

European traditions in accounting

## Accounting in Italy

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International scholars are conscious of the contribution of Italy to the development of accounting practice. In fact, the historical origins of accounting were grounded on the bookkeeping and in particular on the method of double-entry which was first promulgated by the Italian Luca Pacioli.

Nevertheless, there is less appreciation of the distinctive Italian position in accounting theory. As happened in other countries (e.g. Germany), it developed as part of a wider discipline aimed to capture all the economic aspects of the *azienda*: *Economia Aziendale*. This discipline, mainly attributed to the thought of Gino Zappa and his followers, is concerned with the study of the *azienda*'s management, accounting and organization. Despite its centrality for Italian accounting thought, the relationship between *Economia Aziendale* and accounting (*ragioneria*) is not well understood outside Italy.

In the following, the evolutionary process of Italian accounting studies will be traced. Starting from the early contributions of the main representative accounting schools, the discussion will focus on the scholars that strongly influenced the Italian accounting theory. Then, the relationship between

accounting theory and practice will be discussed. Finally, it will be highlighted the state of the art of accounting research in Italy.

### *Influence of the Economia Aziendale on Accounting*

The Italian accounting developed as part of a wider discipline intended to capture all the economic aspects of a particular kind of an economic entity - the *azienda*.

Although Italian authors were in the vanguard in publishing early textbooks on double-entry bookkeeping, distinctively Italian theoretical approach emerges only in the XIX century, with particular significant contribution of the "Lombard School" and the "Tuscan School".

The main representative of Lombard School was Francesco Villa (1840) who viewed accounting as a part of a wider process of administration. It was concerned not only with recording economic transaction, but also with overall organizational and administrative issues pertained to the *azienda*, defined as fundamental unit of economic activity.

The Tuscan School played several important roles. Its members founded and revitalized the accounting journals and associations (*Accademia dei Ragionieri*; national conference of the accountants) and individual scholars cast their influence over subsequent theoretical views of accounting. Francesco Marchi (1867), for example attempted to improve on the "personification views" of accounting borrowed from French writers. Together with Giovanni Rossi (1882), he stressed the "juristic nature of accounting". Giuseppe Cerboni (1886) advocated a science of economic administration of economic units (i.e. *aziende*) with accounting seen not only as computation but also as having economic and administrative aspects.

In the XX century, two theories that strongly influenced the Italian accounting tradition stand out and were based on the thoughts of Fabio Besta and Gino Zappa. In his scientific study of accounting Besta stressed the concept of the *azienda* and tried to overcome the wide variation in the activities of *aziende* by focusing narrowly on economic administration. Accounting becomes the science of economic control at the theoretical level aiming to develop the general principles for all kinds of *azienda*.

Zappa studied under Besta in Venice in the early years of the twenty century. He conceived the *Economia Aziendale* as a unifying discipline of all productive and economic activities for business as well as government entities. According to Zappa and his scholars, the *azienda* is regarded as an autonomous and holistic system, and *Economia Aziendale* is claimed to possess its own rules. In addition, the *azienda* can be examined in terms of coordinated "subsystems". As a consequence, *Economia Aziendale* is composed by three traditional organic segments: *organizzazione* (organization), *ragioneria* (accounting) and *gestione* (management and operations).

The emergence of the *Economia Aziendale* as unitary discipline has led to a shift in the accounting tradition from a more "patrimonialistic approach" (*patrimonialisti*) towards an "income oriented approach" (*redditualisti*).

The emphasis of the "patrimonialistic approach" identified with Besta (1922), was on capital (as the ultimate accounting reality) as reflected in the balance sheet. Besta's emphasis was on the control of the entity's wealth seen as consisting of positive elements (assets) and negative elements (liabilities).

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Within this “patrimonial” or “proprietary” approach, events represent changes in net worth (*Capitale Netto*): the sum of individual changes in assets and liabilities over a certain period gives the measure of income. The balance sheet is the main account of the financial statement. The profit and loss account is a mere addition. The patrimonial approach is analytical adopting an atomistic view: the *azienda* is a simple sum of several components, so every items of net worth is likely an independent atom with individuality and a single value. Only capital is important and income is the accounting measurement of the change in capital over time.

The “income orientated approach” may be distinguished from the patrimonial approach. In the former, events occurring in the *azienda* give rise to (and measure) positive and negative changes, as elements of the periodic formation of income. Because events are conceived as inseparable over the entire life of the *azienda*, income (with its costs and revenues) is unitary in both time and space. Differently from the patrimonialistic view, the proposed is a synthetic approach: the *azienda* is considered as a whole. Every item of the net worth loses its individuality and value in favour of its whole upon which it depends. The main focus is on income and capital is a derived concept and has not an independent value. In addition, Besta’s accounting system was applicable to all kinds of *azienda*, directly and indirectly aimed at the satisfaction of human needs. Conversely, Zappa’s income-based accounting system was applicable to the economic units which produce wealth: the income that his system measures and represents. It is interesting to note that the patrimonialistic notion comes much closer to the modern approach propagated in North America than does Zappa’s approach – even though the latter is still fervently defended in

Italy.

In conclusion, in the track laid down by these two scholars, their disciples contributed to the promulgation and development of their ideas, giving energy, through the decades, to the construction of independent schools of thought. The most important were: the Milan School (Onida, Amaduzzi, D’Ippolito, Dell’Amore, Pivato, Caprara, Zerbi, Masini, Guatri, Rossi, Cudini, Lo Russo and Tancredi Bianchi), the Tuscan School (Ceccherelli, Giannessi, Riparbelli, Ponzanelli and Caramiello), the Genoa School (Giovannini and Cassandro) and the Neapolitan School (De Minico and Amodeo).

### **Gap between accounting theory and practice**

The success of *Economia Aziendale* may be explained by reference to several factors: the authority of *ragioneria* scholars; the attraction of an autonomous science studying the *azienda* as unitary economic reality; and the deductive rationality of many theoretical assumptions, enriched with the framework of a new income-oriented bookkeeping system. However, the enthusiasm for the new way of thinking perhaps become excessive, stimulating many to extend the concept of accounting to become synonym of *Economia Aziendale*. The original scientific message was misunderstood: rather than the recognition of accounting as an organic part of a larger discipline, there was the incorrect conviction that such a new school enlarged the content of accounting. In the absence of clearly stated theoretical aims, *ragioneria* scholars, in the name of *Economia Aziendale*, have been moving away from their original research field and have neglected empirical problems. The distinctive nature of *Economia Aziendale* and the success of Italian accounting scholarship in previous periods may have distracted accounting scholars from an awareness

of the international developments in accounting research and practice. There was no formal exchange between Italian and American accounting studies. They simply ignored each other, and developed towards completely different paths. In Italy, the neglected analysis of the market of information and of the mechanisms that govern the behaviour of actors led to a gap between accounting theory and practice. Beyond the features of Italian setting - the presence of medium-sized family businesses, the access to capital and resources that is generally not correlated with information provided by financial statements - the delay in the methodological approach was crucial.

To appreciate how this delay has contributed to the gap between accounting theory and practice, it is important to look at the evolution that the financial statement experienced within the Italian setting.

Until the 60s the financial statement was typically internal oriented and had no other purpose than to try to reproduce the economic reality performed by operations. Hence, most authoritative scholars of *Economia Aziendale* provided important contributions to identify a theoretical model of financial statement. The reason for this relatively narrow view is mainly related to the average size and the typical proprietary structure of the Italian *azienda* at that time. It was medium or small in size, often being a sole or one-family owned, operating in a not well developed capital market. The public financial statement was not required by the financial community and became more legally and fiscally oriented than economically based.

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Since the 70s the gap between Italian and international studies expanded gradually. The Italian scholars who examined the financial statement became less copious. The focus of their studies was the evolution of the rules for evaluation and representation of accounting numbers according to the fourth directive (then replaced by the DL 127/91 and the international accounting standards). Meanwhile, in the international debate the neo-positivist turn was shifting the focus from the issue of evaluation itself to the specific objectives of the companies and on the behaviour of all the actors demanding and producing financial information. The economic effects on companies, market and the information system as a whole became important objects of study. In some cases, new collaborations with scholars in economics and finance developed, leading to a multi-paradigmatic accounting discipline with a variety of scientific methods of investigation.

Starting from the beginning of the 90s in Italy there was a progressive attention to the financial statement as a document for publication rather than for internal use. It increased the scholars' interest towards topics such as the audit certification and the European directives on financial statements. Nevertheless, a deductive approach aimed to describe the new trends and interpret them in the light of the classical theory continued to prevail.

Until the beginning of the XXI century, with the European harmonization and the evolution of business operation, the preparation of financial statements became more complex. New issues and solutions produced by the accounting standards contributed to the evolution of accounting practice, although there still was a focus on the minimization of the tax burden. Hence, the level of professional knowledge improved, but not the quality of earn-

ings. Compared to other countries, in Italy the lack of empirical studies was strong especially considering the emergence of the importance of the accounting document in the Italian economic context, favoured by the attention on the financial statement fraud, due to by accounting scandals (e.g., Parmalat, Cirio). The deductive approach has not been able to capture neither the profound changes in the practice nor the goals and behaviours of the different actors involved.

Lately, the widespread use of international accounting standard and the Basel Accord have made accounting information even more important in the Italian setting. The importance of the financial statement grew also for smaller and capital closed firms. Important issues emerged and they required a deeper investigation by the scholars in order to identify the features of the new context, profoundly changed compared to the past. Understanding the behaviour of market participants, their objectives and the economic impact of accounting information was a high priority.

### Current situation

Recently, the gap between accounting theory and practice is progressively decreasing. On one hand *Economia Aziendale* is gradually affirming its relevance in the international arena due to its remarkable methodological and heuristic potential for international studies in business economics, management, and accounting. Some scholars have traced the historical evolution of the theory in order to offer a survey and comparison of Italian accounting research and academic publications during the last centuries. Other authors have focused on the accounting implications relating to *Economia Aziendale*. Yet other scholars have examined the ethical issues implicitly put forward by *Economia Aziendale* theory, by discussing its relevance for business ethics research.

On the other hand there are several indications that the "information perspective of accounting" has arisen great interest. A number of papers have discussed this approach for the benefit of Italian accounting academics. They offers to the Italian audience (endowed with the necessary mathematical pre-requisites) a concise introduction into some fundamental aspects of the American information economic perspective. In the meantime, studies based on statistical-empirical methodology and relying on "positive accounting theory" have been developing. Topics of interest are: the role financial reporting in capital markets; the capital market effect of the introduction of IAS/IFRS; the relationship between financial reporting and corporate governance; accounting choice and earnings quality.

The effort of Italian scholars to fill the gap with the international studies is also witnessed by the emergence of new Academic journals mainly aimed to promote the accounting debate from an international perspective (e.g. *Financial Reporting, Management Control*) as well as the evolution of the aims and scope of some traditional Italian publications (e.g., *Rivista Italiana di Ragioneria ed Economia Aziendale, Contabilità e Cultura Aziendale, Rivista dei Dottori Commercialisti*). An additional indication of this trend comes from the internationalization of the main traditional accounting conferences (AIDEA, SIDREA), both in terms of the types of tracks and the inclusion of foreign participants.

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