Accounting relativism: the unstable relationship between income measurement and theories of the firm

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Abstract

The knowledge structures underlying accounting representations are rarely investigated and usually tend to be taken for granted. As a case of the problematic knowledge foundations of accounting, we concentrate on one of the most relevant conceptual underpinnings informing the construction of the accounts—the relationship between theories of the firm, accounting theories, and income measurement. In particular we analyse and compare the ways in which this relationship has been conceived and developed in two theoretical contexts, the Italian tradition of Economia Aziendale and the US entity vs proprietary debate. Various and contradictory approaches to the concept of the firm and income calculation in these two theoretical traditions emerge. Such a conceptual variety is what we refer to as ‘accounting relativism’. This is defined here as the co-existence of different accounting representations and measurements, both of which are not objectively rankable in any conceptual hierarchy, because of the incommensurability of their basic assumptions, i.e. of their knowledge bases. This intrinsically ‘unstable’ character of accounting at a conceptual level is likely to have relevant implications, representing a major source of theoretical variety, as well as a premise for making sense of power uses of accounting within organisational settings. © 2000 Elsevier Science Ltd. All rights reserved.

1. Introduction

It is well known that accounting is relative to and contingent upon organisational and social contexts. In particular, critical approaches have focussed on the variety of uses and effects of accounting in space-time settings, and especially on the instrumental claims on, and opportunistic adaptation of, accounting within power interplays at various levels and in different environments.

It is also widely recognized that this vested use of accounting is allowed by its inherent flexibility. This flexibility is perceived to be linked to the ‘softness’ of year-end valuations and more generally, of all allocation processes attached to accounting. However, relatively little attention has been paid to the ‘flexibility’ of accounting stemming from its knowledge foundations. Certainly accounting is characterised by an unstable technical content on which most of the theoretical interest concentrates from different analytical perspectives. The technical surface, though, conceals alternative knowledge-based explanations of the

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\textsuperscript{1} Although the paper is the result of a common effort and understanding, for legal purposes Sections 1, 3 and 4.2 are to be attributed to Stefano Zambon, while Sections 2 and 4.1 to Luca Zan. The conclusive discussion, frankly, is nothing but the outcome of a joint revision process.
way in which accounts are ‘assembled’ and presented. Accounting technology relies in fact on conceptual premises which are rarely spelt out. Indeed, accounting can be seen as being contingent upon other forms and structures of knowledge which by tradition and by discipline have been held distinct from accounting. This is the case, for instance, with cognitive disciplines in relation to accounting for decision-making, and with social identities and management styles with respect to the role played by accounting in organisations. The multifaceted and unsteady interaction between different bodies of knowledge and accounting, affects the representation of the object of accounting itself, the aims it seems to be pursuing, and the information needs which are reckoned to be most relevant.

The paper is concerned with the knowledge foundations of accounting, with reference primarily to financial accounting. It deals with knowledge rather than power, with theoretical structures affecting accounting calculations rather than partisan uses of accounting in social contexts. The authors believe that the analysis of these foundations may shed some further light on the very roles of accounting. In fact, it is contended here that accounting can potentially serve many interests as a tool of power, because its knowledge bases have an ambiguous theoretical status. As such they are the logical premises of the instrumental usage of accounting. It is the unstable knowledge underpinnings of this technique that can open up room for its discursive use in terms of power (Hopwood, 1987, 1992).

As an example of the problematic knowledge foundations of accounting, the paper focuses on those emerging from economics, here considered a distinct tradition of thought. In particular, the focus is on the implicit ways through which the conceptualization of the firm may condition surplus measurement in accounting. The paper assumes that there exists a subtle but complex relationship between theories of the firm, accounting theories and income measurement. If it is recognized that accounts provide a representation of the firm, it is accounting theory which conceptualizes this representation and, in so doing, tends to introduce elements of a theory of the firm. In this sense, Coase (1990) states that accounting and the theory of the firm are not clearly separable.2

In the literature such a relationship seems to be disregarded and is rarely investigated. However, some important exceptions to this prevailing perspective can be found. Indeed, in some continental European traditions the relationship between accounting and theories of the firm is institutionally framed within a wider discipline which studies the economics of institutions as a whole. In these conceptual contexts accounting is seen as a part of the firm’s economy, and as being intertwined with other aspects and activities of the firm (organisation, operations, management, and so on). This is the case, for instance, of the Italian School of Economia Aziendale, the German tradition of Betriebswirtschaftslehre, the Dutch Bedrijfsconomie, the Swedish Företagsekonomi, the Finnish Liiketaloustiede (Hopwood & Schreuder, 1984; Zambon, 1996b; Zan, 1994), all of which can hardly be reduced to mere accounting theories.

In the Anglo-American tradition, the relationship between accounting and the theory of the firm tends to be tacit, and it is not part of a wider theoretical framework. However, some authors have posed the need for an orientation postulate to make explicit the reference point to which accounting should relate (Ze/C, 1978). The entity and proprietary theories are the most relevant expressions of the orientation postulate, and represent different conceptions of the firm which inform the way the accounting process is conceived and carried out. In this respect, the entity vs proprietary debate within the American accounting literature can be interpreted as a theoretically important example of the juxtaposition of different conceptual approaches to the firm.

The analysis of, and the comparison between, underlying conceptions of the firm seems to be relevant also in policy and practical terms. As the

2 By theories of the firm we here refer to basic ways of conceiving the firm, and not necessarily to those developed by particular communities of researchers (economists, sociologists, management scholars, and so on). On the tight relationships between accounting and economics, see also Klamer & McCloskey (1992).
choice between technical procedures is not neutral in terms of power and influence, so it is not also in terms of knowledge, since it is grounded on the (implicit) preference for a given theory of the firm. This implies that practice is never just ‘practical’, but it has theoretical implications at the level of the firm concept which is more or less explicitly or consciously adopted. On practical grounds however the above relationship is virtually ignored. Accounting practice appears to have internationally adopted (apart from a few national experiences mainly in the past, such as the ‘value added event’ and social reporting) a monolithic stance in favour of a proprietary approach. The underlying theoretical dimensions of the accounting representation are willingly or unwillingly disregarded. After all, one might say that accounting practice reflects where the power is in business. Yet, even if the issue of different concepts of the firm underlying accounting is virtually ignored by every day practice, there are examples of its operational relevance when practitioners deal with financial reporting of foreign companies, group accounts and the potentially different perceptions of the users of financial information.3 Also the ongoing debate in the US about the establishment by the FASB of a revised standard on consolidation policy and procedures (FASB, 1995), indicates that practitioners have been recently forced to confront the problem.4 An analysis of the implications and the linkages between theories of the firm (or group) and the construction of financial statements, may then offer a different perspective from which to look at this debate in the US and, more generally, at some of the issues emerging in the realm of practice.

This paper advocates a relativistic view of accounting. Accounting relativism is referred to here as the co-existence of different theories of accounting representation and, as a consequence, of divergent income measurements, which are not objectively rankable in a conceptual or practical hierarchy, because of the incommensurability of their knowledge bases. Accounting relativism stems not only from the technical contents of accounting, but also, and mainly, from the indeterminism of its underlying knowledge structures.

In order to investigate the modes and consequences of the ‘translation’ of economic concepts, such as the theories of the firm, into accounting values through the use of non-neutral accounting theories, the paper will focus on two national accounting traditions: the Italian literature of Economia Aziendale and the US entity vs proprietary debate. These present interesting examples of contrasting ways of setting and understanding that relationship in diverse theoretical and national contexts.5

The structure of the argument will unfold according to the following sequence. In the next section the Italian tradition of Economia Aziendale is briefly presented with particular reference to the relationship between theories of the firm, accounting theories and surplus calculation. Thereafter, the American entity vs proprietary debate will be revisited, highlighting the basic concepts underlying these two approaches and their theoretical and practical implications for surplus measurement. As a way for falsifying the exposed theories, we will then apply them to income calculation of co-operative societies. A simple numerical exercise, which is fully developed in Appendix A, is also used to offer concrete evidence of the different income measurements originating from dissimilar, or even related, conceptual premises and different forms of enterprise. In the final section, the importance of accounting relativism will be presented and discussed in the context of its theoretical and practical implications.

3 Indeed, the widely adopted user needs approach to financial reporting underestimates the possibility that, depending on their relationship with the firm, different groups of users may not have comparable views of what is a firm and what is relevant in its activity and for its survival.

4 The choice of the FASB would be for an entity approach, while the resistances opposed to its project by many of the audit firms are based on the US traditional view of groups and consolidated accounts which is proprietary-veined.

5 Incidentally, it is interesting to observe that the necessity to select from the wide variety of national accounting approaches could itself be interpreted as implicit evidence of the relativistic nature of accounting and, as a consequence, of the existence of accounting relativism.
2. The theory of the firm and income calculation in the Italian tradition of Economia Aziendale

Few things are as difficult to analyse as a ‘tradition’ of thought. Such a powerful and ambiguous term evokes a complex of meaningful but loosely coupled relationships between concepts, contributions, and scholars. At least some similarities between the members of the tradition must exist, in order to distinguish it (and them) from other traditions or scientific contexts, and from ‘outsiders’. The relationship between ‘insiders’, however, is not so strong as in the case of a tight group of scholars: several schools of thought and rather different perspectives could co-exist within a tradition. Referring to a ‘tradition’ implies indeed a process of social construction of reality, whereby similarities and differences are analytically organised and manipulated in defining the identity of a particular tradition: what is considered to distinguish and characterise it, and what is not. The process, of course, also shows a political dimension, as it implies the definition of alliances between scholars and groups in their approaches to research, in defining standards for research validations (Whitley, 1984), criteria for affiliation, belonging, and ‘citizenship’ to the tradition, sometimes justified in the name of ‘uninterested hostility’.

In the context of investigating the relationship between the theory of the firm, accounting theory, and income measurement, by referring to the ‘Italian tradition’ of Economia Aziendale we share the vision of significant similarities between Italian scholars as opposed to other traditions, as for instance the Anglo-Saxon one. A first step will then be that of trying to outline these similarities between representatives of the Italian tradition. However, our view of the tradition tends to be a highly pluralistic one, and we are prone to underline serious differences between various views within the tradition. Thus the second step will be to single out major differences in the representation (or in the theory) of the firm within the Italian tradition. A subsequent step will be to describe possible different patterns of the relationship between the theory of the firm, accounting theory, and income measurement that cohabit within the Italian tradition.

The institutional tone of Economia Aziendale is one of the basic features characterizing the Italian tradition. Its contributions tend always to deal with the issue of the nature of the firm—or, better, of the ‘azienda’—and with theoretical premises and consequences of key assumptions in conceptualizing the firm. In the Italian literature it would be difficult to find any accounting concept, position or relevant statement not supported by a reference to the basic elements characterising the theoretical representation of the firm within the ‘doctrine’.

At a general level, the basic object of analysis of Economia Aziendale deals with the ‘aziende’, the elementary units of production and consumption (see for instance Galassi, 1984; Canziani, 1994). The historical process of division of labour is recognized, through which during many centuries the activities of production and consumption have tended to be separated and located in different economic institutions or economic organisations. Thus, the economic activity devoted to the direct satisfaction of human needs tends to be carried out in organizations which basically act as units of consumption (aziende di consumo), such as for instance the family. The production activities tend to be located in different organisations, which are basically units of economic production (aziende di produzione, or generally, ‘firms’), and which aim towards an indirect satisfaction of human needs. Despite this crucial difference, it is important to note that both the consumption and the production units tend to be treated within a unitary approach, as institutions.

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6 Perhaps it is questionable whether something definable as an ‘Anglo-Saxon’ tradition in accounting or management studies exists, given the serious differences between the American and the British traditions. Nonetheless, this is a taken-for-granted standpoint amongst Italian scholars, who tend to strengthen the differences between the self and what is perceived as other. Perhaps in social and linguistic terms the reference to ‘Anglophone’ tradition would be more correct.

7 Such a conception of the economic system as cycles of production and consumption activities and exchanges between production and consumption units could suggest interesting analogies with other institutional approaches, as for instance...
For the sake of simplicity, from now on we will focus only on production units or firms, leaving aside the units of consumption. In order to stress further the theoretical characterisation of the Italian tradition, some important differences can be pointed out between the basic conceptualizations shared in the Economia Aziendale literature and the neoclassical theory of the firm, which is generally taken as a frame of reference. First, rather than viewing the firm as a mere production function or logical operator as in the neoclassical theory, the firm itself is viewed as an organisation and institution (similar to Williamson’s definition of a structure of governance). Second, while the firm in the neoclassical theory is a universal, a–historical and a–contextual entity, within Economia Aziendale the firm tends to be located in its time–space setting. Third, such a view leads to an explicit and conscious consideration of the nature of the firm as a unitary system. Analysing the concrete features of the ‘real firm’, a central emphasis is given to actual interdependencies between the several components of the firm (in terms of system of factors, operations, processes, etc.) and to the actual economic coordination expressed by each specific firm. It is interesting to note that such a ‘systemic view’ of the firm emerged some decades before the diffusion of the ‘general theory of systems’ in social sciences. Already in Zappa (1927), what is now currently labelled (Morin, 1977) as the concept of ‘emerging properties’ of the system can be found: income itself is seen as a particular result of the specific coordination of a firm, emphasizing the complementarity of its production factors in the processes of economic transformation (cf. Zan, 1994). Such an intrinsically systemic view of the firm is perhaps the major difference between Economia Aziendale and the neoclassical theory of the firm (and perhaps also other national approaches to accounting). Fourth, the very institutional character of Economia Aziendale tends to underline the variety of economic factors and actors (Amaduzzi, 1947), resulting in the consideration of the firm as a multi-interest and multi-objective phenomenon.

If the above gives some insights into the core assumptions which are shared between scholars of the Italian tradition, internal differences are equally real, despite the self-portrait of a highly consistent doctrine. Particularly relevant for this paper is that such a shared general conception of the firm as institution nonetheless gives rise to several theories of the firm (and, more generally, theories of the aziende) which are significantly different from each other. Within the highly deductive approach of the Italian tradition, there exists a long standing debate about the conceptual ‘definition’ of the firm, which is probably surprising for Anglo-Saxon scholars who are generally used to more pragmatic-inductive approaches. For our purposes, it will be sufficient to draw selectively on the major arguments pointed out by Ardemani (1968) when analysing the evolution of the Economia Aziendale literature over the last century. According to this author (pp. 412–413), different representations of the firm over time tend to stress particular aspects which are perceived as crucial in different periods. Historically speaking, from the second half of the 19th century up to now the firm was successively conceived as: a ‘centre of legal relationships’; a ‘centre of production factors’; a ‘centre of economic operations’; and finally a ‘centre of interests’.

Furthermore, Ardemani (1968, pp. 417–425) points out that each of the different conceptions of the firm, by focusing on a particular aspect of the firm, suggests a specific, ad hoc definition of the concept of soggetto economico—here translated as the American institutional tradition (Langlois, 1986), and also with some of the basic approaches in the tradition of economic history (Cipolla, 1988) and of business history. More specifically, the concept of azienda appears to be similar to the concept of Betrieb of the German tradition. This is not the case of the management and business studies tradition, wherein the consumer tends to be seen as a person rather than a family (e.g. a family even in the case of a single’s family unit), as an individual rather than an organised economic process.

8 To give an example for non-Italian readers, consider the more-than-a-hundred-page paper by Giannessi (1969) that is focused on the evolution of the concept of azienda in the first half of this century within the Economia Aziendale tradition.  
9 Given the aim of this paper, may we address the reader to Ardemani’s work for direct bibliographic references.
Main Economic Actor, abridged as MEA.\textsuperscript{10} In general, the concept of MEA tends to identify those people who should not be considered as third economies or third parties vis-à-vis the firm; i.e. those who should be considered as the bearers of primary interests towards the firm in contrast to those that can be defined as external parties. What Ardemani stresses is that the general concept of MEA as non-third parties in the Italian literature tends to be operationally defined in rather different ways, according to the underlying conception of the firm which is chosen or preferred. In other words, the concept of MEA reflects the essence of the Economia Aziendale theories of the firm and, therefore, it is the crucial element necessary for investigating the relationships between theories of the firm, accounting theories, and income calculation within the Italian tradition.

Ardemani associates the establishment of the first concept of the firm as ‘a centre of legal relationships’ with the diffusion of a personified view of ownership in the context of the emerging new State after Italian unification in 1861. The accounting implications of this can be tracked in the theory of ‘accounts personification’ proposed by Cerboni (for a review cf. Zan, 1994). Indeed, in this case it is hard even to talk about an MEA concept, for the firm overlaps with the physical person carrying out the business. Rather, the other three representations of the firm singled out by Ardemani tend to give rise respectively to the concept of MEA as \textit{proprietor}, as \textit{group in control}, and as \textit{institutional interest bearers}.

The configuration of the MEA concept as \textit{proprietor} is strictly linked to the view of the firm as a centre of production factors, taking into account the variety of factors and actors of production within a system of exchange relationships in a context of high uncertainty (the time reference according to Ardemani is about the turn of the century). In such conditions it would indeed be difficult for a firm to live under a condition of ‘universally shared risk’ (the so-called ‘Brentano’s principle’: Pantaleoni, 1925), where all the actors carrying out transactions with the business would share the risk. Within such an institutional framework the emergence of a group of actors willing to directly assume the risk of the business is seen as a practical solution in the operational problems of the firm: concentrating residual uncertainty within one category of actors is a condition of viability for the enterprise. Thus, a sort of risk hierarchy must emerge, where a particular group of factor bearers (actors) act as catalyst of the \textit{short-term} risk on their transactions, accepting a residual remuneration for the production factor they bear and leaving contractually pre-defined remunerations to the other groups. Note that the long-term risk involves instead all actors carrying out transactions with the firm (Zappa, 1957). In this theoretical context, a configuration of the concept of MEA can be found which, albeit often implicit in the literature, seems to play a crucial role in the overall framework. The MEA is here conceived as the \textit{proprietor} \textit{actor}, which is the owner of the factor assuming the short-term risk, and therefore the owner of the firm’s wealth (not of the firm itself, which acquires in this view an individuality of its own).

Looking at the firm as a centre of economic operations tends to stress the coordinating activity performed in the management process (Ardemani, 1968). Thus the concept of MEA is here conceived as the \textit{group in control}, i.e. ‘the group of individuals actually controlling the firm’ (Zappa, 1957). In this respect, interesting logical analogies may be found with the literature concerning the separation between ownership and control (Berle & Means, 1932). However, it should be noticed that there is not an explicit reference to that literature (in a sense it seems to be a ‘parallel’ theoretical development); furthermore, considering the historical features of the Italian capitalistic system at that time, reference is often made to the contrast between majority and minority groups of shareholders rather than to that between owners and management.

Finally, looking at the firm as a centre of interests leads to a definition of the MEA concept as \textit{institutional interest bearers}, i.e. the ‘set of individuals bearing institutional interests towards the

\textsuperscript{10} It has been argued that the literal translation as ‘economic subject’ risks theoretical ambiguity, becoming (another) example of what Hopwood and Schreuder (1984) refer to as ‘awkward English usage’.\textsuperscript{804}}
firm’, a position Ardemani explicitly sees as acquiring visibility and legitimation after World War II. In particular it was linked to social movements for the emancipation of the lower classes and minorities. In principle, all kinds of actors could be seen as participating in the processes of economic production and in long-term risk sharing. Beyond ethical and social aspects, at a theoretical level this is one of the implications of the systemic conception of Economia Aziendale thought. To some extent, an analogy might be found with the concept of constituents (Cyert & March, 1963) or stakeholders that emerged in the Anglo-American literature (economics, organisation theories and strategic management). However, a narrower meaning is usually given to such a definition of MEA, focussing, as it does, on the two main ‘original factor’ bearers: capital and labour (Ardemani, 1968; Masini, 1970).

Some aspects of this brief reconstruction of the evolution of the Italian literature over this century are worthy of emphasis. First of all, within Economia Aziendale at least three concepts of MEA can be found. This implies three partially different theories of the firm, which reveal dissimilar conceptions of the firm and of its relevant subjects (or actors), objectives, constraints, etc. Second, these different conceptions emerge at different times, to some extent reflecting the underlying empirical evolution of the Italian economy. Rather than a linear evolution they represent a non-sequential formation of concepts over time, thus producing a co-existence of the ‘old’ concepts with the ‘new’ ones, with possible controversies.11

The accounting implications of the different concepts of MEA can be analysed in terms of both accounting theory and accounting practice. The latter is easily summed up: no implications can be found. Accounting practice completely ignores such issues, always referring to the implicit proprietor concept of MEA. The reasons for that are not difficult to identify.12

In terms of theory, it is interesting to distinguish between implications which could be derived logically from the different definitions of the MEA concepts, and those implications which actually have been treated in the literature. In abstract terms, the different concepts of MEA imply dissimilar definitions of what is to be intended as surplus, which should be internally consistent with the basic view of the firm adopted. In fact, as ‘income’ is generally understood as a residual variable (revenues less costs arising from exchanges with third economies), then its definition is dependent on ‘who’ is considered as a third party and thus not as a component of the MEA concept.

The concept of MEA as proprietor considers as third parties all the actors involved, except for the proprietor of the firm’s wealth, which is here seen as the risk-bearer. Thus the concept of surplus tends to coincide with what is normally defined in textbooks as income, i.e. the residual economic quantity after deducting explicit costs (those which are incurred or derived as a result of exchanges with third parties). And, no doubt, this is the way in which most accounting theorists in Italy would define the firm’s surplus. Interestingly, while the concept of MEA as proprietor tends to be under-emphasized, the commonly prevailing income configuration is the very one associated with it. In this sense, the domination of the proprietor conception in the Italian current theoretical debate can be pointed out.

The concept of MEA as the group in control could lead in principle to two different definitions of the surplus. First of all, by interpreting a ‘pure entrepreneur’ as performing the coordinating activity (i.e. as the bearer of the organising factor), this would suggest considering other actors as

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11 As Ardemani himself underlines, stressing some particular aspects of crucial significance in a certain period does not mean the denial of other analytical dimensions under which the firm might and should nonetheless be analysed. In fact, more than clear-cut successions over time, they are theories that exist alongside one another, showing the presence of a theoretical variety in looking at the firm. For instance, Ferrero (1968, pp. 63–65) openly disagrees with the Masini’s MEA configuration. As he puts it, “the flaws of the previous configurations of MEA are not actually eliminable simply transferring powers from the one to the other ‘interested party’”, i.e. from capital to labour bearers (Ferrero, 1968, p. 63).

12 In this sense the writers share the criticism levelled by those scholars assessing the power meaning of accounting practice, but not the ‘market for excuses’ perspective as to Italy (Zambon, 1992).
third parties. Thus, the surplus would be conceived as ‘net surplus’ or profit, after deducting all the costs (including also implicit costs), in accordance with Marshall’s (1936, pp. 71–75) definition of ‘income’ as a residual amount after the deduction of capital expenses. Alternatively, considering the differences between the majority versus minority shareholders, as is usually the case in the context of Italian family-centred capitalism, third parties would include the minority itself. Thus within this definition of MEA, a sort of ‘majority income’ could emerge as the consistent definition of the surplus. Curiously enough, the concept of surplus as profit gains some attention in the Italian tradition, but in a rather implicit way. For instance, when addressing shareholders’ interest to invest in a particular firm, a reference to the interest on risk-free investments is suggested to measure the comparative terms of convenience of their investment, thus implicitly referring to the concept of profit. It should be stressed, anyway, that this kind of economic evaluation is not merely based on the result presented as such by the Profit and Loss account. The latter ends up with a configuration of surplus as income; the former is based on further manipulation of the result of this statement, according to what is labelled as ‘extra-accounting system calculations’ (determinazioni extra-contabili).

The alternative definition of surplus as ‘majority income’ cannot be found in the literature, and at first sight appears odd. However, such a view emerges in the context of group accounting in terms of parent company result, and not just in the Italian literature.

The concept of MEA as institutional interest bearers could lead to different configurations of surplus, according to the degree of radicalism in the definition of constituencies. In the more radical view, the very concept of surplus would lose its meanings: all actors and factors are non-third parties, and nothing will be left to be deducted from revenues. In a narrower definition of MEA as ‘particularly interested’ actors, third parties will be all but capital and labour bearers (as for instance Masini, 1970); thus the surplus will be conceived as value added. The radical view leads to what can be thought of as an odd conclusion, a train of reasoning that actually cannot be found either in the Economia Aziendale debate or in any other accounting literatures all over the world. However, the economist’s concept of GNP is exactly the aggregation of a similar variable; and if the suggestion made by strategic management scholars to consider the customer as a core stakeholder is not banal, some of the implications of the radical view are not perhaps uncalled for.

Some controversies in the Economia Aziendale literature concern the accounting implications of the MEA concept as institutional interest bearers in the narrow definition of capitalists and workers. It is interesting that in Masini’s thought, the value of ‘labour’ should be considered as a remuneration of a party composing the MEA rather than a cost. Capital and labour-factor bearers are remunerated together by the residual ‘income’. However, Masini does not arrive at explicitly proposing an accounting system centred on value added—which would be more consistent with his position—but he simply recommends that labour be included in the income statement not as a cost but as a mere ‘negative element of income’ (Masini, 1970). Ardemani’s (1968) contribution is more resolute and coherent, explicitly calling for a value added-centred accounting system. It is more resolute, as this is an exception in Italian accounting theory. The value added debate got very little attention in Italy compared to elsewhere, for instance in the UK accounting literature. Ardemani’s work is more coherent in the sense that the accounting system proposed leads to an ‘income’ calculation

13 What will be here called as ‘implicit’ or ‘figurative’ cost refers to the non-monetary expense relating to both equity (cost of equity, in a sense the opportunity cost of using capital in the economic coordination) and entrepreneur’s salary for the coordination activity. According to the debate within the Italian community of Economia Aziendale, in order to arrive at the notion of ‘pure profit’, one should deduct these ‘implicit’ or ‘figurative’ costs from ‘traditional’ income.

14 See Burchell et al. (1985) which gives an explanation of the value added debate in UK as a historical phenomenon (the value added event) within the context of socio-economic-political conditions. Referring to that approach, albeit in a partially different perspective, in this paper a particular component of what Burchell et al. (1985) defines as ‘accounting constellation’ will be further analysed, i.e. the role played by ‘the bodies of knowledge’ in terms of ways of conceiving the firm.
internally consistent with the theory of the firm explicitly evoked, i.e. that considering the firm as a community of interests (MEA as capital and labour bearers). The accounting system advocated results in a direct measure of the value added, which is not calculated as an ‘extra-accounting’ figure based on a traditional, proprietary-based, Profit and Loss statement. Instead it is expressed as a unitary value to be split between labour and capital remunerations according to a subjective process of logical, abstract considerations.

In conclusion, a curious contradiction may be underlined in the Italian accounting theoretical debate: the accounting implications of the different ways of conceiving the firm are not always developed. The richness and variety of perspectives on the MEA concept do not lead to an equally rich appreciation of the alternative accounting solutions. Indeed, a sort of reluctance to abandon the accounting implications of the proprietor concept of MEA can be observed. There are certainly political and ideological reasons for explaining such a reluctance; but also from a theoretical point of view it raises the question about the continued relevance of the proprietor configuration in the firm’s life.

In order to simplify the exposition and to illustrate the magnitude of differences in income measurements under different sets of theoretical assumptions, a basic numerical exercise on ‘income’ measurements is introduced in Appendix A. Table 1 summarises the income results of the exercise over the total life of the economic unit. Within this elementary framework, a further object of the exercise could be expressed as a critique of the largely accepted statement that total-life income is an objectively determined economic quantity. On the contrary, we try to show that, notwithstanding the simplifications, the ‘income’ figure and indeed the configuration of ‘income’ itself will change according to the conception of the firm that the analyst embraces, in a more or less explicit and conscious way.

3. An ‘old’ issue revisited: the US entity vs proprietary debate

If talking about a national accounting tradition is intrinsically problematic, it is even more so with reference to the United States, since in that country academic accounting has never been structured within an individual school of thought equivalent to the Italian Economia Aziendale. In this respect, American accounting research appears—at least until recently—much more fragmented, coming from specialized approaches and scholarly communities. An emphasis on pragmatic and empirical matters, as well as a widely shared perception of accounting as a self-contained body of knowledge with well-identified disciplinary boundaries, are likely to have contributed a great deal towards both this lack of unitary conceptual schemes of reference and the generalized absence of a clear relationship between accounting and business or micro-economics. Therefore, when addressing the American accounting ‘tradition’ it is not surprising that the relationships between the theory of the firm, accounting theory and income measurement are not central to theoretical debates, or that a concept similar to the Italian MEA cannot be found.

Notwithstanding these general observations, the US proprietary and entity theories and their long-standing contrast could be interpreted as manifestations of these relationships and, as such, reveal some interesting elements for comparison with the Italian tradition.

Even if someone may think that entity and proprietary theories are nowadays relatively old-fashioned subjects, there are some remarkable signs of their renewed importance in the literature. For instance, to some writers they appear useful for addressing current issues concerning the income statement as well as the balance sheet (Stewart, 1989). Some point out the enduring validity of Paton’s entity position in the ongoing US querelle on the distinction between liabilities and equity (Clark, 1993). Still others discover the parallel between income calculation according to entity theory and the recent developments in economic income measurement (the so-called ‘earned economic income’ model by Grinyer; for a review
cf. Peasnell, 1995). In addition to this there is the already mentioned FASB exposure draft on consolidation policy and procedures, which can be interpreted in the light of the contrast between entity and proprietary theories (FASB, 1995). In the last years a socio-political interpretation has been put forward, suggesting that the scholarly and practical success of these two approaches should be seen as embedded in the wider American context of the 1910s and 1920s and in the rise and fall of the ideals linked to the Progressive Era (Merino, 1993).

According to the prevalent views of American accounting historians (Chatfield, 1977; Littleton, 1966), the origin of these two theories is traceable to the contribution of several European scholars during the 18th and 19th centuries. Later, since the beginning of this century, the two approaches have been taken up and developed in the American literature as opposing ways of looking at the firm and constructing an accounting model. Over the years the two approaches have been thoroughly investigated and many interpretations have been given of their contents and implications (see, among others, Coughlan, 1965; Gilman, 1939; Gynther, 1967; Hendriksen, 1982; Lee, 1980; Lorig, 1964; Meyer, 1973; Sprouse, 1957; Vigano, 1966; for a comprehensive revisitation see Zambon, 1996a).16

However, it should be pointed out that neither the proprietary nor the entity approach can be reckoned as a fully-fledged theory of the firm, but each is an assumption—or a postulate—as to the manner in which the business enterprise should be conceived; hence, in this respect the two ‘theories’ implicitly express conceptions about the firm and the relationships between its main constituents.

3.1. Some elements of the proprietary theory

Original advocates of the proprietary theory in the US are traditionally held to be Sprague (1907), Hattfield (1909) and Kester (1917–1918). According to the conventional interpretation of the proprietary theory, an enterprise is the proprietor’s (i.e. owner’s) investment. All assets are owned and all liabilities are owed by the proprietor. In other words, the firm is not separated from its proprietor and it is only a convenient means to him or her in order to undertake a business venture through the investment of his or her wealth (Chow, 1942, p. 157). In this view, the proprietor corresponds to the equity capital bearer. The primary objective of this viewpoint is the determination and analysis of the proprietor’s net worth. Accordingly, the basic accounting equation—first proposed in similar terms by the Englishman Cronhelm (1818)—is:

Assets — Liabilities = Proprietorship.

Given the nature of the terms in such an equation, in the US literature several authors underline that the proprietary view tends to be ‘asset centred’ (Anthony, 1987, p. 76; Belkaoui, 1985, p. 224; Welsch et al., 1963, p. 14), and hence ‘balance sheet oriented’. Proprietorship increases (revenues) and decreases (expenses) mean literally gains and losses, and thus income is the net increase in the proprietor’s equity as a result of the firm operations. To the proprietor figurative interest charges are never costs. Only monetary outflows to third parties are considered as costs according to this approach. Therefore, taxes and interest on debts are expenses to the proprietor, while dividends are withdrawals of his or her own capital. In this sense, the proprietary approach has a strong internal coherence, since the proprietor is the economic organism for and to whom the accounting process is effected and directed.17

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16 According to Zeff (1978), both the entity and the proprietary theories are the most important and successful interpretations of what has been labelled as orientation postulate. The author defines this postulate as follows: ‘inherent in the theoretical schema of accounting writers is a perspective from which the accounting process is to be viewed. Some writers make explicit their choice of perspective, occasionally giving reason therefor; other writers leave the matter unsaid. But a perspective must find expression somewhere in the theoretical construct, for accounting must relate to one or more persons, organisations, or activities’ (Zeff, 1978, p. 1).

17 A distinction within the shareholders’ equity has also been proposed in order to focus only on the common shareholders’ capital, i.e. the so-called residual equity (Staubus, 1959). In this modified version of the proprietary theory, the dividends assigned to preferred shares are to be treated as costs with respect to the ‘real’ proprietors, namely the common shareholders.
3.2. *Some elements of the entity theory*

The entity theory, which was first proposed in a consistent way in the US by Paton (1922), represents another point of view on the relationship between accounting and the concept of the firm.\(^{18}\) According to this approach, a firm is an independent unit, or entity, distinct from its owners. Assets and liabilities (including shareholders’ funds) are conceived respectively as owned and as assumed by the enterprise. Correspondingly, income belongs to the firm as an entity, until it is distributed as dividends to the shareholders.

As Paton describes it, the equities are sources of the assets and consist of liabilities and the stockholders’ equity. Accordingly, the basic accounting equation will be:

\[
\text{Assets} = \text{Equities}.
\]

The primary objective of the entity theory is the determination of the ‘income’ for meeting the claims of equity-holders (shareholders and creditors). In this respect, this approach is said to be ‘income centred’ (Anthony, 1987, p. 76; Belkaoui, 1985, p. 225; Welsch et al., 1963, p. 13) and, consequently, ‘income statement oriented’. In opposition to the proprietary theory, the entity theory attempts to de-emphasize the owners’ role in the firm and tends to treat the owners as mere outsiders like the creditors, customers, etc. Management is striving for the owners’ as well as for others’ interests. The owners are hence considered as one of the firm’s constituent groups, although conceptually separated from the entity.\(^ {19}\)

Beyond the shared idea of the autonomy of the company from its owners, within the entity theory a number of different ways of conceptualizing this separation with respect to the assumed ‘beneficiary’ of financial reporting can be identified: the proposed beneficiary can be either all capital suppliers (equities) or the entity itself (cf. Zeff, 1978). Thus, one could argue about the existence of several competing entity theories. For our ends suffice it is to present the interpretation given to the entity theory by Staubus, Li and Anthony, all of whom identify the interest of the firm-entity as the pre-eminent one.\(^ {20}\)

According to Staubus (1952) and Li (1960a, b), the firm is seen as completely decoupled from its proprietors and has its own distinctive objectives:

\[^{18}\text{In historical perspective, it is worth observing that Paton’s ideas preceded by ten years the publication of the Berle and Means’ book on the separation between ownership and control in American corporations. Furthermore, Paton’s proposal to identify a surplus measurement which was aimed at assessing management capability to run the business, was contemporary with the introduction of a more sophisticated system for managerial performance appraisal: perhaps it could be worthwhile to investigate elsewhere the possible existence of a relationship between the first presentation of the entity theory at the beginning of the 1920s and the emergence of more refined methods of managerial evaluation (e.g. Donaldson Brown at Du Pont and his extensive application in organisational terms of accounting ratios such as return on equity and return on investment).}\]

\[^{19}\text{It should be noted that the entity theory does not coincide with the ‘entity concept’, even though the latter is a necessary precondition for the former. The ‘entity concept’ has been defined as the economic unit to be accounted for and, hence, it corresponds to a unit of accountability, the choice of which is indispensable even to a proprietary theorist (Concepts and Standards Research Study Committee, 1965). Therefore, setting the accounting boundaries of an area of economic interest to a particular individual or group does not imply per se the adoption of the entity theory in financial reporting (Zambon, 1996a).}\]

\[^{20}\text{An alternative view to that highlighted in the text is of course the Patonian one (Paton, 1922). As mentioned, Paton first proposed in the US a comprehensive entity approach (or, as he called it, a ‘managerial point of view’) to financial reporting. According to Paton, the primary purpose of the firm’s accounts should be to permit an evaluation of the management performance in utilizing a ‘given’ set of assets, leaving aside the sources of fund raising (Zeff, 1978, p. 187). In Paton’s view, ‘net income’ is then the return to all financial capital bearers, not only to equity holders, since accounting has to provide a measure of the effectiveness with which all the assets have been utilised. Net income for Paton was hence the additional wealth which may be distributed to all suppliers of funding. Correspondingly, the amounts of taxes, interest and dividends were to be conceived as distributions of income. Therefore, the main ‘beneficiary’ of financial statements is the group of equities suppliers (shareholders and creditors). The firm-entity is conceptually considered as separated from its proprietors only to allow a more detached evaluation of the managerial performance. The emphasis is placed on a new way of carrying out the ‘old’ stewardship function, reflecting the social recognition of the management role in creating and running company economic activity.}\]
its survival and growth (Li, 1964). To this end, all the monetary outflows weaken the entity’s financial position and have to be considered as costs. Taxes, interest and even the dividends are period expenses. What remains is the corporation’s income which accrues to the ‘corporation’s proprietary equity in itself’ (Husband, 1954). It should be noted that in this approach all factor suppliers receive a remuneration which is to be treated as a cost to the entity. Implicitly, one would argue, the residual amount is the profit (as we have defined it) that the entity earns from and for its activity of self-coordinating.

Anthony (1975) brings the entity view to its radical consequences. The logic remains the same as Staubus and Li, but instead of using the dividend actually paid as a rough measure of the equity cost of capital, Anthony argues for the use of an implicit cost of capital. This would permit one to eliminate temporal discontinuities in income calculation due to the uneven dividend stream, giving at the same time an appropriate and ‘neutral’ recognition to the cost of equity compared to market parameters, independently from the institutional form taken by an enterprise (for an empirical test of Anthony’s proposal see Bartley and Davidson, 1982). Between the different interpretations of the entity theory, Anthony’s position seems the most consistent with the conceptual premises of the entity point of view: all the constituents are considered as ‘third-parties’, and the ‘beneficiary’ of the accounting process is the firm itself. A consistent entity approach to income calculation should in fact be indifferent—as is Anthony’s (1975)—to the institutional form which is taken by a firm to run its business. In doing so, this approach reflects in a more appropriate way the economic raison d’être of the firm, i.e. its ‘net’ profit. That is why hereinafter we will refer only to this author’s position when mentioning the entity approach.

4. The ‘anomaly’ of co-operative societies as theory falsification

The co-operative society is an unusual, anomalous institutional form for running a business—compared to the usually taken for granted assumption of the capitalistic firm. From a methodological point of view, the particular institutional and legal features of a firm so organized may be seen as an interesting tool for verifying (or, better, for trying to falsify, in a Popperian sense) any theory of the firm. In this respect, it is interesting to question whether the Economia Aziendale theory of the firm and the US entity vs proprietary debate can be applied to the anomaly of co-operative societies (for a similar methodological usage of the co-operative anomaly see Aoki, 1984; Williamson, 1986).

A co-operative enterprise is here intended as a firm in which the members are the bearers of specific transactions toward the firm. The remuneration for these specific transactions is not defined a priori, rather it is a residual value. With reference to ideal-types of co-operative societies, in the case of the workers’ co-operative the remuneration of labour is determined ex post considering the value difference arising between contractually predefined relationships with third parties (revenues

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21 Within the entity theory the position by Suojanen (1954) appears peculiar. This Finnish-native author proposes his ‘enterprise theory’ as a development of the entity approach towards a more institutional and societal vision of the firm in its socio-economic contexts. Starting from this point of view he stands for the use of the value added as the measure of the firm’s economic performance (alongside with the ‘traditional’ income), since that measure would reflect in a more appropriate way the social role played by the enterprise. However, Husband (1954, p. 560) clearly points out the internal contradictions of certain ‘false’ entity positions, tending to degenerate towards the value added logic: “Developments in this direction, however, appear, as stated, to be contrary to the entity point of view. From the stand-point of the latter the entity is a person separated from all others: shareholders, creditors, and wage earners alike. There is no reason why it should be conceived as acquiring the services of any of these groups without costs. Contrary to justifying the treatment of dividends, interest, and wages as distributions of income, the entity point of view would seem to require the treatment of all three as costs”. In this respect, Suojanen’s ‘enterprise theory’ seems then to be methodologically inconsistent with the entity approach, since in his view the contrast between the ‘entity’ and all the ‘others’, which is the distinctive point of the entity position, tends to disappear and the whole set of constituents—including workers—are conceptually considered within the firm boundaries, as the use of value added as a measure of firm boundaries suggests.
from customers less costs linked to other specific factor bearers, financial capital bearers included). In the ideal-type of the consumers’ co-operative, the members accept to define ex post the value of their transactions with the co-operative, i.e. the ‘price’ of the products they acquire, after paying contractually pre-defined values to all factor bearers (e.g. capitalist, workers, etc.). Such a definition of a co-operative society (Tessitore, 1968) differs from that of a ‘workers’ managed firm’ sometimes used in the literature (Williamson, 1986, pp. 266–268), which is based on organisational variables such as ‘democratic participation’. Similarly, our definition does not refer to any ‘socialist’ feature of co-operatives (as for instance in Vanek, 1972; and Williamson, 1986, pp. 160–161). The focus is rather on the particular kind of proprietorship characterising the co-operative society, which is assumed to operate in a capitalistic economy. The label ‘capitalistic firm’ as opposed to ‘co-operative society’ will therefore be used with exclusive reference to the factor assuming the proprietorship role in the different institutional forms of enterprise.

4.1. The anomaly of co-operatives and the Italian tradition

Applied to the Italian tradition, the anomaly of co-operatives can be used in order to falsify the different concepts of MEA, and then investigate the related accounting implications with regard to different MEA concepts.

Of the three MEA concepts, only the first (MEA as proprietor) has some connection to the proprietor structure of the firm. It follows that only this first configuration will be sensitive to different proprietorship configurations. In this sense the co-operative society is an interesting case: it is a firm where the short-term risk is assumed by specific-transaction bearers (Zan, 1990), i.e. either the bearers of specific factors (labour, raw material, etc.) as opposed to the fungible nature of financial capital factor, or by the consumers themselves. In other words, risk bearing and coordination can also be performed in principle by constituents other than the ‘ordinary’ financial capital bearers. (On the other hand, economists sometimes recognize that under perfect competition it does not matter whether ‘capital hires labour’ or ‘labour hires capital’: Samuelson, 1957, p. 894).

If the concept of MEA as the group in control is applied to the co-operative society, this can hint at processes of separation between management and ownership, similar to what happens in the case of the capitalistic firm. While at the social and organisational level this may involve some element which is specific to the case of co-operatives—somehow implying a sort of identity crisis given the particular culture and ideology of participation and mutualism—in economic and institutional terms it is just a question of a different class of ‘owners’ (workers in the co-operative vs capitalists in the capitalistic firm) possibly in conflict with the same class of management elite.

Applying the concept of MEA as institutional interest bearers to the co-operative case would be more problematic and intriguing. Indeed, under a ‘radical’ view no difference would emerge between the capitalistic and the co-operative firm. The question is one of a joint satisfaction of the conflicting interests of the owners (workers, consumers, capitalists in the workers’ co-operative, consumers’ co-operative, and capitalistic firm, respectively) and of the other stakeholders, where each of the institutional forms faces a similar problem in satisfying workers, consumers, and capitalists simultaneously. Serious conceptual problems emerge, however, with reference to the less radical view of this definition of MEA as capital and labour bearers—according, for instance, to the contributions of Masini and Ardemani. This restricted view of institutional interest bearers shows a bizarre result when applied to the co-operative anomaly: it does not distinguish between the capitalistic firm and the workers’ co-operative. Furthermore, the meaning of such a framework may be questioned when referring to the case of a consumers’ co-operative society, totally ignoring its distinctive features. While in the other cases the view of MEA as capital and labour bearers seems to soften the centrality of the proprietor toward a more comprehensive account of the interests of relevant others, here the proprietors—the consumers—are
by definition excluded from such a configuration of MEA, being neither capital nor labour factor bearers.

In short, applying the Economia Aziendale framework to the co-operative anomaly, some interesting conclusions emerge. While on the whole the theory of the firm implied by the different MEA concepts could be extended to the co-operative anomaly, some useful insights arise in terms of accounting concepts of surplus. The co-operative anomaly helps to clarify the meaning of the concept of income, emphasising what is usually put in a rather implicit way when talking about the ordinary capitalistic firm: income should be intended as the residual remuneration of the factor assuming the short-run risk, while an analysis in terms of profit is needed at the same time to give a more comprehensive view of the firm. Furthermore, the latter still evidences some kind of ambiguity: what is clear is that profit is not univocally related to capital, since it can be conceived as the over or under remuneration of labour for the members of the workers’ co-operative, or as the over or under value for the products transferred to the members in the consumers’ co-operative. A claim could indeed be raised as to whether profit is to be interpreted as the over or under remuneration of one out of a multiplicity of production factors. Alternatively, it should be conceived as the over or under remuneration of all factors involved, since it arises from the particular systemic configuration of the firm, i.e. from its specific economic coordination.22 However, serious problems arise concerning the third definition of MEA, which gives a particular emphasis to the bearers of capital and labour amongst the variety of potential stakeholders: this is a questionable mis-representation of the ‘relevant others’, as for instance consumers, which is difficult to sustain theoretically.23

4.2. The anomaly of co-operative and the entity vs proprietary debate

When applied to the American entity and proprietary theories, the co-operative anomaly is also an interesting conceptual tool which helps to shed some further light on the characteristics of these two approaches.

It should be pointed out that a double effort of abstraction is necessary before getting into the ‘falsification exercise’ of the US theories. A first effort is needed in order to read the entity and proprietary views in terms of the underlying theories of the firm at which they hint; a second effort relates to the fact that both the American approaches have never been, to the writers’ knowledge, conceptually applied to co-operative societies and their accounts.

The proprietary theory seems to face problems in explaining the co-operative anomaly, since in the US approach the proprietor is identified as the owner (and the bearer) of the financial capital. Therefore, when facing the co-operative anomaly, the American proprietary theory falls into an irresolvable indeterminism—the notion of proprietor to whom it refers is not compatible with this alternative institutional form for carrying out business. This confirms the intrinsically capitalistic orientation of the US proprietary theory, which is not able to cope with different notions of proprietorship based on factors other than financial capital.

As to the entity theory, its various and competing configurations reveal a different applicability to the co-operative society.24 The Staubus and Li

22 For a similar result see also Aoki on organizational rent: moving from a transaction cost perspective, this author focuses on the firm-specific character of the collaboration between the constituents of a given firm. In this framework, the particular internalisation process of resources which is adopted by a given firm is conceived as the source of distinctive competences, skills, capabilities and of a firm’s differentiation elements. Similarly to what Schumpeter pointed out, these idiosyncratic elements cause the long run profit to differ from zero—significantly Aoki talks about organisational rent. Profit being the consequence of specific resources and competences, “the next logical step is to ask who appropriates this rent? The answer seems to be obvious: the holders of the firm specific resources” (Aoki, 1984, p. 31).

23 It is here interesting to remind readers that Aoki himself recognised the lack of reference to the customer role as a serious limitation of his framework, leading him to call for further theoretical developments (Aoki, 1984, p. 195).

24 Paton’s view has hardly any relevance to the co-operative, since the attempt to identify a ‘result to net equities bearers’ would be meaningless in respect to these anomalous institutional
version of the entity theory seems to maintain a certain significance also vis-à-vis co-operative society. Dividends, being a distribution of surplus, which here corresponds to the remuneration of specific transaction bearers (e.g. labour, goods), could be treated as costs to the entity-co-operative and taken (tacitly or explicitly) to the income statement before calculating the net surplus of the period which is attributable to the ‘entity-co-operative’ itself (cf. the following).

Anthony’s interpretation of the entity theory is the most easily and immediately applicable to the co-operative anomaly, since it does not require any adaptation at all. According to the different form of co-operative society, the expression of ‘implicit cost’ will be referred to as either the cost of labour in the workers’ co-operative, or the sale revenues in the consumers’ co-operative. The co-operative profit would appear, then, as the over or under remuneration of labour (or the over or under price for the products transferred) to co-operative members, which has been permitted by the specific factor combination achieved, and the organizational self-coordination realized, by the ‘entity-co-operative’.

In this respect the usual numerical exercise applied to the co-operative societies would produce, for the Anthony position, the same result as before when referred to capitalistic firms (see Exhibit 4 in Appendix A).25

In conclusion, the problematic comparability of income measures for different institutional forms, is confirmed also from the above conceptual ‘testing’ of the US entity and the proprietary theories.

Notwithstanding that, it should be pointed out that only the Anthony approach can offer a consistently meaningful result over a variety of enterprise institutional structures. Indeed, the constant value of the ‘profit’ according to Anthony is a coherent reflection of the posed hypothesis of equal efficiency in running the business under a capitalistic firm and a co-operative society. The consistency of Anthony’s profit is amenable to its aforementioned nature of over or under remuneration of the labour or of products transferred to co-operative members. Another interesting implication to emerge from the above exercise of using co-operatives as a theory falsifying tool, is that the notion of proprietor is not always—as often it is perceived—an unambiguous guide to drawing up accounts vis-à-vis any institutional configuration of the enterprise.

5. Discussion and conclusions

The focus of the paper has been on demonstrating accounting relativism stemming from the knowledge foundations of accounting. In this respect we found a variety of income measurements existing within accounting traditions, such as the Italian and the US ones, and also between them. In parallel, a numerical exercise has been introduced into our discussion (see Appendix A), whose results are summarised in Table 1. Such a manifestation of accounting relativism deserves here some further comments. Despite the extremely simplified assumptions (total life period, only four transactions involved, unambiguous value of each transaction, equal efficiency between institutional forms to run the business), the diversity of ‘income’ measurements under different theoretical perspectives clearly emerges in the figures: income varies from five to ninety-five units. While this range

enterprise forms. In fact, in the workers’ co-operative case, the workers cannot be considered as equities bearers in the Patonian sense, i.e. they are not bearers of any financial capital to the co-operative society. The value of their contribution does not appear in the credit side of the balance sheet, where all the equities are to be found. Thus, the ‘result to equities bearers’ would remain indeterminate for the logical impossibility of treating workers as equities bearers and their remuneration as part of this (so defined) surplus. In the consumers’ co-operative case, the actual sale value is missing and, hence, the Patonian ‘result to equities bearers’ would equally remain indeterminate. Therefore, in both forms of co-operative society Paton’s approach to the entity theory is not conducive to a meaningful result, and it is then bound to indeterminism with reference to these enterprise institutional forms.

25 Following up from the previous note, in the case of Paton’s approach, the numerical example would then not arrive at any solution, because of the indeterminism intrinsic in this approach when applied to co-operatives. For different reasons, also the Staubus and Li’s proposal cannot be meaningfully applied to co-operatives using the numerical example in Appendix A, because of the simplicity of its figures. Their approach would in fact collapse into Anthony’s profit.
is partially contingent on the particular figures of our numerical exercise, it is first of all a consequence of distinct approaches to ‘income’ measurement, based on varying assumptions about the firm itself.

Apart from the magnitude of the variation of results, what is particularly interesting to note is their different behaviour when analysed by column and by row. Reading Table 1 by columns, and focusing on the capitalistic firm, the various theories involved lead to an extreme conceptual variety in the definition and measurement of the surplus: twenty units (income as commonly defined) under the MEA as proprietor and the US proprietary views; seventy units (surplus as value added) under the MEA as interest bearers perspective; five units (surplus as profit) under the US entity view (as mentioned, the implications of the MEA concept as group in control have not been investigated in the Italian literature, and thus no data appear in the second row of Table 1).

Reading Table 1 by rows, and referring to the Italian view of MEA as proprietor (first row), a substantial variance emerges in measuring the same conceptually-rooted income: twenty units in the capitalistic firm, fifty-five in the workers’ co-operative, and ninety-five in the consumers’ co-operative. Even more intriguing is the different behaviour of the other rows compared to the first one. The third row (MEA as interest bearers) defines the surplus as value added (seventy units) for both the capitalistic firm and the workers’ co-operative, but also—in a way that we found inconsistent—for the consumers’ co-operative. The fourth row (US proprietary view) does not seem to be applicable to the co-operative society, as it is strictly related to the capitalistic firm. The last row (US entity view) shows a surplus as profit for five units for all the three kinds of firm.

Arising from this data three important relativistic properties of accounting calculation can be identified. First, ‘incomes’ of different legal or institutional forms under which the business can be run, are in themselves not comparable (Zan, 1990). Despite the ceteris paribus assumption—i.e. the assumption of equal efficiency in the cases of the capitalistic firm, the workers’ co-operative, and the consumers’ co-operative—income does differ (5, 20, 55, 70, 95 units). Second, as a consequence—income as determined according to the ‘traditional’ view does not appear to be a meaningful indicator of the economic efficiency of a firm, as is often stated. Third, there emerge varying degrees of sensitivity to enterprise institutional forms shown by the different accounting theories and the associated surplus measurements. Referring to the Italian tradition, it has been observed that the co-operative anomaly can be handled by enlarging the concept of MEA as proprietor, where the proprietor is not necessarily the capital bearer. On the contrary, such an anomaly seems to be disruptive toward the MEA concept as institutional interest bearers narrowly defined (as capital and labour bearers): in a sense, such an arbitrary confinement of all constituents to capital and labour seems to be theoretically inconsistent. Referring to the US debate, an explicit and radical lack of sensitivity to different institutional forms—and thus to dissimilar proprietorship structures—characterises the entity view as a consequence of its very focus on the entity itself.

<table>
<thead>
<tr>
<th>Concept or theory of the firm</th>
<th>Surplus definition</th>
<th>Capitalistic firm</th>
<th>Workers’ co-operative</th>
<th>Consumers’ co-operative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italian view: MEA as:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Proprietor</td>
<td>Income</td>
<td>20</td>
<td>55</td>
<td>95</td>
</tr>
<tr>
<td>● Group in control</td>
<td>(not defined)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>● Interest bearers</td>
<td>Value added</td>
<td>70</td>
<td>70</td>
<td>(inconsistent)</td>
</tr>
<tr>
<td>(capital + labour)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US tradition:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Proprietary theory</td>
<td>Income</td>
<td>20</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>● Entity theory</td>
<td>profit</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 1
Income calculation: different solutions. Summing up the income calculation in the example in Appendix A
A more subtle relativistic element of accounting calculative procedures refers to the very nature of the measurement of income (strictly defined) and profit. The former is computed as a difference between ‘objective’ values—at least under the total-life assumption—arising from actual exchanges with third economies; the latter requires a conjectural process, an abstraction about potential alternative uses of the factor assuming the short-term risk in running the business. For the sake of simplicity focussing only on the capitalistic firm, this process implies comparing income with the current interest rate in the financial market, as if capital were negotiated into a market-like transaction—or splitting value added into its ideal components.

Taking a more systematic viewpoint, it is clear that the variety in income calculations derives from diverse underlying theoretical frameworks. However, these give a different representation in accounting terms to the crucial problem of the remuneration of the fundamental function of short-term risk bearing, which has to be carried out by some of the constituents in order to make the enterprise viable. More precisely, the problem lies in the analytical elicitation of the above remuneration. The proprietary view does not recognize the issue at all, since the remunerations of the two functions (coordination and short-term risk bearing) are indistinctly coupled within income. The entity view identifies a separate contribution of the coordination function by attributing a fictitious value to equity and treating this value as a cost incurred with an external party. Thus, the entity view neglects the foundational function of short-term risk bearing which has to be performed by an ‘internal proprietor’ (being the capital or the labour bearer, or even the consumer). And here perhaps lie the merits and at the same time the limits of the entity view: it allows one to abstract from the proprietor structure, analysing the economic coordination in itself, but the hierarchy of risks affecting the various constituents of the firm is then ignored.

When turning to the reasons explaining accounting relativism, it could be noted that the co-existence of several accounting approaches within the same context is the result of the underlying complexity of the firm and of the knowledge about it. In this respect, any theory cannot be other than a partial representation of the composite phenomenon under investigation. Indeed, as a consequence of this complexity, relativism emerges already at the level of the theory of the firm: there is not any ‘superior’ model, but several partial theories, hardly comparable, let alone rankable (cf. Loasby, 1976, and for a similar subjectivist position in management studies see Astley, 1984; Zan, 1995; Zan & Zambon, 1993). Again, it is the very complexity which makes different accounting representations of the firm acceptable and evenly ‘sustainable’ from a conceptual point of view. In other terms, the indeterminism and ambiguity of the accounting representation depend on the multidimensional and non-verifiable character of the knowledge about the firm, which generates theoretical pluralism and then relativism in terms of its conceptualizations.

As a further explanatory factor of accounting relativism, it should be observed that also the relation between theories of the firm, accounting theory and income measurement does not appear to be of a necessary and deterministic type. On the other hand, the relationship between theories of the firm and accounting measurements allows for more than one alternative, apart from ‘inconsistent’ interpretations arising from the difficulty of maintaining an internal coherence in these passages. On the other hand, the theoretical variety

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26 Curiously enough, the notion of ‘fiction’ is used in both the Italian and US context: see the notion of ‘fiction-hypothesis’ by Masini (1964) and Ferrero (1968) and the qualification of the ‘entity’ as a fiction by Husband (1954). In particular, the Italian tradition utilizes such a notion when distinguishing accounting values according to their nature: objective quantities (quantità economiche) such as the physical inventory or individual cash flows; estimates (stime), which are merely proxies of objectives quantities, e.g. approximations in measuring certain physical inventories; and conjectures (congetture) which are valuations derived from a set of fictitious hypotheses concerning the future course of business, e.g. depreciation, provisions, accruals, etc. To be true annual income itself has a conjectural nature (Zappa, 1937).

27 For instance Ardemani, in his theoretical proposal, explicitly refers to the US entity theory, as if he shared such an approach. However, his accounting system proposal is centred
shows up in similar contexts in different forms (co-existence of entity and proprietary views in the US context; co-existence of several configurations of the notion of MEA in the Italian debate). In this regard, it has been observed that, if different income measurements can derive from similar theories of the firm, dissimilar theories of the firm can be said to generate comparable surplus calculations (e.g. the US proprietary theory and the notion of MEA as the proprietor). In other words, the economic concepts condition surplus measurement, but their ‘transformation’ in accounting terms is not taking place through an obvious and linear process: accounting theories have indeed an autonomous role and vitality.

Facing accounting relativism and its reasons, it seems to us that rather than choosing ‘the one best’ or simplistic solutions to such a puzzle, it would be more advisable to stress the partial, relative meaning of each individual theory, where the choice between theoretical accounting approaches is left to a priori epistemological preferences. In fact, within a relativistic conceptual position, the issue of evaluating and choosing between the theories of the firm available is in itself a problem, insofar as these different but limited representations are largely incommensurable and not objectively verifiable (see above). The selection between competing frameworks depends therefore on the kind of abstraction processes that the analyst decides to embrace, as well as on the kind of questions addressed. In this respect, then, the choice between competing theories of the firm—and indeed accounting theories—reveals itself to be to a large extent a pre-scientific, if not ideological, assumption, an individual adhesion to certain ways of conceiving the firm which can be mediated by context and history.

In a more institutional perspective, a persistence of a theoretical variety over time should be underlined: rather than theories which overcome the previous ones, they tend to co-exist even when the environment in which they were generated has changed. However, one thing can be pointed out, namely the loss of theoretical hegemony of proprietary theories, and the emergence of alternative ‘candidates’. While the proprietary view is still dominating, a phenomenon of abandoning it as the paradigm in accounting thought can also be traced. Indeed, this phenomenon is common to both the Italian and the US context, though undertaking different patterns of evolution: toward entity positions in the US debate, in an environment where the separation between ownership and control has a major relevance; toward positions which are close to the value added logic—as for instance the Masini and Ardemani definitions of MEA—in the European debate, in a context where historically speaking the conflict between capital and labour has gained central attention.

As a concluding remark, it should be noticed that accounting relativism can also shed new light on the emergence of national variety in accounting. In fact, the existence of distinct traditions seems to be based also on the possibility of shaping in different ways the relationship between theory of the firm, accounting theory and income measurement, which become locally entrenched and succeed in getting institutionalized within

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28 See for instance Baxter: “[T]he shareholders’ viewpoint [i.e. the proprietary theory] seems the more human and demo-

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29 “The evidence suggests that differences between owners’ and managers’ interests—the most familiar but not the only significant conflict of interests among firm constituents to be recognized by accountants—is characteristic of large firms, especially corporations” (Staubus, 1989, p. 22, emphasis added).

However, in order to avoid any kind of contextual determinism, one could refer to the prevailing patterns in the two environments, for similar theoretical stances can be found across distinct national environments (for instance, within non-proprietary approaches the entity view in the US context and the MEA as group in control in the Italian one).
academic and professional accounting curricula (cf. the Economia Aziendale School in Italy, and the proprietary-rooted ‘textbook approach’ in general). This creates then a case for international accounting studies, aiming indeed at inquiring into national differences in a comparative perspective. In this sense, accounting relativism may contribute towards the establishment and the understanding of distinct patterns of accounting theory and related institutions [e.g. the relationship between accounting and business economics, cf. Zambon (1996b)], adding further insights into the interpretation of dissimilar national accounting histories and historiographies [thus suggesting a history of accounting histories perspective; Zan (1994)].

In a similar vein, the analysis of the relativistic nature of the relationship between theories of the firm and accounting calculation could be interpreted as a contribution towards the problematization of the more general interconnection between accounting and economics. In particular, the recognition of a less ‘dispersed’ view of the firm and of the various conceptual bodies revolving around this institution is here contended, in contrast to the practice of academic disciplines in these fields which is often prone to knowledge fragmentation and the creation of secluded territories.

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**APPENDIX. A numerical exercise**

Table A1 defines the set of data concerning the economic coordination of different production factors performed by a generic firm. The data will be applied to income calculation for the capitalistic firm, using the different concepts of MEA outlined above. Subsequently, it will be referred to the case of the capitalistic firm considering the American entity versus proprietary debate. Finally the same data will be applied to the ‘anomaly’ of co-operative societies. To narrow down the kind of questions to be analysed, an important simplifying assumption will be made: we will refer to the total life of a given firm. That is a ’methodological stratagem’ which is used by some Italian scholars—and by curious coincidence in the Finnish accounting tradition as well (Lukka, 1990)—which allows us to focus on the total income of the firm, instead of the periodic income. Under such an assumption, there is a mathematical coincidence between: (1) income generated throughout the life of the firm; (2) the change in equity between the beginning and the end of the firm’s life; (3) the sum of total dividends and withdrawals in favor of the firm’s shareholders; and (4) net cash inflows and outflows. The ‘total life income’ is thus a different methodological stratagem from the ‘double take-over’ (Hicks, 1979) for analysing similar issues. The originality of the former is that depreciation of physical assets can be completely ignored: indeed, in the long run, considering the ‘total life’ of the firm, the purchasing of long term production factors does not differ at all from the purchasing of raw material and other factors contributing to period costs. This way such a methodological option tends to stress the particularity of *financial capital* as a totally unspecified and fungible factor—as a sort of ‘monetary fly-wheel’ to run the operations, ‘filling up’ the time lags between expenses and receipts. Thus, a less ambiguous definition of ‘capital’ emerges.

Given the aims of the paper, this methodological option appears useful, for the focus is on basic concepts, analysing the logical chain—whether implicit or explicit—linking theories of the firm, accounting theories and income measurement. In this sense, all the consequences brought into play by the calculation of periodic income can be ignored. Thus, further complex questions can be avoided, whether they are accounting issues (e.g. inventory valuation and asset depreciation, and in general the implications of the ‘accrual principle’; inflation, etc.), finance issues (e.g. discounting economic values of differently time-located events; problems in determining share values, capital gains, etc.) or other economic issues (e.g. the importance of intermediate variables such as market shares and others indicators of economic performance or competitive advantages, etc.). Rather than enlightening the problem that is being
considered here, these additional questions would require its solution as a starting point for further investigations.

A.1. Income measurement in the Italian tradition

Applying the exercise of income calculation to the data in Table A1, it is clear that only two accounting systems emerge from the three concepts of MEA. The MEA concept of proprietor tends to measure income in the same way as the traditional textbook approach shown in Exhibit 1, while the third MEA concept of capital and labour bearers tends to determine ‘income’ on the basis of a value added approach as shown in Exhibit 2. Only indirectly can some sort of income measurement which is consistent with the concept of MEA as group in control be inferred, starting from the surplus defined in Exhibit 1.

The well-known methodology of Exhibit 1 does not need much of an explanation. According to the data, current accounting practice leads to a ‘total life’ income determination of twenty units. Note that for such an income determination no information is needed on the physical quantity of resources and outputs, nor on the amount of financial capital used to run the business. If the latter information is available together with the current rate of interest, the implicit cost of capital could be inferred (as supposed in Table A1, fifteen units). By abstraction—and to some extent forcing the internal coherence of this accounting representation—‘income’ (twenty units) could be conceived as composed of interest (fifteen units) plus profit (five units). With some degree of inconsistency with the overall framework, profit itself (five units) then tends to be interpreted—especially in accounting practice—as the over or under remuneration of risky capital compared to its alternative uses in the capital market. Thus, drawing on neoclassical understanding, profit is often seen as the remuneration of the two basic functions performed in running a business, i.e. risk bearing and coordination; and often it is implicitly
assumed that these functions are performed only by risky capital bearers.

According to the conception of the firm as a community of interests and defining MEA as capital and labour bearers, as in the contributions of Masini and Ardemani, what is measured as the firm’s economic performance in Exhibit 2 is the value added, here calculated as seventy units. Two aspects of this are to be emphasized. Compared to the previous accounting procedure, less information is needed (i.e. the value of the labour factor used in the coordination); furthermore, from a logical point of view capital and labour remunerations may be inferred only by a process of abstraction, which recalls the political bargaining processes in dividing value added between the two factor bearers. Such a process of inference is surprisingly close to contributions in terms of a ‘co-operative game theory of the firm’ developed in economics (Aoki, 1984). In this context, too, an explicit reference is made to the bargaining process in sharing out the value added between owners–management–employees, where value added is equal to the current market remunerations for owners, managers and employees plus the organisational rent.

A.2. Accounting implications of the entity and proprietary theories

Referring to the data in Table A1, and assuming that the business is still run under the form of an ordinary capitalistic corporation, the income calculation according to the proprietary theory in its traditional form would be as in Exhibit 3. Interestingly enough, according to the proprietary theory, income is identical to that resulting from the aforementioned Italian ‘textbook’ approach (see Exhibit 1).

An example of the income calculation within the entity theory is given according to Anthony’s approach (Exhibit 4). Note that as to the Paton’s and Staubus and Li’s interpretations of the entity view, the relative simplicity of the basic example would not permit a full illustration and appreciation of their accounting implications. From the limited data of the example it is not possible to calculate a distinct entity’s ‘result to equities bearers’, as Paton’s approach to entity theory would require. Given the simplifying assumption of a total financing by equity, and thus the absence of interest on borrowed capital, the Paton ‘net income’ will not differ from the ‘proprietary surplus’. Similarly, the Staubus and Li entity view is not numerically illustrated here since the relevant income calculation would not specifically emerge within the ‘total life income’ hypothesis which has been assumed here. In fact, having regard to this hypothesis, the comprehensive amount of dividends equals the total income earned by a firm in its whole life. Total income, in turn, corresponds to the firm’s net increase in cash and in shareholders’ capital since the inception of its activity. In this sense there cannot be any quantitative difference between income and dividends in the example and, as a consequence, subtracting the latter as a cost would then bring the ‘bottom line’ to zero.

One could wonder whether Anthony’s profit should be interpreted as the over or under remuneration of all production factors (including equity capital) in comparison with their market values, or rather as the remuneration of the self-coordinating activity played by the entity itself. As previously clarified, this figure of ‘income’ could be more correctly defined as ‘profit’ to the entity.
However, there is a problematic aspect to Anthony’s position. In order to arrive at this income calculation a subjective abstraction process is needed for valuing the implicit cost of the factor bearing the short-term risk (i.e. the equity capital).

A.3. Income measurement for co-operative societies

The accounting implications of the three different definitions of the MEA concept in the Italian tradition as well as of the US entity vs proprietary theories, can now be analysed with reference to the case of co-operative society, using the data provided in Table A1.

The following necessary modifications in the set of initial assumptions have been made, in order to maintain the internal coherence and the level of simplification of the example. First, it is assumed that no differences in efficiency exist between the various institutional and legal forms under which the economic unit is carried out. Second, the transactions characterising the institutional form are totally subject to risk. This means that in the workers’ co-operative all the labour is supplied by the members (with residual remuneration); and in the consumers’ co-operative all goods are transferred to the members (at a value determined ex post). Third, the financial capital which is needed to run the operations is totally supplied by third economies as borrowed capital. Depending on the current rate on capital markets, a cost for interest is thereby given—which is now assumed to be an actual cost rather than an implicit one as in the case of the capitalistic firm—the concept of surplus amenable to the definition of MEA as the group in control could be inferred. In fact, the income of Exhibit 5 could by abstraction be disaggregated as follows: (a) in the workers’ co-operative society, a figurative cost of labour (fifty units) plus profit (five units), with the latter intended to be the over or under remuneration of labour compared to its alternative employment in the labour market; and (b) in the consumers’ co-operative society as the value of goods at current market prices (one hundred units) less profit (five units), which is intended to be as the inferior or superior value at which goods have been provided by the co-operative to its members.

If Masini’s definition of MEA as capital and labour bearers is applied to the numerical exercise, the result will be identical to that of Exhibit 2. Whether referring to a capitalistic firm or to a co-operative society, the surplus will be expressed as value added (in this case seventy units). But if this is a consistent result in the case of workers’ co-operative, the meaning of this measurement in the consumers’ co-operative is rather obscure (what does this mean to its members, the consumers?).

Turning to the US approaches, while the proprietary theory would be conceptually incompatible with the co-operative society case, the entity view according to Anthony position would lead to the same result shown in the case of the capitalistic firm (see Exhibit 4), for all factor bearers are considered as third parties.

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### Exhibit 5

**Income calculation in co-operative societies**

<table>
<thead>
<tr>
<th></th>
<th>a. Workers’ co-operative</th>
<th>b. Consumers’ co-operative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td>30</td>
<td>30 (balancing item)</td>
</tr>
<tr>
<td>Interests</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Total costs</td>
<td>45</td>
<td>95</td>
</tr>
<tr>
<td>Income</td>
<td>55</td>
<td>95</td>
</tr>
</tbody>
</table>

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