also

invalidated the research of Watts and Zimmerman (1978). Christenson's analysis of Watts and Zimmerman made an appeal for better scientific research design (1983). McKee et al. (1984) responded with a better research design, first in replicating the in-sample Discussion Memorandum (DM) test of Watts and Zimmerman (1978), and then in providing additional evidence from another out-of-sample test on the 1974 Exposure Draft (ED). McKee et al. (1984) also challenged the methodology, model, and 'successful' predictions acclaimed by Watts and Zimmerman (1978):

“The theory still fails to classify correctly a disturbingly large number of observations, particularly in the ED sample. Moreover, the number of misclassified observations exceeds the expected misses from a maximum chance criterion, indicating that a model which predicts that all submissions will be unfavorable produces superior classificatory success” (McKee et. al., 1984, p. 650).

The size hypothesis was not supported. The ignored naive hypotheses and other hypotheses of Ball and Foster (1982) still continue to serve as alternative hypotheses for the subsequent appeals by Watts and Zimmerman (1986; 1990). Finally, it can be seen in Table 2 that only 3 of the 9 studies on the agency hypotheses given by Watts and Zimmerman (1986) yield what is generally accepted as a statistically significant size hypothesis, even though these studies were given in response to critics, and were later acclaimed for their empirical 'regularities.'

In order to fortify their position on their theory with at least the appearance of good science, Watts and Zimmerman (1986) seem to agree that the size hypothesis was probably better expressed as the original political cost hypothesis. After a discussion of size as a proxy, Watts and Zimmerman conclude that "the evidence is consistent with the political cost hypothesis. However the result only appears to hold for the largest firms" and "is driven by the oil and gas industry" (1990, p.140).

It would appear that Watts and Zimmerman (1986; 1990) do establish some limitations of early agency models, and as editors of JAE, they have reported some contrary findings for the size hypothesis in their journal. This reporting gives at least an appearance of fairness. Yet, their evidence for the size hypothesis still serves as evidence for a pre-established point of view. For example, inconsistent with the size hypothesis, Moyer (1990) finds that large commercial banks do not defer earnings. For banks, a political incentive to smooth earnings exists by the industry requirement to maintain regulatory capital. Although the size hypothesis fails here, indirectly the bonus hypothesis (and agency) is promoted, since the board executive salaries are related to regulatory capital and more importantly, the "costs" of regulation can be minimized by maintaining regulatory capital (see Scholes, Wilson, and Wolfson, 1990), and thus agency is again in part sustained.

Watts and Zimmerman had to at least appear to be reducing controversy by seeking "alternative hypotheses." Unfortunately, this seeking was done only in the contractual, firm-related, agency context and world view (1990, p. 145). Non-agency variables were not considered. For example, in a non-JAE publication, Cahan (1992) points to a non-agency, non-firm-specific political cost variable and an alternative non-political cost hypothesis. But to seek non-agency variables is in part to deny 'positive economics,' to deny the Nobel Prize, and to deny generally accepted "truths."

This type of behavior, seeking only allies and qualifying other evidence, is consistent with Latour's (1987) description of successful scientists and their references. To deny that alternative hypotheses exist outside of the agency world view is to appeal to internal rhetoric, and to frame and close the controversy, perhaps unfairly. Latour (1987) adds guidance to critics who ask why Watts and Zimmerman seem to limit conversation.

### **Use of Latour's Rhetoric to Reduce Controversy**

Watts and Zimmerman (1986; 1990) respond to the statistical controversy of their critics with the rhetorical fortifying, stacking, framing, and closing strategies described earlier. "When controversies flare up, the literature becomes technical" (Latour, 1987, p.30). Fortifying arguments require (1) "bringing friends in," (2) "referring to former texts," and (3) "being referred to by later texts." All nine of the supporting references for Watts and Zimmerman (1978) given in Table 2 and taken from Watts and

Zimmerman (1986) can be identified as "friends" of the 'Rochester School' (see Christenson, 1983). All but two references are from their own *Journal of Accounting and Economics*. In Watts and Zimmerman (1990), there are references to Wong (1988), Sutton (1988), Jones (1990), Moyer (1990), and Christie (1990), all of whom eventually were published in this journal. This assures that Watts and Zimmerman will be "referred to by later texts" (Latour, 1987).

Also, fortifying requires going "from numbers of allies and resources to still greater numbers" that go beyond the need for the prestige of authorities such as the Nobel Prize (Latour, 1987, p.49). For Watts and Zimmerman (1986), 'beyond authority,' means that agency theory has reached an "intuitive appeal" (p.12). This is a typical fortifying statement for establishing a generally accepted, beyond-authority 'fact.' More fortifying reasons are also given as part of the framing of tests, presented later.

Next, the stacking of the evidence is to be done incrementally:

"First rule: never stack two layers exactly one on top of the other; ...Second rule: never go straight from the first to the last layer ...Third rule (and most important): prove as much as you can with as little as you can, considering the circumstances" (Latour, 1987, p.51).

An illustration of these rules can be found in Watts and Zimmerman (1986) where they stack the need for theory, chapter by chapter, beyond what could logically be expected from any text. Following the 'second rule,' the need for a positive theory different from any general economics theory is not presented in the first chapter, as we are to assume all economics theories are positive. After establishing a role for theories, the text simply introduces arguments for any economics-based accounting theory. The fact that this text is an advocate of only one of two agency theories, the one defined for firm-related, economics-based accounting theory, is not disclosed. The beginning of the text, to the uninformed reader, could simply be about the efficient market hypothesis and its relationship to accounting research.

Next, Watts and Zimmerman (1986) follow Latour's 'third rule.' By establishing as much as they can with as little as necessary, they 'evolve' the information and transactional costs of the "costless" efficient market hypothesis to a knowledge state that requires a theory for such costs in the next chapters. These chapters then form a chronological history of the University of Chicago economics-based financial accounting research. Each of the Chapters 3-6 summarize the related research questions and then pose some of the Chicago answers available at some point in time. By posing both the questions and answers suggested by traditional neoclassical economic analysis, Watts and Zimmerman do not conclude with a need for an agency theory until Chapter 8, where the 'last layer' of the stacking process is found. After certain market inefficiencies are questioned, "the contracting role of accounting and its relation to the role assumed in Chapters 3-6" is finally investigated (p. 180). No mention is made of the "other" economics-based agency theory of the Chicago school, or other economics-based solutions to these inefficiencies. No mention of the forthcoming contracting role is given earlier in the outlines provided in Chapters 1 and 2. This layer was saved for last. Other examples of stacking may be provided, but Watts and Zimmerman make more obvious the use of other devices.

First, since their position is one of advocacy, Watts and Zimmerman respond to contrary evidence by framing the size hypothesis as one evolved from its "early progress" (1986, p. 265). Hence, it can be framed that the size hypothesis was just a "demonstration," and that the correct test of agency theory was not performed. They continue to refer to the problems of their research as those problems of measurement, and those problems of correct modeling the-yet-to-be-recognized alternative, firm-related (agency) variables (1990).

If an alternative frame exists, it is not given by Watts and Zimmerman (1990). It is interesting to compare their comments on the "early progress" of agency theory with those of Lev (1989) on the early progress of a related but non-agency area, the financial accounting, market-based research on the relationship of earnings to price changes. With success similar to agency theory research (low power, low  $R^2$  models), Lev proclaims that success had not been achieved in understanding the underlying earnings process. He instead requests new models and a new approach. In comparison, Watts and Zimmerman do none of this. Alternatively, they continue to frame 'a pre-established point of view.'



Second, the framing strategy is to admit no complete failures. Although "poor models" of agency theory are admitted (Watts and Zimmerman, 1986; 1990), they are presented as providing new challenges to researchers, as the size hypothesis did in 1978, to find better firm-related agency theory variables. Limited success is automatically assumed because of the continued "empirical regularities" found (p. 152).

Finally, the framing of the correct language and tests for agency theory also requires more fortifying, which Latour calls "overwhelming" arguments. For example, in continuing their defense of the size hypothesis, Watts and Zimmerman (1990) refer to Christie (1990) who aggregates tests where statistical significance for the size hypothesis has been found (ignoring low  $R^2$  levels and the non-statistically significant studies). By aggregating the results of these tests, Christie creates the overwhelming Bayesian posterior probability statement of 0.99 that size and other agency theory variables have explanatory power. Just as any Bayesian analysis requires a subjective prior distribution, this particular analysis is more subjective persuasion than recognized evidence. Despite McKee et al. (1984) and much more evidence, the size hypothesis of Watts and Zimmerman (1978) continues to be 'confirmed' and framed by Christie (1990), and now, because of the related controversy, it is framed as a pioneering effort (Watts and Zimmerman, 1990).

To summarize these framing considerations, Watts and Zimmerman (1986; 1990) would have followers (a) consider statistical questions to be just imperfect modeling and measurement questions and not ones of validity (1990); (b) consider such irregular results to be somewhat regular given the statistical significance of the  $R^2$  and the absence of other established, non-agency theory alternative explanations (1990); (c) consider the "usefulness" of the prediction in terms of the users' welfare (which may depend less on statistical success) (1986, p.14); and (d) consider that since size and other alternative agency theory-related variables may be proxies for political costs, agency costs, and other "contracting" costs, better ones soon will be found, and these new findings will yield research benefits to those who find them (1986, p.358-62; 1990, p.151-3).

### **Closing and Summary Persuasion for Reducing Controversy**

The framing of agency theory research is just part of the rhetorical persuasion needed. The reader may still disagree or have doubts, and "may still reach different conclusions" (Latour, 1987, p.56). The solution is to lay out the text so that the reader has only one way to go. One does not truly engage the critics directly (Latour, 1987).

"The nature of the game is exactly like that of building a dam. It would be foolish for a dam engineer to suppose that water will always obey his wishes...any engineer should start with the principle that if water can leak away it will. Similarly with readers, if you leave the smallest outlet open to them they will rush out...If the digging and damming is well set up, the reader, although taken in, will feel entirely free" (Latour, 1987, p.57).

All objectors' moves are to be controlled through closing (damming) arguments. Doubters are to be made to feel alone and "without support and ally, alone in [his/her] profession, or, even worse, isolated from the [research] community or maybe, still more awful, sent to an asylum!" (Latour, 1987, p.59).

For Watts and Zimmerman, this persuasion also includes closing arguments for (a) the paradigm, (b) the forms of logic, (c) the evidence, and (d) the plausible demonstrations of success. For (a) the paradigm, they state that their paradigm is accepted, one that "has been successful in accounting", and if "the alleged errors [were] important...the referees would adopt the suggestions" (1990, pp. 149-150). That is, Watts and Zimmerman would have us believe that the objections are not important, not mainstream. Since the objections are not important, they seem to rightfully have no responsibility for other (objector) paradigms.

For (b) the forms of logic, to those who "place unreasonable demands" on their methodology (such as Hines, 1988), Watts and Zimmerman defend the right of new ideas to evolve through "the evolutionary nature of accounting research" (1986, p. 362; 1990, p.149). That is, they would have us believe that objectors are unreasonable and have not 'evolved'. For (c) the evidence, Watts and Zimmerman (1990)

argue that their forms of evidence have been accepted and that "criticisms [of agency theory] have failed the market test" [i.e., the objectors have failed] (p. 149), even though "the fundamental questions of the relation between the observed empirical regularities and this theory remain unexamined" (Leftwich, 1990, p. 37).

## Conclusion

We find Latour's (1987) rhetorical strategies to create a persuasion in the research and widespread acceptance of agency theory (Watts and Zimmermans, 1978; 1986; 1990; Jensen and Meckling, 1976). Our findings add to the current growing body of literature now reinforced by Erhard and Jensen (2013) that recognizes rhetoric as methodology necessary for theory acceptance and 'proof.' The limited short-term interest component of agency theory is now rejected by Erhard and Jensen (2013) in a new attempt at a persuasion. The extent of this new persuasion, i.e., framing, fortifying, stacking, and closing of arguments, is now just beginning, but as before; it must first be reinforced by a rising world view. We see this new world view in the increasingly popular acceptance of behavioral economics over financial economics (Kahneman, 2011).

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