The Entity Concept as Ideology: Corporations, Personhood, and Legitimation in a Global Society

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1. INTRODUCTION

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THE ENTITY CONCEPT AS IDEOLOGY:
CORPORATIONS, PERSONHOOD, AND LEGITIMATION IN A GLOBAL SOCIETY

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ABSTRACT

Ideology can be defined as unquestioned assumptions used to understand, create and recreate the world around us. The insufficiently examined entity concept has been the source of numerous problems in accounting standard setting, yet the FASB and IASB are persistent in claiming that the lines between economic entities can be readily distinguished. This paper argues that recurring standard setting themes, evidence of moral hazards associated with the corporate form, and recent court cases on corporate personhood all point to inherent difficulties in drawing entity boundaries in a global society. This paper conjectures that lack of focus on the entity question by American and European dominated accounting standard setting bodies may arise from a cultural mindset that emphasizes individual contributions while downplaying social interdependence. The hypothesis is consistent with observations that Oriental and Islamic cultures that place more emphasis on interdependence also have a lesser prevalence of the corporate form. The paper concludes that an ideology which ignores the ambiguities and problematic nature of accounting entities forecloses meaningful discussions of the underlying problem of accountability in a global society and suggests that modern standard setting processes may be more about legitimation than decision making.

KEY WORDS: Entity concept, corporate personhood, legitimation

1. INTRODUCTION

Neimark (1992, 97) defines ideology as unquestioned assumptions humans use to make sense of, create, and re-create their environment. In The Reporting Entity (2010), an exposure draft issued jointly by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), a reporting entity was described as

a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders, and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessment whether the management and the governing board of that entity have made efficient and effective use of the resources provided. (FASB 2010, 1)

In describing how the boundaries of a reporting entity would be determined, the draft listed three characteristics:
The Entity Problem

1) Economic activities are being conducted, have been conducted, or will be conducted,
2) Those economic activities can be objectively distinguished [emphasis added] from those of other entities and from the economic environment in which the entity exists, and
3) Financial information ... has the potential to be useful in making decisions .... (FASB 2010, 1-2)

Multiple respondents to the exposure draft suggested that the practicalities of how to determine those boundaries or the theoretical background for making those choices was essentially missing (FASB Online Comment Letters). In continuing its own separate conceptual framework development work after 2012, the IASB’s Review of the Conceptual Framework for Financial Reporting (2013) identifies the continuing lack of guidance on measurement and how to identify the reporting entity as important areas that been given too little attention in the existing Conceptual Framework (CF).

Accounting standards influence commercial textbooks which in turn play a major role in shaping students’ understanding of social issues and power relations in society. As early as 1979 Baxter was already noticing that “you only have to look at an up-to-date textbook to see how much weight is given to official pronouncements, how little to economic reality that accounts are supposed to show” (310). In more recent studies, Ferguson et al. (2005, 2006, 2008, 2010) argue that accounting textbooks often display a narrow range of corporate stakeholder interests which treat social and environmental externalities as afterthoughts, to be addressed only if it enhances shareholder wealth by looking ‘green’. Beets’ (2011) review of critical events in the ethics of U.S. corporation history concludes that corporations should be closely “scrutinized in light of the power that they wield” (217).

The power relations between individuals, corporations, and governments exist in a state of flux that is sometimes hidden by cultural ideologies. Neimark (1992, 98-99) maintains that ideologies sanction and sustain systems of unequal power by: 1) universalizing sectional interests, 2) allying group goals with dominant class interests, and 3) naturalizing the present. Universalizing sectional interests may be at play when curricular materials force students into multiple choice answers that treat current corporate law as facts whose ‘answers’ should not be questioned. Textbooks and programs that place primary attention on large business entities may be doing so to ally themselves with dominant employer and donor interests. Failure to question how corporate structures evolved or how they could be different is arguably a mechanism for naturalizing the present by ignoring alternatives.

The commentary that follows begins with an overview of practical problems that are connected to the indeterminate status of accounting reporting entities and categories, i.e., what the FASB and IASB conceptual frameworks call elements of financial statements. The very nature of accounting is to break the world into categories. Determining how to fix those boundaries is a central theme in financial accounting standard setting processes. Yet ironically, the accounting literature is largely silent about the fundamental philosophical issues inherent in accounting categorization. Bell (1986) notes a common tendency among accountants “to avoid, like the plague, grappling with the larger philosophical issues that are inevitably involved in the study, and indeed practice of our discipline (339).”
The Entity Problem

A common criticism of Conceptual Framework projects is that in spite of providing seemingly precise definitions of financial statement elements, they largely function as apologetics devoid of theory (Watts & Zimmerman 1979; Dopuch & Sunder 1980; Solomons 1986). Instead of establishing a philosophical and conceptual basis for accounting practice, these frameworks primarily serve to limit the boundaries of discourse which is an entity problem in its own rite. Chua (1986) and Gomes (2008) argue that accounting academics as a whole are reluctant to deal with questions that challenge the seemingly neutral, technocratic assumptions of accounting or financial markets. Those few academics who venture to discuss the philosophical nature of accounting have tended to see it as a ‘social reality’ or ‘game’ between self-interested players (Matthesich 2003 & 2009, Mouck 2004, Baker 2006). As the ‘game’ ideology has taken hold, discussions of normative issues or even a meaningful focus on what it means to be ‘representationally faithful’ in accounting financial statements have fallen out of vogue in academic journals. Still, an academic member of the FASB has expressed a value-judgment that it is ‘shameful’ that there are currently no measurement concepts guiding U.S. or international accounting standard setters (Barth 2014, 350).

Yet it would seem that establishing meaningful measurement concepts would need to be preceded by a discussion of the problems inherent in establishing the parameters of the entities we are trying to measure. It is not clear that such a discussion has taken place. Accounting standard setting efforts have been built on a presumption that there is an accounting entity whose boundaries and component reporting elements can be clearly defined with economic transactions readily grouped into meaningful categories. And why not? For after all, bookkeepers have been doing this from the very origin of the profession. But what if the fuzzy boundaries of economic entities and dividing line for financial statement elements are actually the inherent source of our measurement problems?

This paper seeks to fill a void in the academic and educational literature about the inherent problems of establishing the parameters of accounting entities in a global society. The discussion will begin with practical examples of the wide scope of difficult accounting problems which are connected to uncertain entity boundaries and relationships. This paper conjectures that lack of focus on the entity question by American and European dominated accounting standard setting bodies may arise from a Western worldview that emphasizes individual responsibility while ignoring or downplaying interdependencies. An overview of the origins of the Western joint stock form is used as background to recent American court cases on the evolving status of corporate personhood. The paper suggests that the lesser prevalence of the corporate form in Oriental and Islamic societies may be related to greater philosophical emphasis on social interdependencies in those societies. The paper concludes with observations on how current entity ideology affects the parameters of discussion about public accountability.

II. THE ENTITY PROBLEM IN ACCOUNTING

Prior to the twentieth century accounting was composed of business tools applied with professional judgment rather than by reference to sets of rules and standards imposed by edict. Formal accounting standards processes evolved in the U.S. in response to issues that were highlighted by the financial problems of the Great Depression of 1929. When practitioners refused to accept accounting standards written by the Committee on Accounting Procedures during the 1940s, it was thought that lack of accounting theory was the major obstacle to credibility. To fill the theoretical gap, a number of documents were issued by professional
organizations and committees searching for postulates, axioms, and principles of accounting. Academicians also contributed to efforts to construct accounting theory from deductive logic (Paton, 1922; Canning 1929; Sweeney 1936; MacNeal 1930; Sanders, Hatfield & Moore 1939; Gilman 1939; Paton and Littleton 1940; Littleton 1933).

Still, these attempts at theory building were largely rejected by practitioners who preferred their conventional approaches to accounting measurement and presentation (Moonitz, Accounting Research Studies 1, The Basic Postulates of Accounting, 1961; Sprouse & Moonitz, ARS No. 3. A Tentative Set of Broad Accounting Principles for Business Enterprises 1962). The 1977 American Accounting Association Statement on Accounting Theory and Theory Acceptance concluded that "...a single universally accepted basic accounting theory does not exist at this time. Instead, a multiplicity of theories has been ... and continues to be ... proposed." (1). Subsequently, American accounting standard setters conscientiously strove to garner political support. Exposure drafts and public hearings were mechanisms to generate acceptance of their accounting standards. Empirical research was used to support board efforts, normative goals and the philosophical underpinnings of accounting standards were deemphasized.

The FASB and predecessor bodies' approach to standard setting efforts to develop a theoretical or conceptual framework has been widely emulated by other standard setting bodies around the world. This copycat approach in the international setting has been practical and expedient, but may be exporting an inherently Western philosophical outlook which does not question the philosophical status of accounting entities. The FASB and IASB Conceptual Frameworks are both based on an inherent premise that accounting structures and entities such as assets, liabilities, equities, and even the reporting entity can be satisfactorily, logically, and pragmatically defined. Yet this approach ignores a vast body of Eastern philosophical, metaphysical, and even physics literature that suggests the very notion of "selves", and by extension accounting entities with their time-bound measurement, is highly problematic.

Numerous questions and issues revolve around the accounting entity problem in accounting practice. Key entity issues are summarized in Table 1. Issues include problems in determining how to consolidate related entities, questions of tax domicile, pension issues, fair value measures used to appropriate of future values to current owners, and indeterminate allocations. Key statements issued by the FASB, GASB, IASB, and their predecessor bodies’ that deal with entity issues are listed in Table 2. These documents demonstrate that determining the parameters of the reporting entity, reaching agreement on technical procedures for consolidating financial reports, fine tuning segment disclosures, and transparent reporting of relationships with other entities are frequently visited themes. The problems are arguably recurring because of uncertain philosophical foundations or unresolved complexity in the conceptualization of the underlying problems. In addition to the issues highlighted in Tables 1 and 2, entity considerations are also implicit in accounting for employer sponsored pension plans and various forms of off-balance sheet debts associated with special, variable purpose, and other forms of securitized financial transactions (Schwartz 2002). Entity issues are also central to current FASB/IASB agenda items for 1) inter-entity relationship in leases (FASB 2013, Topic 842) and 2) determination of principals and agents for purposes of revenue recognition (FASB606/IFRS15: Revenue from Contracts with Customers as of June 22, 2015).

[Tables 1 and 2 would be inserted approximately here in the text]
In addition to problems in defining what structures should be included in the overall reporting entity, theoretical and practical treatments of individual financial statement elements are also sometimes counter-intuitive, not really seeming to fit neatly into a specific placement in the financial statements (Moore 2009). Consider three examples: 1) goodwill could be viewed as either an asset or an unrecorded loss from overpaying for assets, 2) environmental clean-up costs have been allowed as to be reported assets in order to spread the cost to service periods even though they would seem to have no future benefits, and 3) changes in the present value of a liability arising from deteriorating credit worthiness seems to result in a credit or gain but it is not clear that the common sense interpretation of this credit is a positive event.

Tax codes are written to effect taxes from corporations domiciled within their geographic borders, but what does that really mean when the income measures associated with the sale of material goods in geographic space can be skewed by legal, but crafty, use of allocation and transfer pricing schemes or when businesses increasingly sell intangible services from an indeterminate space in the cyber cloud? Hiding activities in unconsolidated subsidiaries was one of the central issues in the Enron debacle, and the ongoing debate over off-balance sheet issues for leased assets has been an issue of professional concern on which little progress has been made for several decades running. Still, the accounting profession has largely ignored theoretical issues behind the reporting entity problem.

Ijiri (1983, 2005) argues that Western concepts of dualism are inherent in most critiques of accounting financial frameworks while issues of fairness or accountability to parties beyond the legal entity’s borders and contracts are largely ignored. Issues of non-dualism or the interdependent causality of accounting measures and seemingly external events are prominent in Eastern philosophical literatures, but are largely ignored in accounting conceptual frameworks. Developed and lesser-developed countries have both shown some reluctance to adopt international frameworks (Saudagar & Diga 1998; Oulasvirta 2012). In the U.S. and in the international community there is a movement toward separate accounting frameworks for small and medium size entities and new bodies are being established to address reporting for environmental and other sustainability issues not covered by traditional accounting standards. These movements suggest that it is time to revisit the fundamental philosophical foundations of what we are trying to accomplish with financial accounting reports.

Habermas’ (1973) legitimation theory would suggest that accounting standards could be viewed as an ideological tool used by governments and their agents to create the impression of greater corporate accountability because appearances are more important than actualities. According to Habermas, governments realize that they can only stay in power by promoting an appearance of legitimacy with public measures or appearances being much more important than any underlying ontological truth. Modern accounting standard setting bodies, even those that aspire to be principles-based, formulate many detailed rules which proscribe the measurement basis, content, and format of financial reports. Preparers of financial statements sometimes follow the letter of these the official accounting standards even as the underlying purpose or essence of fair reporting to the public is circumvented for personal gain (Briloff 1976). In addition to perversion of the rules, accounting research and critical studies have uncovered some phenomena within accounting practice that simply defy efforts to establish non-controversial, conundrum-free rules (Thomas 1969, Tinker 1985, Devine 1985, Katz & Reason 2008, Benston 2008, Brubaker 2008).

Modern accounting practice tends to focus on using reasonably standardized categories within approved financial statement formats, yet the concept of accountability is much broader.
While accountability can subsume traditional financial reports, accountability ultimately refers to the idea of a particular entity being responsible to another entity or to society as a whole. To be accountable can be viewed as the act of giving an explanation for actions and the associated effects. Entities that genuinely are working in the general public’s interest arguably should be committed to taking all reasonable steps to ensure their actions consider the rights of others and ultimately benefit society as a whole even if there is a cost or sacrifice required to provide those benefits. The public reactions after environmental accidents is indicative that the public implicitly holds artificial entities responsible for more than having monetized financial statement balances presented in accordance with standardized rules. Some of the basic areas of concern that arise in analyzing the connection between entities and accountability include: 1) The scope of stewardship, 2) Moral hazards inherent in the corporate form, 3) The evolving legal concept of corporate personhood, and 4) Non-Western philosophical perspectives on the corporate form.

III. THE SCOPE OF STEWARDSHIP

The American Accounting Association describes the accounting profession as being focused on “identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information” (AAA 1966, 1). The initial conceptual framework of the Financial Accounting Standards Board says “the role of financial reporting in the economy and society is to provide information that is useful in making decisions about allocating scarce resources” (FASB 1978, para. 34). Similarly, the UK Statement of Principles (1999, Chapter 1) noted that “the objective of financial statements is to provide information that is useful to those for whom they are prepared.” While these types of definitions are common among professional accounting bodies, conceptual frameworks typically discuss a broad range of users but conclude that investors and creditors will be the main financial statement focus. This is in contrast to more expansive views such as those of a 1973 American Institute of Certified Public Accountants’ (AICPA) study group which suggests that accountants might consider reporting on any activities that affect society which can be determined, described, or measured, and are important to the role of the enterprise in society (AICPA 1973, 55). This approach views the concept accountability as broader than financial stewardship of existing resources and expansion of those resources through profit maximization. As a brainstorming group, this report was willing to consider corporate responsibilities to society even where expenditures are not likely to directly increase profits. Although corporate sustainability reports are becoming more widely used for environmental issues and human rights, experimentation with this type of information began largely from beyond the traditional financial accounting standard setting bodies (Matthew 1997, Hess 2001, Reynolds & Yuthas 2008, Morhardt 2010). With recent revisions to the FASB and IASB conceptual frameworks, some accounting academics have expressed concern that even traditional financial stewardship considerations are being diluted through language that treats decision making needs of creditors and investors as the primary aim of financial reporting (Benston et al. 2007; Lennard 2007; Oldroyd & Miller 2011; Gebhardt, Mora & Wagenhofer 2014).

IV. MORAL HAZARDS ASSOCIATED WITH THE WESTERN CORPORATE FORM

To understand accountability as more than financial statement rules, it may be useful to review the inherent types of moral hazards historically associated with the corporate form.
Actually, there are many types of corporate entities: nonprofit entities, publicly traded stock corporations, nonprofit entities that are not stock based, and small corporations taxed as if they were partnerships. The primary similarity between these disparate entities is that governments usually grant these players limited liability and recognition as a legal entity that can be sued separately from the owners or managers. If limited liability were not available to protect owners or participants from being sued for the full extent of their current and future assets for actions of the investee, owners would be compelled to take an active part in day-to-day business decisions. This would serve as a restraint on the number of active investors as management would become unwieldy with a broader ownership base. Thus, the very nature of the publicly traded, stock based corporation inherently discourages investors from being actively involved in corporate decision making. Limited liability investors have less incentive than fully liable partnership investors to care if entity actions are inherently unethical as long as the net result is financially rewarding. Consequently, limited liability tends to favor larger scale capitalization for corporations relative to partnerships; yet consumer and community rights to redress are reduced. Because corporations can be formed only with the permission of government powers, there are moral hazards associated with government fees, incentives for relocation, and donations to election campaigns. The historical overview which follows focuses on some systemic moral hazards that have been associated with the Western corporations.

**Historical Overview of Western Corporations**

Families, clans, towns, and other forms of government were the earliest forms of collective entities in Western societies. Businesses generally operated as sole proprietorships, partnerships, or limited ventures put together for specific activities before 1555. Even large multinational banks such as those owned by the Medici in the fifteenth century, organized each branch as a separate partnership. Some collective professional activity was undertaken through the formation of guilds which were granted monopolies through a fee to the state (Padgett & McLean 2006). The early seafaring explorers like organized their business affairs as chartered companies by petitioning the government for recognition and monopoly trade rights to specified geographic areas, often with an agreement for sharing costs and rewards.

Though selling shares may have originated as far back as the thirteenth century in Europe, the high risk of exploratory maritime ventures led to the practice of granting limited liability as an incentive to increase capital formation for ventures with unpredictable outcomes. Moscow Company, the earliest joint stock company, was formed under permission of the British crown in 1555 to fund maritime trade with Russia; the firm remained in continuous existence until 1630 (Micklethwait & Wooldridge, 2003, 18). Other joint stock charters were soon granted to explore America, Africa, Asia, and Indonesia. These early companies operated under monopoly charters from the state for a limited span of time.

Corporations were initially formed within a mutually beneficial system which effected incentives for powerful state and corporate players to downplay the impact of their actions on individual biological citizens or even other nation states. The 1599 charter of the East India Company is a classic example of simply ignoring overlapping claims by Spanish and Dutch explorers and the conflicts of interest inherent in having members of the courts and parliament appointed to the management structure. Through its monopoly powers, the East India Company was used as a military vehicle for the de facto conquest of India. Further, British trade polices incentivized “The Company” to produce and sell opium to China (St. John 2012, 74). Not being
directly involved in the sales transactions, this allowed the British government was distanced from, but clearly had a vested interest in, using opium trade as a mechanism to balance trade deficits and diminish the fighting capacity of a military rival.

The danger of the overlapping powers of government and business were even more evident in the Mississippi Company in France and the South Sea Company in England during the early 1700's. Through a state charter which granted the originator of the Mississippi Company the power to trade in the American colonies and to run the banking system, John Law used his key position to manipulate stock prices. The South Sea Company in England also had a monopoly over trade in the new world and the ear of legislators. Both the South Sea and Mississippi companies bribed government leaders to support a scheme which was supposed to pay off government debt. Fixed rate interest securities of the government could be exchanged for shares of the South Sea Company which guaranteed no dividends, but whose stock was made to appear very lucrative by the manipulation of dividend disbursements from principal received with little actual trading activities occurring. Eventually both the French Mississippi company and the British South Sea schemes failed. The participation by both French and British governments in a scheme making simultaneous claims to enrich members of the ruling party and pay off the entire national debt points up the potential for gross moral hazards in the relationships between state and business powers. What is commonly known as the South Sea Bubble Act of 1720 effectively ended the issuance of limited liability stock in Britain for more than a hundred years. Ironically, the South Sea Bubble Act is often thought to have been enacted to prevent abuse by charted monopoly stock corporations. The Act was in fact passed before the crash to prevent watering down of monopoly rights through the widespread proliferation of corporations that were beginning to operate without paying fees to the government for business monopoly powers (Chatfield 1977, 80-82; Patterson & Reiffen, 1990). The underlying intent of the Act when enacted was to allow a continuation of an institutionalized form of *quid pro quo* between governments and corporations.

**American Developments in Corporate Personhood**

*Historical Development*

Only one corporation in America pre-dated the Declaration of Independence, the Philadelphia Contributionship for Insuring Houses from Loss by Fire formed in 1752 and chartered in 1768 (Williston 1888, 165). The newly established American government first allowed corporations in 1795, granting the entities special monopoly rights to build universities, establish churches, and construct roads and canals. The greatest boost to the widespread formation of stock corporations in the U.S. was the regional competition to secure railroads. Railroads received some direct funding from the federal government, local governments, and American investors, but railroad stock issues were needed to attract international investors. The Dartmouth College ruling of 1819 was the first to recognize inherent rights of corporations beyond those granted by charter, specifically that their charters should not be revoked without genuine cause (*Trustees* 1819). Still, the Dartmouth ruling was largely ignored by states that continued to add time restrictions and public works duties to business corporate charters (Micklethwait and Wooldridge 2003, 46). A parallel exists in modern requirements by Washington, D.C. and other cities for new businesses to hire specific numbers of individuals or
to pay wages above the minimum wage (Moneyline, 2013) which can be viewed as a pay-to-play condition of doing business.

The majority of American states today allow corporations to specify a very broad purpose rather than the narrowly prescribed, limited scopes seen in early corporate charters. In the late nineteenth century New Jersey played a central role in expanding business operations across state lines through the development of oil trusts. When these trusts came under scrutiny for collusion and price control in relation to their dealings with out of state corporations, New Jersey granted general charters, as opposed to the more common restrictive, specific activity charters. Starting in 1875, general charters were used as the bait to attract so many new corporations to New Jersey that the filing fees were enough to wipe out most of the state’s debt and eliminate statewide taxes by 1896 (Grandy 1989). Stein (2013) sees the New Jersey experience as a turning point in the state/corporate relationships in that from this point forward governments began to actively promote formation of new corporations in contrast to the earlier mistrust of the corporate form demonstrated by Beets (2011). This was accomplished in part by a changing rhetoric signaling that governments were willing to accept financial disclosures as an adequate substitute for control affected by limiting the actual scope activities. Yablon (2007) argues that while easing of restrictions, providing incentives, and offering tax breaks are part of the modern tools for attracting corporate investment, a consistent and predictable legal environment are other factors that corporations consider just as important. Whereas, governments once tightly controlled corporate charters, large corporations now have significant influence on political figures in charge of establishing state policies. As the American corporate system has evolved to one in which state governments grant joint stock corporations wide latitude for pursuing diverse missions and compete head to head to attract corporate projects, the legislative and executive branches have recently attempted to reign in corporate power through campaign finance reforms. However, this has proven challenging in light of recent Supreme Court decisions.

Citizens United Cases

Citizens United (CU), a nonprofit corporation formed in 1988 to support conservative political causes, has been involved in multiple court proceedings. The CU cases initially were narrowly focused on the issue of whether distribution of certain types of media was prohibited by U.S. campaign finance laws. Over time the issues were expanded such that the 2010 case is widely viewed as one of the most significant rulings of the century on the rights and limitations of corporate vs. government powers.

Citizens United (CU) filed a complaint with the Federal Elections Commission (FEC) on June 24, 2004 asking for an injunction on advertising the film Fahrenheit 9/11 during a time frame leading up to the presidential election (Norton 2004). The FEC unanimously accepted the General Counsel’s recommendation for dismissal because there was no standing for adjudicating actions that had not yet occurred. Still, the Commission’s report suggested that the issues were likely to be revisited by noting that

Were this case to proceed, a fundamental, substantive legal issue likely to be raised ... would be whether or not the exemption from the electioneering communications provisions for the press applies to movie distributors. (Norton 2004, 2)
Citizens United also produced its own documentary films including *Hillary: The Movie* targeting a Democratic candidate in the 2008 U.S. presidential primary. Citizens United then sought to advertise the film within the 30 day window covered by the Bipartisan Campaign Reform Act of 2002 (BCRA 2002) also known as the McCain-Feingold Act. The McCain-Feingold Act/BCRA 2002 set limits on the amounts individuals and corporations could donate directly to candidates or their parties, but allowed political action committees (PACs) to run advertisements about issues rather than candidates. Under BCRA 2002, unions, U.S. corporations, and foreign nationals are banned from contributions to PACs and from making independent expenditures.

Anticipating that the Federal Election Commission would try to prevent advertising or airing the *Hillary* movie during the upcoming presidential primary, Citizens United filed a preemptive suit in 2007 asking the District of Columbia to enjoin the Federal Election Commission from enforcing the BCRA 2002. January 15, 2008 the court ruled that the *Hillary* movie met the definition of electioneering communications and was subject to FEC enforcement of the BCRA 2002 (CU 2008). On appeal to the U.S. Supreme Court, the case was argued twice. Questions in the first airing in March 2009 centered on whether showing the movie met the criteria in BCRA 2002 to be banned or not. The Supreme Court justices elected to have the case re-argued in September 2009 to broaden the focus to the inherent conflicts of interest between free speech and the powers of government to protect public elections from potentially excessive influence by large, well-funded entities. The court found in a 5:4 decision that the government did not have a constitutional right to restrict the speech and spending of American corporations on independent campaign communications, but did have the right to impose disclosure requirements. The minority opinion in the case was that this was a grave mistake, giving the appearance of elections controlled by large corporate entities able to hold incumbents and challengers hostage to the threat of deep-pocketed, negative media messages.

In the aftermath of the case, President Obama voiced opposition to the court findings within his 2010 State of the Union address. During the address, Obama condemned the *Citizens United v. Federal Election Commission* ruling, stating,

"Last week, the Supreme Court reversed a century of law that I believe will open the floodgates for special interests — including foreign corporations — to spend without limit in our elections." (Moran 2010)

Sitting Senators called for a constitutional amendment to declare that corporations are not persons under the U.S. constitution and should only have those powers specifically delegated to corporations by government entities (MacNeal, 2013). Groups like MoveToAmend.org were formed to promote a constitutional amendment to counteract the *Citizens United* decision while some states passed resolutions to support a U.S constitutional amendment to ban corporate personhood (Cardinale, 2013).

March 26, 2010 the U.S. Court of Appeals for the District of Columbia circuit ruled in *SpeechNow.org vs. Federal Elections Commission* that limits on individual contributions to organizations spending money on campaign messages were not constitutional. The court reasoned the government could not adequately demonstrate an anti-corruption argument for making restrictions on donations not made directly to candidates. Court decisions subsequent to *Citizens United* have further eroded the power of government statutes to place limits on
campaign spending. In the consolidated cases of *Arizona Free Enterprise Club's Freedom Club PAC v. Bennett* and *McComish v. Bennett* (Nos. 10-238 and 239, June 27, 2011), the U.S. Supreme Court struck down an Arizona law which provided tax-payer support for office seekers outspent by privately funded opponents or by independent political groups.

The State of Montana's Supreme Court ruled in December 2011 that the history of corporate interference in Montana government provided a compelling state reason to maintain campaign finance restrictions in spite of the developments under *Citizens United*. When this decision was appealed to the U.S. Supreme Court, Justices Ginsburg and Breyer argued that it might be appropriate "to consider whether, in light of the huge sums of money currently deployed to buy candidate’s allegiance, *Citizens United* should continue to hold sway"(Justice Kennedy et al.). Nevertheless, the majority of U.S. Supreme Court Justices concluded without formal argument that the Montana limits were unconstitutional because the issues were not substantially different from those in *Citizens United*. A U.S. Supreme Court Case aired in October 2013 ruled that individual limits to specific candidates were constitutional, but not overall caps (McCutcheon 2014, Liptak 2013).

**Critical Assessment of 'Citizens United' as an Entity Issue**

The intent of the Citizens United Corporate personhood cases was to regulate money flowing between candidates for government office and corporate or private donors with a sub-context of preventing influence from entities outside the U.S. Yet the legal parameters of the case have done little to recognize the problem of establishing what constitutes a U.S. vs. foreign corporation or the dividing line between campaign speech and commercial films. Nor do the cases fully recognize the grey line between campaign contributions and payments for services rendered in the form of speeches or directorships on corporate boards.

The constitutional amendments proposed after the CU rulings also ignored the complexities of establishing corporate boundaries. Power relationships between individuals, businesses, and governments inherently pose problems in establishing a workable balance of powers. A simplistic ideology that inherently assumes there is a definitive dividing line between persons, states, and corporations makes it difficult to have meaningful conversations about changes in the current balance of power. Governments are the repository of powers delegated by citizens while corporate powers are delegated by governments. It is ironic that governments, after having created corporations, are prevented by constitutional law from placing restraints on corporate campaign related expenditures. While the American government has apparently lost some of its ability to control corporations, a similarly relationship exists between individuals and the governments they have created. Through taxation and eminent domain supported by police powers, individual citizens that are the theoretical creators of government entities become subservient to the interests of those bodies.

**V. NON-WESTERN PERSPECTIVES ON THE CORPORATE FORM**

This paper posits that the prevalence of the corporate form in the West may be related to its underlying cultural and philosophical perspectives since the corporate form is less prominent in China and the Middle East. China has only recently begun to embrace the use of the global joint stock corporation (Kang, Shi, and Brown 2008). A distinct characteristic of Eastern philosophy is a view that the individual as a unitary self is a fiction; individuals only exist
within the interdependent complex of the greater society. Moore’s (2009) paper on the limitations of accounting suggests that contrary to public opinion that accountants should be able to arrive at a singular profit or cost measure, the underlying nature of economic “reality” more commonly defies non-controversial rubrics of accountability. Drawing from Eastern literature on the nature of reality, Moore (2009) suggests three concepts which explain problems related to the nature of reality that limit attempts to measure economic phenomena in a precise and non-controversial manner. These include emptiness, signlessness, and aimlessness. The concept of emptiness in Eastern philosophies, perhaps better translated as interdependence in the business setting, places attention on the inherent impossibility of drawing firm, fixed boundaries for the unit of accountability. This problem is reflected in both incorrigibility of cost allocations to divisions and the entity boundary problems of multi-national companies.

The concept of signlessness suggests creating categories to describe elements within an artificial entity is problematic because no description of an object is capable of fully capturing all the characteristics of the object. Either certain characteristics will be omitted in the interest of parsimony, or psychological associations with words or other representations may add connotations of meaning that were not there before. For example, the description padded lumber configured as a support for sitting could be expected to elicit a different emotional reaction than sofa or divan. This concept is sometimes referred to in Western philosophy using the term non-duality, meaning there is an inherent interaction between terms, objects, and viewers of those terms and objects (Loy 1988).

The concept of aimlessness in this context does not mean that businesses and individual actors within society cannot and should not set specific goals, but emphasizes that it is not always clear to what extent achieving individual goals will promote the wider, long term benefits of the overall society. For example, a conversion away from coal burning energy plants to hydropower, natural gas, or nuclear energy can have short term “green” benefits but impose other environmental problems (Watts 2010). In Western societies individuals, governments, and corporations all value individual financial winners, but it is not always clear that achieving individual financial goals incontrovertibly enhances the welfare of the broader society.

While it is currently in vogue for corporate entities to adopt and promote sustainability and environmental pledges, Panasonic is an example of a Japanese business entity that has a long history of including social welfare issues in its published management objective. The 1929 Panasonic management objective has been translated as follows:

While giving careful consideration to harmony between profit and social justice, we aim to devote ourselves to the development of national industry, to foster progress and to promote the general welfare of society. (Panasonic)

While Henry Ford in the U.S. also had social reform ideas in this same time period, the management of Panasonic exhibited another characteristic that is rarely seen in U.S. companies. In 1932 the Panasonic Company’s founder announced a 250-year plan. This seems in keeping with Japanese Zen philosophy which has a strong current of academic, philosophical, and religious literature on the relationship between time and being that differs from Western worldviews.

In Zen, time is not set apart from beings or concepts; a single point in time is said to contain all space and material constructs. This non-dual concept of time is central to Japanese philosophical underpinnings, but was supplemented by a pre-World War II cultural penchant for
working toward the national good or the international good as illustrated in post World War II mission statements from the global Panasonic company. Western philosophers such as Heidegger (1927) explores concepts of being and time as a critique of the 2000 year neglect of Western history and philosophy in exploring fundamental questions of being after the Socratic movement; his 1971 work suggests it may be time to re-open East/West dialogue on differences in cultural perspectives.

Kuran (2005) discusses the absence of a concept of corporate personhood in traditional Islamic law. Kuran raises three hypotheses for why Islamic society has been resistant to the limited-liability, joint-stock corporate form. In contrast to prior academic papers that merely assumed the lack of an Islamic corporate culture was a defining feature of Islamic civilization (Cahen 1970, Stern 1970), Kuran (2005) hypothesizes that in spite of their trade connections and familiarity with Roman and British trade partners, Islamic societies were resistant to the business corporate form primarily because they had 1) no infrastructure of standardized bookkeeping, 2) no professional management, and 3) no free transferability of shares. These hypothetical explanations for the lack of a corporate form still beg the question why these societies were not interested in standardized accounting since this geographic area is well known for its innovations in mathematics and record keeping that Schmandt-Besserat (1996) saw as predecessors to the invention of writing.

Kuran (2005) posits that the supply of social services through waqfs, a form of public trust which avoided inheritance issues and the social formulation of a collective national government with weak states were additional factors explaining the lack of limited liability corporations. Kuran's hypotheses bear examination in light of Islamic and Eastern views of the self. With a tendency to view individual selves as subservient to a higher religious collective view, this philosophical perspective would have permeated the formation of Islamic regional governments. Competition between regional governments to secure links to business revenues to fund and allow those regional governments to remain in power were historically important in the competition for bestowing corporate charters both in the European competition between Britain, France, and Spain prior to the South Sea Bubble and in the U.S. both in granting initial charters and in bidding to attract new businesses to relocate to their area. The stronger view of collective states within a unifying whole as opposed to an individualistic locus of control may have influenced and still be influencing the greater use of partnerships as opposed to joint stock corporations in the Middle East.

Eastern philosophical ideals place a higher emphasize on accountability to the greater society as contrasted with Western ideologies that claim to espouse individualism and laissez-faire competition. The public ideology of course does not necessarily prevent some actors in Eastern and Western cultures alike from covertly seeking to enhance private interest through bribes, trade protection measures, or use of political ties to win contracts.

Existing in the cross-roads of the West and East, Middle Eastern societies have generally adopted a blend of East/West perspectives. The individual self is seen as having specific duties to society at large. However, Islamic societies have a tendency to view themselves as a unitary whole governed by a single Islamic legal perspective. In order to maintain unity of the societal whole, Islamic states were granted limited jurisdiction of functions to prevent factionalism. With this absence of concentrated regional government powers, social functions were carried out by individual biological human representatives of collective partnerships. Utilizing the partnership rather than a corporation constituted as an artificial person, social responsibilities were imposed on human partners in social service waqfs (Kuran 2005). Even with the
The development of true corporations in modern Islamic society, charitable contributions in many Islamic states are mandated by *shari'ah* (religious law) rather than being left to corporate discretion as is seen in Western legal systems.

VI. SUMMARY AND IMPLICATIONS

The entity problem is a significant practical and philosophical issue for managerial and financial accounting alike. The discourse on broad accountability in society is arguably exacerbated by Western social perspectives that 1) view entities as having hard and fast boundaries, 2) consider legislation and litigation as the primary means for resolving conflicts, and 3) take it as a truism that a competitive game focused on maximizing individual and entity gain is the best imaginable means to achieving overall societal well-being.

The FASB and IASB authoritative standards have done little to address inherent conceptual ambiguities involved in establishing the parameters of accounting entities. Eastern philosophical concepts of interdependence suggest that Western conceptualization of financial statements as providing a definitive measure of a standalone entity’s performance is largely a fiction. Government, corporate, and individual contributions to society overlap to a much greater degree than is commonly recognized in Western accounting standards, academic textbooks, accounting research, or the popular press. The American *Citizens United* court cases highlight the problems of initiators losing control over collective entities once established and ethical issues inherent in balancing the rights of individuals, corporations, and governments. Specifically, the *Citizens United* cases raise issues on the ability of modern corporations to receive significant monetary benefits and incentives from governments while simultaneously funding political campaigns and playing games to shift income to low tax or even phantom no-tax locales. Broad problems of accountability need significant interdisciplinary attention.

Professional accounting practice tends to focus on legal compliance with rules and client advocacy for any position that can legally conserve and retain corporate cash flow. Yet the overarching, but often underplayed problem of accountability is far from simple, entailing a difficult balancing act of determining fairness within a set of interdependent relationships that have no hard and fast boundaries. Treating the boundaries of entities as ideologically unproblematic may be intended to promote respect for accounting products, to downplay the significant gaps and limitations that may be an unavoidable part of the accounting enterprise, while legitimizing the appearance of government control over corporate enterprises.

Corporations and accounting standard setting bodies apparently have little incentive to examine the limitations of corporate accounting. A strong argument can be made that academics should have an obligation to make their students aware of the problems inherent in the unquestioned ideological status of corporate and other major entities in society and the indeterminate boundaries between major players. Unfortunately, there may be equally strong incentives for the academy to ignore difficult entity questions stemming in part from the accounting academy’s dependence on public funding and private donations from corporations and accounting firms. The accounting profession’s current focus on decision making rather than stewardship or public accountability is supported by a simplistic ideology of obvious, but flawed legal boundaries of entities. Treating accounting entities as well-bounded in spite of evidence to the contrary is very likely tied to a Western culture of using laws and legalistic rules to effect control. However, in the current environment it would seem that what was once seen as an attainable ideal of having a one-size-fits-all body of international rules seems to be falling
apart. Even as major standard setters like the FASB and IASB craft new definitions and rules for information directed at investors and creditors, other bodies are taking the lead on alternative measures of accountability such as sustainability reporting. Yet even these bodies show little understanding of the implications for hiding unpleasant information through carefully crafted contracts with partners that do not fit within the walls of the traditional legal or accounting entity.

While this paper has focused on entity problems, these are not the only ideological and philosophical problem areas in accounting theory and practice. Barth (2014) has noted the accounting profession has never really explored measurement concepts. But beyond that, the constant shifting of the rules for such financial statement presentation items as loan losses, noncontrolling interests, lease liabilities, and unrealized gains or loss suggests that the profession still has only a very shaky philosophical basis for our rules of categorization. While some members of the profession are required to sign statements certifying that the financial statements are ‘accurate’ it is not at all clear that accountants have a firm philosophical grounding for concepts of ‘accuracy’ or even ‘representational faithfulness’. The current rhetoric of the dominant international accounting standard setting bodies is that accounting is for decision making. Yet it is ironic that one of the greatest problems in our current tendency to downplay the intractability of entity boundary and other accounting problems is that in presenting a false facade that suggests an unwarranted aura of precision behind accounting representations, the public is encouraged to not even bother trying to read and ferret out the truth behind the activities of the overlapping economic units of society. The paper does not attempt to ‘solve’ the problem of interdependence; ontologically, interdependence simply “is” whether we recognize it or not. The primary line of debate by standard setters and in the academy has been whether the primary function of accounting should be for decision making or to demonstrate stewardship. The limited degree to which the accounting profession names and discusses the problematic nature of the entity concept, a central feature of accounting, suggests that the rhetoric of our standard setting goals or objectives is not nearly as important as the actual function played by accounting practice. When the considerable problems inherent in the entity concept are glossed over as being too simple to require conceptual criteria, why is it that very few academicians or practitioners really object? The arguments in this paper tentatively suggest that perhaps the most central function of the accounting enterprise is neither decision making nor stewardship, but rather service as an instrumental, ideological tool used to legitimate business and government activities.

REFERENCES


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McCutcheon v. FEC No. 12-536, April 2014. U.S. Supreme Court.


### Practical Problems with the Entity Concept

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<tr>
<td><strong>1) Consolidated statements</strong></td>
<td>Which party is the parent? Must there be a purchaser/parent entity or can there be a merger of equals? What level of ownership must exist for consolidated statements? State, local, and federal governments have overlapping financial relationships -- how should these relationships be handled in the financial statements? Are there exceptions when majority owned subsidiaries should not be consolidated? All of the questions above have been at the heart of multiple pronouncements and are central to problematic special purpose or variable purpose entities involved in the Enron debacle. How should minority or noncontrolling interests be represented in the financial statements?</td>
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<td><strong>2) Tax domicile</strong></td>
<td>Tax inversions and financial incentives provided by governments give corporations benefits that are not readily available to biological taxpayers. At some point, the potential for job creation and the level of incentives must create an intertwining of political and business interests that would be akin to the relationships between parents and subsidiaries though this seems to receive little emphasis in educational materials for corporate tax classes or in the standards for consolidations. It is not clear that the impact on biological taxpayers is considered a mainstream topic in either pedagogical materials or academic accounting research.</td>
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<td><strong>3) Pension plans</strong></td>
<td>Are public employee pension plans sacrosanct entities, or can benefits from these plans or plan balances be accessed in municipal bankruptcy cases? When government and corporate employers convert defined benefit to defined contribution type plans, has the overall risk to society simply been diverted to a broader field? How does government control of interest rates impact the reported values of interest rates within pension plans? Are interest rate setters cognizant of the non-dualistic, linked impact on reported government debt balances and the ability to pay those balances as they opt to keep interest rates at a low level?</td>
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<td><strong>4) Corporate personhood</strong></td>
<td>Must corporations be extended rights similar to biological entities or can they be more strictly regulated? When tax breaks are given to large employers, how can we tell if the net effect is positive or negative for smaller companies and biological persons in the long run? How do tax breaks in one geographic area affect taxpayers in other locations? How these questions are answered can have a significant impact on societal power relations between corporations, governments, and individuals.</td>
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<tr>
<td><strong>5) Fair value accounting as an appropriation of future profits</strong></td>
<td>Fair value accounting is arguably not just a measure of 'current' value but can potentially appropriate perceptions of future value creation for the use of current stockholders. Further, these perceptions can have extra-entity effects by changing future investor behaviors. Thus the entity question involves not just ownership, but also philosophical issues of time and ethical dimensions of corporate disclosures and impression management.</td>
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<tr>
<td><strong>6) Allocation of joint costs</strong></td>
<td>Accountants allocate joint costs in order to derive the cost of various objects for internal and external reports even though Thomas (1969 &amp; 1974) argues that there is often no clearly defensible or definitive philosophical basis for accounting allocations.</td>
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## Table 2
Examples of Entity Related Accounting Standards

<table>
<thead>
<tr>
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<tr>
<td>US Committee on Accounting Procedures Accounting Research Bulletins</td>
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<tr>
<td>ARB 40 Business Combinations</td>
<td>September 1950</td>
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<tr>
<td>ARB 48 Business Combinations</td>
<td>January 1957</td>
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<tr>
<td>US Accounting Principles Board, Opinions</td>
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<td>APBO16 Business Combinations</td>
<td>August 1970</td>
</tr>
<tr>
<td>APBO18 The Equity Method of Accounting for Investments in Common Stock</td>
<td>March 1971</td>
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<tr>
<td>US Financial Accounting Standards Board Statements</td>
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<tr>
<td>FAS24 Reporting Segment Information in Financial Statements that are</td>
<td>December 1978</td>
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<td>Presented in another Enterprise’s Financial Report</td>
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<tr>
<td>FAS98 Accounting for Leases: Sales-Leaseback Transactions Involving</td>
<td>May 1988</td>
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<td>Real Estate, Sales-Type Leases of Real Estate, Definition of the</td>
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<td>Lease Term, and Initial Direct Costs of Direct Financing Leases</td>
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<td>FAS105 Disclosure of Information about Financial Instruments with Off-</td>
<td>March 1990</td>
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<td>Balance-Sheet Risk and Financial Instruments with Concentrations of</td>
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<td>Risk</td>
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<td>FAS131 Disclosures about Segments of an Enterprise and Related</td>
<td>June 1997</td>
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<td>Information</td>
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<td>FAS141 Business Combinations</td>
<td>June 2001</td>
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<td>FAS141R Business Combinations</td>
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<td>FAS160 Noncontrolling Interests in Consolidated Financial Statements</td>
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<td>FAS164 Not-for-Profit Entities: Mergers and Acquisitions</td>
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<td>US Governmental Accounting Standards Board Statements</td>
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<td>GAS14 The Reporting Entity</td>
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<td>GAS39 Determining Whether Certain Organizations Are Component Units</td>
<td>May 2002</td>
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<td>GAS48 Sales and Pledges of Receivable and Future Revenues and Intra-</td>
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<td>Entity Transfers of Assets and Future Revenues</td>
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<td>GAS61 The Financial Reporting Entity: Omnibus --amendment of GASB Smts</td>
<td>November 2011</td>
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<td>No. 14 &amp; 34</td>
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<td>Guarantees</td>
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<td>International Accounting Standards Board and Predecessor Statements</td>
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<td>IAS20 Accounting for Government Grants and Disclosure of Government</td>
<td>1983</td>
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<td>Assistance</td>
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<td>IAS22 Accounting for Business Combinations</td>
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<td>IFRS10 Consolidated Statements</td>
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