See also: *Accountability, Business Ethics, Corporate Social Reporting, Corporation, Environmentalism, Neoliberalism*

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Corporation

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Definition: 'An ingenious device for obtaining individual profit without individual responsibility' (Bierce, 1996).

As the definition shows, the modern concept of the corporation has a long tradition of critical interpretations. This critical approach is based on the fact that the legal act of incorporation grants a company some unique features like perpetuity and limited liability. Its separate legal representation enables it to be attributed with agency and ownership in its own name. Twentieth-century legal discourse has attributed amendment protections to the separate legal entity on the basis of its singular legal agency.

The contemporary understanding of the separate legal entity is the result of a long history. The central reference in legal scholarship is the thirteenth-century *universitas*. Until the nineteenth century, the use of incorporation as a *universitas* was reserved for public institutions. The sovereign granted a concession to institutions to enable them to carry forward their work independently of individual caretakers. In the colonization era, incorporation and limited liability became available for companies like the East India Company, mainly as a result of their collusion with state activities (Neocleous, 2003). After the French Revolution, the concept of incorporation changed. The absence of a sovereign meant that incorporation could no longer be seen as the result of a royal concession. Incorporation therefore became gradually available to individuals for almost all economic purposes through general incorporation during the nineteenth century. Based on other models for legal representation like the corporation sole and the trust (Maitland, 2003), incorporation then became a concept that represented the legal rights and duties of groups through a separate legal entity. Incorporation became a legal representation that was held by a group of individuals, rather than the sovereign.

The modern concept of incorporation therefore differs from the medieval *universitas*. The modern form of incorporation is a distinctly legal entity, while the *universitas* was a political construct. While ownership over the concession in the medieval universitas was held by the sovereign, the modern separate legal entity is separate as a legal representation of association, which is formed and held by the incorporators. Also, the medieval universitas was not a singular legal subject and could not be attributed with agency.

These attribution of singular agency and ownership in legal and economic scholarship are the result of the emergence of the joint use of the natural entity theory and the artificial entity theory at the end of the nineteenth century. The *natural entity* theory sees the separate legal entity as a natural singular entity, capable of agency and attributable with legal rights, comparable to other natural entities (Horwitz, 1985). The natural entity theory was necessary to deal with the increasing distance between shareholders and management (Ireland, 1999). As a natural entity the separate legal entity could be understood in a modern legal context as a singular legal entity (Mayer, 1989) and in a modern economic context as a singular contracting entity, which can 'act', 'own' and 'contract' as an entity in itself (Bratton, 1988). The understanding of the separate legal entity as a separate entity thus enabled the separation of ownership and control (Berle and Means, 1997), majoritarian shareholding and the holding company (Roy, 1997). The *artificial entity* theory stresses the artificiality of the separate legal entity and relates its agency and ownership to the aggregation of individuals that constitutes the corporation. This theory assumes that the separate legal entity is not a completely different type of entity, but rather a legal and economic representation of individuals. It therefore argues that the separate legal entity is no more than a 'legal fiction', used for its legal and economic convenience, rather than its correspondence to a 'real' entity. Although the artificial entity theory and the natural entity theory seem mutually exclusive, aspects of both theories are therefore needed to explain the modern concept of incorporation (Mayer, 1989). The natural entity theory is needed to explain majoritarian shareholding, the holding company and the attribution of rights and agency to a singular legal and economic agent, while the artificial entity theory is needed to understand the separate legal entity as 'property', rather than a full legal subject. The natural entity theory and the artificial entity theory together therefore create a continuum between which the theory of incorporation can be understood.

The simultaneous acceptance of these mutually exclusive positions imports a number of conflicting assumptions. The natural entity theory understands the separate legal entity as a completely separate entity, but this understanding is countered by the artificial entity theory. As a result, it is not clear in what exact capacity the separate legal entity 'owns' and 'acts'. The artificial entity theory cannot account for the use of majoritarian shareholding and the holding company (Horwitz, 1985) It also cannot account for the intrinsic difference between the corporation and a partnership, nor for the attribution of agency, ownership and amendment rights to the separate legal entity as a singular legal entity. Moreover, the use in the artificial entity theory of constituent groups to attribute agency and ownership does not relate well to a formal legal conferral of ownership to the separate legal entity. The unresolved theory on incorporation and the separate legal entity creates the corporation as a placeholder for a large number of concepts about legal and economic representation as well as the representation of groups. This results in a large number of possibilities to understand the attribution of agency, ownership and amendment rights in relation to shareholders, the board and other constituent groups within the corporate structure (Berle and Means, 1997). The conflicting assumptions behind the theory of incorporation therefore exert great influence on the legal treatment and governance theories of the corporation. For these reasons, the understanding of incorporation and the governance structure of the corporation present an ongoing challenge for critical management studies.

FURTHER READING

For a general introduction into the history of the corporation, Micklethwait and Wooldridge (2005) are a good starting point. A more detailed discussion of developments in the nineteenth century can be found in Roy (1997). For critical reflections on the changing nature of shares, shareholding and the separation of ownership and control see Ireland (1999) and Berle and Means (1997). For a discussion of the matter from a liability point of view, look at Fisse and Braithwaite (1993). For more polemical accounts, look at Bakan (2005), Korten (2001) and Nace (2003).

See also: *Accountability, Business Ethics, Corporate Social Responsibility*

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Critical Accounting

Geoff Lightfoot

Definition: Critical accounting encompasses a broad range of approaches to research with the underlying assumption that accounting is not merely a technical practice providing neutral representations of economic data.

Critical accounting as a discipline (or at least a subdiscipline of accounting) can be traced back to behavioural research in accounting in the late 1960s and early 1970s, not least that developed by Anthony Hopwood who founded the journal *Accounting, Organizations and Society* in 1976. The opening editorial of the journal called for research that 'can provide a basis for seeing accounting as a social and organizational phenomenon' (Hopwood, 1976: 3) and asked for theoretical and empirical contributions to aspects of accounting including 'social accounting for the use of scarce resources' and 'behavioural studies of how accounting information is actually used' (ibid. 4). Despite this break with seeing accounting as 'rather static and purely technical', the identification of the possibilities of critical accounting were further set out in Burchell et al. (1980). This influential paper not only called for further research into the historical development of accounting, a consideration of accounting's intertwining