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The IASB standard-setting process: Participation and perceptions of financial statement users

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ABSTRACT

The interests of users of financial statements are, in theory, paramount to accounting standard-setters. However, there is a dearth of research into users' participation in, and influence on, the process of setting accounting standards. The enhanced status now accorded to the International Accounting Standards Board (IASB) offers the opportunity to examine these issues in a new regulatory context. This study reports the results of a questionnaire survey of the perceptions of, and participation in, the IASB process of a sample of UK investment management firms. The findings suggest that these firms' participation is not as low as is often inferred from the public record of comment letters. In particular, a considerable number of firms participate through representative report user organisations such as the Investment Management Association. Other findings suggest that the major factor inhibiting investment firms from participating is the cost of lobbying, not complacency that the IASB is 'on their side' and will naturally safeguard their interests. Moreover, the respondents consider the accounting profession and the European and US accounting standard-setters to be the dominant interest groups in the IASB standard-setting process.

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1. Introduction

In 2001 the International Accounting Standards Committee (IASC) restructured itself into the International Accounting Standards Board (IASB).¹ Since the adoption of the International Accounting Standards (IAS) regulation by the European Commission and the convergence agreement with the Financial Accounting Standards Board (FASB), the IASB has grown in importance and has, arguably, acquired the status of a private standard-setter whose activities are of primary interest to a global audience (Jorissen, Lybaert, & Van de Poel, 2006). Its standards are developed through lengthy public consultation procedures which may include the undertaking of field tests, invitations to comment on exposure drafts, public round-table meetings and public hearings. According to Watts and Zimmerman (1986), standard-setting of this type is a political process in which interest groups lobby to effect wealth transfers.

Although a considerable number of studies have dealt with the lobbying activities of various interest groups in national private sector standard-setting processes, only a very limited number have examined the lobbying pressures that the IASB is subjected to (e.g., Zeff, 2002). Moreover, the overwhelming majority of past studies, irrespective of their regulatory context, have focused on the preparers of financial statements (e.g., Francis, 1987; Georgiou, 2004; Larson, 1997; MacArthur, 1988; Schallow, 1995). Investigations of the lobbying activities of audit firms (e.g., Deegan, Morris, & Stokes, 1990; Meier, Alam, & Pearson, 1993; Puro, 1984) have been less extensive; and only a small number of studies have

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¹ See Kirsch (2006) for a comprehensive history of the IASC.

examined the involvement of users of financial statements. This involvement, however, is critical as accounting standard-setters often justify the adoption of their standards by appealing to financial statement users' interests. In her analysis of the FASB's standard-setting process, Young (2003, p. 629) argues that such appeals are merely used as a rhetorical device by the FASB:

Users of financial statements are shadowy figures within the paragraphs of financial accounting standards. They haunt these texts, lurking off-page, until the FASB claims to speak for them. Then, they are ushered briefly onto the page to serve as an additional justification for changing existing accounting requirements. Even though users are rarely presented as actively seeking information or as being consulted by the FASB, they act as another source of authority for the FASB in its standard-setting process.

The degree to which such criticisms are justified largely depends on the extent to which users of financial statements participate in the standard-setting process and the amount of influence they exert. As indicated above, only a few studies have dealt with this issue in general; and an even smaller number have been undertaken within the specific context of the IASB's process. The purpose of this study is to fill this gap in the literature. Specifically, it reports the results of a questionnaire survey relating to the nature and volume of participation of a sample of UK investment management firms in the IASB standard-setting process over the period 2001 to June 2006 inclusive. In addition, it reports evidence of the investment firms' perceptions of the influence that different interest groups exert on the IASB's decision making process.

Therefore, the study makes a contribution to the literature in three main ways. First, it provides evidence of the lobbying activities and perceptions of financial statement users, who have previously been largely neglected. Second, it examines these issues in the context of the IASB, whose importance cannot be overstated. Third, it bases its findings on information gathered on various participation methods; such information is not always publicly available. In a similar way to Georgiou (2004) and Tandy and Wilburn (1996), the study obtains evidence directly from potential participants in the standard-setting process.

The paper is organised as follows: Section 2 reviews the literature on financial statement users' lobbying of accounting standard-setting bodies; Section 3 develops the study's hypotheses; Section 4 discusses the research design; Section 5 reports the study's findings; and Section 6 summarises the results and draws the conclusions.

2. Literature review

Prior literature on the lobbying activities of financial statement users can be grouped into studies relating to national accounting standard-setters and those relating to the IASC/IASB. In the context of the US regulatory environment, Tandy and Wilburn (1992) reported that, out of a total of 13,369 comment letters received by FASB in relation to the adoption of its first 100 accounting standards, only 239 (185 from individuals and 54 from representative organisations) were submitted by report users. More recently Hochberg, Sapienza, and Vissing-Jørgensen (2009) investigated lobbying in relation to the passage of the Sarbanes-Oxley (SOX) Act. They reported that, out of a total number of 1,948 letters which they analysed, 125 (6.4%) were from investor groups. This is not a negligible number but it is substantially lower than the number of letters submitted by preparers, 629 (32.2%).

In the context of the UK's Accounting Standards Board (ASB) process, Weetman, Davie, and Collins (1996) investigated lobbying on the issue of the Operating and Financial Review (ASB, 1993). They reported that, out of a total of 104 comment letters, 14 were submitted by report user groups. In addition to the examination of comment letters, the authors undertook interviews with 20 financial statement users, partly in order to establish the reasons why they had not made written submissions. They noted that only one respondent was able to articulate a clear reason for not writing: that analysts do not expect to be influential in the lobbying process, since it is the preparers of accounts who hold the key to consensus. Others offered reasons such as a tradition of not responding in writing, a statement that fitted with the authors' observation that there were 'indications that the analysts were encountering ASB representatives at informal meetings where they felt they could express their views on current issues'.

Van Lent (1997) investigated the lobbying activities of various interest groups, including those of report users, in the promulgation of Dutch financial reporting regulations for companies engaging in banking and insurance activities. The author documented that lobbying by most report users was not intensive, but he also noted the substantial resources devoted to lobbying by the financial press and a large investment firm which managed to have an important influence on the resulting accounting standard.

Using Vroom's (1964) expectancy theory, Hardy's (1994) power framework and Suchman's (1995) legitimacy typology, Durocher, Fortin, and Côté (2007) developed an integrative explanatory model of user participation in the Canadian standard-setting process. The authors undertook interviews with 27 Canadian report users and their findings, which were used to refine their model, supported their expectations. For example, they reported that a perception by users, that it was the task of accountants to set accounting standards, affected the cognitive legitimacy granted by users, which in turn negatively affected their participation in the process (Durocher et al., 2007, p. 53).

There are also a number of studies which relate to the IASC period. Kenny and Larson (1993), in their examination of the submissions made to the IASC on the issue of Joint Ventures, listed only two report user organisations: the Security Analysts Association of Japan and the US Association of Investment Management Research (AIMR). Kenny and Larson (1995) also reported a low level of user participation in their examination of submissions relating to 14 exposure drafts that the IASC

published between 1989 and 1992. They reported that, out of a total of 764 letters, only 26 were submitted by financial analyst organisations (submitted by 5 different respondents). In contrast, in their examination of the history of the IASC, Zeff and Camfferman (2007) reported that financial analysts 'were very active in board discussions, and considerable attention was paid to their views' (page 220).

Finally, two recent studies relate to the IASB period. Jorissen et al. (2006) reported that, between 2002 and the summer of 2005, the IASB received just 30 letters from report users, which represents only 1% of the 2,245 letters they received during this period. Larson (2007) examined participation in the due process followed by the IASB's Interpretations and Financial Reporting Committee (IFRIC). He examined the comment letters written to IFRIC in relation to its first 18 Draft Interpretations. Consistent with other studies, Larson (2007) reported a low level of participation by report users. Out of a total of 714 comment letters received, only 34 (5%) were from report users (submitted by 26 different respondents).

In summary, the literature review highlights the dearth of empirical evidence on financial statement users' involvement in accounting standard-setting. Only a few studies have measured user participation, or investigated the reasons for the seemingly low level of this.

3. Development of hypotheses

A theoretical framework used by a considerable number of studies to explain participation in the standard-setting process is that of Sutton (1984). This is based on the theory of economic democracy (Downs, 1957), and it is within this framework that this study has been undertaken.² Sutton (1984) developed a rational choice model which suggests that a party will lobby if the benefits of lobbying, adjusted by the probability that lobbying will make a difference to the outcome, exceed the cost of lobbying.

3.1. Timing of lobbying

Sutton (1984) suggests that the probability of making a difference to the outcome of the process increases if lobbying is undertaken at the early stages of the process. The IASB process is similar to those followed by other private standard-setters (e.g., the FASB). During the period of study 2001 to June 2006, it consisted – as it still does – of six identifiable stages during which an interested party can lobby before the adoption of an IFRS (IASCF, 2005, 2006).³

1. *Agenda formation stage.* The IASB deliberates whether or not it should add a topic to its agenda. A simple majority of IASB members voting in favour is sufficient for the topic to be admitted to the agenda.
2. *Drafting and adoption of a discussion paper.* A project director, who may be aided by an advisory group, undertakes the drafting of a discussion paper. Approval of the discussion paper is subject to the same voting rules as is the addition of a topic to the agenda.
3. *Exposure period of a discussion paper.* The discussion paper is published and comments are formally invited from any interested party.
4. *Drafting and adoption of an exposure draft.* The comment letters submitted on the discussion paper, and all other input received, e.g., evidence given at public hearings or round-table meetings which the IASB may have decided to hold, are used in the drafting of the exposure draft. For the exposure draft to be approved, nine IASB member votes are required (was eight member votes up to July 2005 (IASCF, 2005)).
5. *Exposure period of an exposure draft.* The exposure draft is published for public comment.
6. *Drafting and adoption of an IFRS.* The analysis of comments and any other input received are used in the drafting of an IFRS, which is approved if nine IASB members vote in its favour (was eight member votes up to July 2005 (IASCF, 2005)).

It is important to note that the publication of a discussion paper (stages 2 and 3) is not mandatory and, instead, the IASB may proceed with the development of an exposure draft, which is mandatory. According to Georgiou (2004), who examined the ASB process, which is similar to that of the IASB, the first three of the above stages (agenda stage; drafting of a discussion paper; and publication of a discussion paper) can be categorised as 'early' stages, and the last three (drafting of an exposure draft; publication of an exposure draft; and drafting of an IFRS) as the 'late' stages, of the process.

Given Sutton's prediction that lobbying early in the process is more effective than lobbying at a late stage, it is expected that a greater number of firms will lobby at the early stages of the IASB process. This leads to the first hypothesis, stated in its null form:

H1 : There is no difference between the number of investment firms which lobby at the early and the late stages of the IASB standard-setting process.

² An alternative framework, which is not adopted by this study, does not consider the standard-setting process to be pluralistic and focuses on the broader social context in which private regulatory organisations such as the IASB exist (Georgiou, 2002; Sikka, 2001).

³ The IASB has subsequently made some changes to its due process (IASCF, 2008). The process described here is the one in effect during the study period.

3.2. Lobbying methods

Sutton (1984) also predicts that the probability of making a difference to the outcome of the process is likely to lead potential lobbyists to use several lobbying methods. Although the literature review showed that the level of report user lobbying in the form of comment letters is low, it is possible that firms are participating in the IASB process using an array of other lobbying methods. Sutton (1984) categorises lobbying methods as either *direct*, where lobbyists directly communicate with the standard-setter or *indirect*, where lobbyists make their approach via a third party. In the context of the IASB process, direct methods include: (a) Submitting comment letters in response to IASB's invitations to comment; (b) Speaking at IASB public hearings; (c) Participating in IASB public round-table meetings; (d) Participating in field visits and/or field tests; (e) Communicating with IASB members or technical staff in pre-arranged private meetings or by other means (e.g., telephone conversation); (f) Having employees working as members of advisory/working groups set up by the IASB for particular projects. Indirect methods include: (a) Commenting in the media; (b) Appeals to UK government and/or European Commission officials; (c) Appeals to the members or technical staff of the ASB or of the European Financial Reporting Advisory Group (EFRAG); (d) Appeals to the firm's trade association(s) (such as the Investment Management Association (IMA)) and/or participating in the preparation of its response; and (e) Sponsoring research studies.

In the context of the ASB process, Georgiou (2004) reported that preparers used a variety of lobbying methods and that their use was significantly associated with the use of comment letters; moreover these methods were not perceived as equally effective. Hence the following two hypotheses in their null form:

H2 : The use of comment letters is not related to the use of other lobbying methods.

H3 : Investment firms perceive the various lobbying methods as equally effective.

3.3. The decision not to participate

As stated above, a party will consider the potential benefits, the cost, and the probability of success when deciding whether or not to lobby. Sutton (1984) predicts that report users are much less likely to lobby than preparers of financial statements. They have less to gain from lobbying: they draw income from a diversified portfolio of investments and consequently the effects of a change in accounting standards are not as important to them as they are to preparers of financial statements, who draw income from only a few sources. Furthermore, the benefit of successful lobbying for financial statement users is to achieve more transparent and relevant information for decision making. The provision of this information is unlikely to have an immediate impact on their cash flow, and consequently its benefit is difficult and costly to measure. In addition, preparers are likely to be wealthier and therefore will be better able to afford the cost of lobbying. Sutton (1984, p. 86) also argues that because the economic interests of preparers are more homogeneous, it is easier for them to create temporary organisations for lobbying purposes and consequently reduce the cost of lobbying. The third factor relevant to the lobbying decision calculus is the probability that lobbying will make a difference to the outcome of the process. As one analyst indicated to Weetman et al. (1996), this was the most important factor in report users' decisions not to make written submissions.

Therefore all three factors, benefits, costs, and probability of success, can be of vital importance in the decision not to lobby. Hence, the following hypothesis in its null form:

H4 : Investment firms consider the benefits, costs, and probability of success as equally important in their decision not to participate in the IASB standard-setting process.

3.4. Perceived influence of interest groups

The standard-setting environment in which the IASB operates is considerably more complex than that of national accounting standard-setters, as more groups have a direct interest in its activities. For example, the FASB has entered into a convergence agreement with the IASB. In addition to financial statement users, the following groups are potentially interested and influential in the IASB standard-setting process: i) preparers of financial statements; ii) auditing firms; iii) professional accountancy bodies; iv) European accounting standard-setters and the EFRAG; v) the FASB; vi) the US Securities and Exchange Commission (SEC); vii) European Governments and the European Commission; and viii) academics.

The various parties interested in accounting standards may not be equally influential in the standard-setting process (Walker & Robinson, 1993). For example, Kwok and Sharp (2005) reported that preparers were more influential in the development of two IASB standards than other interest groups. Moreover, parties will have perceptions of the influence that different interest groups exert in the accounting standard-setting process which may or may not match reality. These perceptions are important, and could influence the level of participation in the process. For example, a perception that the process is controlled by the preparers of financial statements may lead to non-participation by financial statement users. Given that report users are the target beneficiaries of the IASB standards, and given their allegedly low level of participation in

the process via which these standards are promulgated, obtaining a measure of their perceptions is particularly important. Hence the following hypothesis in its null form:

H5 : Investment firms perceive the various interest groups as equally influential in the IASB standard-setting process.

4. Research design

4.1. Questionnaire survey

In order to test the above hypotheses, the questionnaire by [Georgiou \(2004\)](#) was adapted for the IASB process and the targeted subjects (see [Appendix](#)). In the development of the questionnaire, standard questionnaire procedures were followed which included interviews with a senior member of staff of the IMA and a Director of the London Investment Banking Association; interviews with one Edinburgh-based and one London-based investment manager; pre-testing and a pilot questionnaire.

Questions 1 and 2 of the questionnaire relate to the first three hypotheses (H1, H2 and H3), which are concerned with the extent and nature of report user lobbying and the perceived effectiveness of this lobbying.

Question 3 relates to hypothesis H4, which is concerned with the factors that influence the decision of investment management firms not to participate in the IASB process. Firms were requested to rate six factors using a 1–5 Likert scale. These factors were drawn from [Sutton's \(1984\)](#) model which considers: the potential benefits of lobbying; the probability of its success; and the cost of lobbying. With respect to a potential lack of benefits from lobbying, firms were requested to rate the following factor:

- (i) Lack of impact of the proposed changes on the ability of your firm's financial analysts to analyse company financial statements.

According to [Sutton \(1984\)](#), even though there may be potential benefits from participation, firms may not participate because they may believe that their participation will not make a difference to the outcome of the process. Firms may believe that the IASB will not respond positively to users' views ([Weetman et al., 1996](#)). Hence firms were requested to rate the following factor:

- (ii) The belief that the IASB would not have responded positively to your firm's views.

Alternatively, users of financial statements may trust the IASB to protect their interests and, therefore, may believe that it will, irrespective of their participation, adopt their preferred position. Hence investment firms were requested to rate the following factor:

- (iii) The belief that the IASB would in any case have adopted your firm's preferred position.

Finally, they may decide not to participate, not because they consider a negative or a positive outcome as a *fait accompli*, but because they are aware that their views will be represented by others and that their participation, one more voice, would not make a difference. Hence firms were requested to rate the following factor:

- (iv) The belief that your firm's views were adequately represented by other investment industry representatives.

With respect to the cost of lobbying, firms were explicitly asked to rate its importance:

- (v) The cost (including time) of participating in the IASB standard-setting process.

Firms were also requested to indicate whether lack of sufficient expertise to identify the impact of the proposed changes was an important reason for not participating. As previously discussed, the measurement of the potential benefits to users from lobbying is difficult and costly. Therefore, obtaining expertise to identify these benefits is part of the cost that a firm needs to incur in order to participate in the process. Hence firms were requested to rate the following factor:

- (vi) Lack of sufficient expertise to identify the impact of the proposed changes.

Question 4 relates to hypothesis H5, which is concerned with investment firms' perceptions of the influence that a number of interest groups exert on the IASB process. Firms were requested to assess the influence of eight interest groups as outlined in Section 3.4 above, and three report user groups: institutional investors; investment management firms; and stockbrokers, using a 1–5 Likert scale.

Table 1
Lobbying at different stages of the process.

Stage of the process	Users no.	Non-users no.	% of respondents using this stage (no. of users/n)
Agenda formation stage ($n = 69$)	7	62	10
Drafting stage of discussion paper ($n = 69$)	9	60	13
Exposure period of discussion paper ($n = 69$)	14	55	20
Drafting stage of exposure draft ($n = 69$)	9	60	13
Exposure period of exposure draft ($n = 69$)	20	49	29
Drafting stage of IFRS ($n = 69$)	9	60	13

n: number of firms responding to this item.

4.2. Sample and response rate

The population of the study consisted of 312 investment management firms. These were drawn from two sources. First, firms which manage UK funds listed on the London Stock Exchange ([Financial Express, 2006](#)). This source yielded 178 firms. Second, firms included in the list of Investment Managers & Advisers ([NAPF, 2006](#)). This provided an additional 134 investment firms, resulting in a total of 312 firms.

The questionnaire was dispatched during June 2006 and the covering letter was addressed by name to either the Chief Investment Officer, Head of Research, or Investment Director, of each organisation. It elicited 69 usable responses, giving a 22.1% response rate. This compares very favourably with response rates for similar research. For example, [Beattie, Goodacre, and Thomson \(2006\)](#) reported a response rate of 9% from users of financial statements to a survey of their attitudes towards lease accounting. It can also be considered as healthy given the poor response by users to invitations to comment on IASB proposals. Evidence on non-response bias was obtained by examining differences between the responses of early and late respondents. The comparisons indicated that there were no significant differences between the two groups in terms of their responses to the four questions included in the questionnaire.

The questionnaires were answered by senior managers holding positions such as Investment Director, Head of Equity Research, and Head of Accounting Valuation. All respondents held either an academic and/or a professional qualification such as Chartered Financial Analyst. In order to obtain a measure of the responses' reliability, interviews (lasting between forty-five minutes and one hour each) with four randomly selected respondents were conducted approximately six months after the questionnaires were received. No inconsistencies were found between the questionnaire responses and the interview findings.

5. Results and discussion

5.1. Timing of lobbying

[Table 1](#) reports the results of the survey with respect to the use of the six stages of the IASB standard-setting process identified in Question 1. The first three stages (agenda, drafting of discussion paper and exposure of discussion paper) were considered as the early stages, and the last three (drafting of exposure draft, exposure of exposure draft and drafting of the IFRS) as the late stages. For both early and late stages, each company was given a score which ranged from 0 to 3 (i.e., 0 given if no stage was used; 1 if one stage was used; 2 if two stages were used and 3 if three stages were used). In order to test H1 that there is no statistical difference between the number of firms which used early and late stages, a paired-samples *t*-test and a non-parametric Wilcoxon signed-rank test were undertaken. Both tests indicated that the null hypothesis cannot be rejected ($t = -1.473$, $p = 0.145$ and $Z = -1.417$, $p = 0.156$).⁴

An examination of [Table 1](#) indicates that the early stages were actually used by fewer respondents than the late stages (e.g., 14 firms lobbied at the exposure period of the discussion paper, as opposed to 20 at the exposure period of the exposure draft). These findings, however, need to be put into context. As previously pointed out, the discussion paper stage is not mandatory. Between 2001 and the time when the questionnaire was dispatched, in June 2006, the IASB published for comment 28 exposure drafts and four discussion papers.⁵ Therefore, the lower number of observations at the early stages of the process (which include the discussion paper stage) is likely to be due to the fact that there were fewer documents to comment on. This, though, could not have been a reason for [Georgiou's \(2004\)](#) similar results, as that study related to the 1991–1996 period, during which, out of the 40 documents that ASB published,⁶ 22 were discussion papers.

⁴ All tests reported in the paper were two-tailed.

⁵ These numbers do not include documents published by IFRIC. The IASC issues paper, *Extractive Industries*, which was published on 30 November 2000, is included in the four discussion papers because its comment period ended on 30 June 2001 (three months after the IASB took over from IASC).

⁶ This excludes four proposals which were not relevant to that study's sample of respondents, e.g., proposals for insurance companies.

Table 2
Effectiveness of stages.

	1 Very effective %	2 Effective %	3 Neither effective nor ineffective %	4 Ineffective %	5 Very ineffective %	Mean of Likert score	SD of Likert score
Agenda formation stage (<i>n</i> = 27), (DK = 42)	19	37	19	11	15	2.67	1.33
Drafting stage of discussion paper (<i>n</i> = 30), (DK = 39)	13	33	33	3	17	2.77	1.25
Exposure period of discussion paper (<i>n</i> = 32), (DK = 37)	3	47	28	13	9	2.78	1.04
Drafting stage of exposure draft (<i>n</i> = 31), (DK = 38)	3	26	45	13	13	3.06	1.03
Exposure period of exposure draft (<i>n</i> = 33), (DK = 36)	3	42	30	15	9	2.85	1.03
Drafting stage of IFRS (<i>n</i> = 31), (DK = 38)	3	48	23	16	10	2.81	1.08

n: number of respondents that gave a rating; DK: number of respondents that chose the 'Do Not Know' option.

Nor do findings which are not affected by the number of discussion papers and exposure drafts published support [Sutton's \(1984\)](#) expectation that firms are more likely to engage in early lobbying. It is noteworthy that the earliest stage of the process, the agenda stage, was actually the stage which was used by the least number of firms (only seven). Moreover, the exposure period of the exposure draft was more popular than the drafting stage which precedes it (20 firms used the former; 9 the latter). The same applies to the discussion paper stage (14 firms lobbied during the exposure period but only 9 at its drafting stage). These results mirror those of [Georgiou \(2004\)](#), i.e., the stages at which public consultation is sought have been used by a substantially greater number of firms than the other stages, during which consultation is less overt. Therefore, it appears that either the IASB does not provide more participation opportunities outside its public consultation stages to report users than those given by the ASB to preparers; or, if it does, these are not taken up by report users.

[Table 2](#) summarises the ratings given by the respondents to the effectiveness of lobbying at each of the six stages. Here, two observations can be made. First, the majority of respondents did not give a rating, but instead chose the 'Do not know' option. Further analysis revealed that most of these firms did not lobby at these stages. Second, there does not seem to be a difference in terms of the perceived effectiveness of the six stages. A one-way within subjects (repeated measures) ANOVA indicated that the stages were not considered to be significantly different in terms of their effectiveness ($F_{2.775, 63.819} = 1.116$, $p > 0.05$). A non-parametric test involving the Friedman test produced a similar result, $\chi^2 = 8.896$, $p > 0.05$.

Further Mann–Whitney tests, presented in [Table 3](#), indicated that users (firms which indicated that they used the stages) and non-users (firms which did not) did not have significantly different perceptions concerning the effectiveness of the various stages.⁷ These results are different from those of [Georgiou \(2004\)](#), who reported that preparers who lobbied did in general consider lobbying to be more effective than preparers who did not. Therefore, it does appear that, in the case of financial statement users, lobbying experience does not help them form more positive perceptions of the potential effectiveness of their lobbying.

In summary, the perceptions of most respondents do not appear to match [Sutton's \(1984\)](#) suggestion that lobbying at the early stages of the process is more effective than lobbying at its late stages. On the other hand, as the additional comments of one of the respondents indicate, a few respondents are well aware of the importance of engaging early in the process:

We believe that the period when the greatest level of influence can be exerted during the process of development of IFRSs is prior to the IASB issuing exposure drafts or discussion papers.

5.2. Methods of lobbying

[Table 4](#) reports the results relating to the use of 14 lobbying methods identified in Question 2 of the questionnaire. Three main conclusions can be drawn. First, consistent with the predictions of [Sutton \(1984\)](#), lobbying activity is not restricted to the use of comment letters. However, only a minority of respondents used the methods identified in the question. None of the methods were used by more than a third of the respondents, and some methods were used by a very small number of firms (e.g., only 4 firms indicated that they appealed to the UK government/European Commission).

Second, the most popular method, used by 23 firms, was to appeal to a trade organisation, such as the IMA.⁸ An explanation for this finding may lie in the proactive stance that the management of the IMA, which appears to be heavily engaged

⁷ Only non-parametric results are reported given the type of data (ordinal) involved, the relatively small sample and the normality assumptions that parametric tests require. In any case, the results of the parametric t-tests were remarkably similar to those reported.

⁸ The IMA is a relatively young organisation, formed in 2002 from the merger of the Association of Unit Trusts and Investment Funds and the Fund Managers Association.

Table 3

Comparison of users' and non-users' perceptions of the effectiveness of stages.

Stage of the process	Users no.	Users mean	SD	Non-users no.	Non-users mean	SD	Mann–Whitney	
							Z	p
Agenda formation stage (<i>n</i> = 27)	6	2.50	1.52	21	2.71	1.31	−0.362	0.755
Drafting stage of discussion paper (<i>n</i> = 30)	9	2.33	1.22	21	2.95	1.24	−1.392	0.193
Exposure period of discussion paper (<i>n</i> = 32)	13	2.38	0.77	19	3.05	1.13	−1.602	0.136
Drafting stage of exposure draft (<i>n</i> = 31)	9	2.78	1.20	22	3.18	0.96	−1.016	0.309
Exposure period of exposure draft (<i>n</i> = 33)	17	2.82	1.18	16	2.88	0.88	−0.400	0.709
Drafting stage of IFRS (<i>n</i> = 31)	9	2.78	1.09	22	2.82	1.10	−0.140	0.915

n: number of firms responding to this item.

with the IASB, has taken in the IASB process. For example, in 2006 the IMA submitted five comment letters to the IASB and also used press releases to publicise its stance on various issues.⁹ Moreover, an interview with a senior IMA staff member, during the development of the questionnaire instrument, revealed that the Association's engagement with the IASB goes beyond the submission of comment letters and involves other types of direct contact. One of the respondents showed complete awareness of these contacts and, in the additional comments, stressed the reliance they place on the IMA to promote their interests:

...We have spoken to the IMA as a representative of the fund management industry. The IMA has started having regular dialogue with the IASB. The aim of this dialogue is to ensure that fund managers, as the users of accounts on behalf of their clients, are able to have some influence on the standard-setting process.

Another explanation for this relatively high level of indirect lobbying may lie in the education and professional experience of investment managers. In comparison to some other groups such as preparers and accountants, investment managers may possess less technical accounting expertise (Durocher et al., 2007) – an expertise which direct participation is likely to require – and consequently they may find it less costly to participate indirectly. This explanation is also consistent with the relatively high number of firms that used comment in the media (16%). Van Lent (1997, p. 24) also reported that, apart from one large investment firm, users of financial statements confined their lobbying activity to indirect means such as conveying their views to newspapers. In contrast, Georgiou (2004), in his examination of the lobbying activities of preparers of financial statements, reported a substantial use of direct methods (e.g., 25% communicated their views to ASB members in pre-arranged private meetings).

Third, the submission of comment letters was found to be the second most popular method, used by 14 investment firms (20%). Cross tabulation revealed that these 14 firms were likely to also engage in other forms of lobbying. A number of Chi-square based measures of association indicated that the correlation between the submission of comment letters and the use of other methods is significant. For example, out of these 14 firms, 10 also made representations to a report user organisation (Cramer's $V = 0.408$, $p < 0.001$). Thus, the null hypothesis (H2), that the use of comment letters is not related to the use of other lobbying methods, is rejected. Further analysis, however, indicated that a substantial number of firms, 17 (25%), used other lobbying methods without using comment letters; in total, 31 firms (45%) used at least one lobbying method. Clearly, the firms which responded to this survey are more likely to have been participants in the IASB process, and thus the study's findings may exaggerate the extent of lobbying by financial statement users. Nevertheless, subject to this caveat, it does appear that lobbying by report users is more intensive than the number of comment letters seems to suggest.

Table 5 reports the effectiveness ratings given by the respondents to each of the lobbying methods. A one-way within subjects (repeated measures) ANOVA indicated that the respondents did not perceive the various lobbying methods to be significantly different in terms of their effectiveness ($F_{6,065, 109.165} = 0.548$, $p > 0.05$). A Friedman test confirmed this result, $\chi^2 = 8.892$, $p > 0.05$. Therefore, the null hypothesis (H3) that respondents perceive the various lobbying methods to be equally effective is not rejected.

The results show that the method rated as effective or very effective by most respondents (56%) was having employees of the firm appointed as members of an advisory/working group set up by the IASB (eliciting a 2.53 mean score). Further paired-samples *t*-tests and Wilcoxon signed-rank tests revealed that this method was considered significantly more effective than indirect methods of lobbying; for example, it was considered more effective statistically at the 0.05 significance level than commenting in the media ($t = -2.300$, $p = 0.029$ and $Z = -2.145$, $p = 0.032$). However, it was not found to be significantly more effective than comment letters ($t = -1.691$, $p = 0.102$ and $Z = -1.595$, $p = 0.111$) and some other direct methods such as pre-arranged private meetings with IASB members ($t = -1.192$, $p = 0.244$ and $Z = -1.154$, $p = 0.248$) and pre-arranged

⁹ See recent press release concerning the debate on IFRS 8 (IMA, 2007).

Table 4
Lobbying methods.

Lobbying method	No. of users	No. of non-users	% of respondents using this method (no. of users/n)
<i>Direct methods</i>			
Submitting comment letters in response to IASB's invitations to comment (<i>n</i> = 69)	14	55	20
Speaking at IASB public hearings (<i>n</i> = 69)	2	67	3
Participating in IASB public round-table meetings (<i>n</i> = 69)	7	62	10
Participating in field visits and/or field tests (<i>n</i> = 69)	6	63	9
Communicating your firm's views to IASB members in pre-arranged private meetings (<i>n</i> = 69)	10	59	14
Communicating your firm's views to IASB members through other means (e.g., telephone conversation, meeting at conferences) (<i>n</i> = 69)	9	60	13
Communicating your firm's views to IASB technical staff in pre-arranged private meetings (<i>n</i> = 69)	6	63	9
Communicating your firm's views to IASB technical staff through other means (e.g., telephone conversation, meeting at conferences) (<i>n</i> = 69)	8	61	12
Having employees of your firm appointed as members to advisory/working groups set up by IASB for particular projects (<i>n</i> = 69)	8	61	12
<i>Indirect methods</i>			
Commenting in the media (<i>n</i> = 69)	11	58	16
Appealing to UK government and/or European Commission officials for support of your firm's views (<i>n</i> = 69)	4	65	6
Appealing to the members or technical staff of the UK's Accounting Standards Board (ASB) or of the European Financial Reporting Advisory Group (EFRAG) for support of your firm's views (<i>n</i> = 69)	8	61	12
Appealing to your firm's trade association(s) (such as the Investment Management Association) for support of your firm's views and/or participating in the preparation of its response (<i>n</i> = 69)	23	46	33
Sponsoring research studies on financial accounting and reporting issues (<i>n</i> = 69)	2	67	3
Other (please specify) (<i>n</i> = 69)	5	64	7

n: number of firms responding to this item.

meetings with IASB staff ($t = -0.724$, $p = 0.476$ and $Z = -0.635$, $p = 0.526$), two methods which elicited high effectiveness ratings (means 2.69 and 2.72 respectively). One respondent in the additional comments noted:

In the past we have been heavily involved with the IASB and its staff in the development of IFRSs. We believe that we have been able to help influence the debate and subsequent development of standards...

Further Mann–Whitney tests, presented in Table 6, indicated that users (firms which indicated that they used the methods) and non-users (firms which did not) did not in general have significantly different perceptions concerning the effectiveness of the various lobbying methods. However, with respect to two methods, users reported significantly different perceptions than non-users (at the 0.05 level). These methods were the submission of comment letters, and communicating with the UK government and European Commission officials. In both cases, users had more positive perceptions of the effectiveness of these methods. This provides partial support to Georgiou (2004), who reported that in general preparers who lobbied were more likely to consider lobbying as effective.

5.3. Factors contributing to non-participation in the IASB process

Table 7 tabulates the reasons why investment management firms do not participate in the process. The results of a within subjects ANOVA test reject the null hypothesis (H4) that the respondents perceive the six factors given in question 3 (which relate to the benefits, costs, and probability of success) as equally important ($F_{5, 305} = 9.969$, $p < 0.01$). A Friedman test produced a similar result, $\chi^2 = 19.967$, $p < 0.01$.

Two factors appear to dominate this decision. The first is the cost (including time) of participating in the process; this factor was rated by 61% of the respondents as important or very important. A cost that may inhibit user participation, i.e., lack of sufficient expertise, was found to be important or very important for 31% of the respondents. These are noteworthy findings and should be contrasted with those of Georgiou (2002) that only 18% of preparers considered the cost of participation an important or very important factor in their decision not to participate in the ASB process. Taken together, the two sets of

Table 5

Perceived effectiveness of lobbying methods.

Lobbying method	1 Very effective %	2 Effective %	3 Neither effective nor ineffective %	4 Ineffective %	5 Very ineffective %	Mean of Likert score	SD of Likert score
<i>Direct methods</i>							
Submitting comment letters in response to IASB's invitations to comment ($n = 34$), (DK = 35)	3	35	38	6	18	3.00	1.13
Speaking at IASB public hearings ($n = 28$), (DK = 41)	0	25	50	11	14	3.14	0.97
Participating in IASB public round-table meetings ($n = 29$), (DK = 40)	3	35	31	17	14	3.03	1.12
Participating in field visits and/or field tests ($n = 25$), (DK = 44)	8	24	40	8	20	3.08	1.22
Communicating your firm's views to IASB members in pre-arranged private meetings ($n = 29$), (DK = 40)	14	38	21	21	7	2.69	1.17
Communicating your firm's views to IASB members through other means (e.g., telephone conversation, meeting at conferences) ($n = 30$), (DK = 39)	7	20	47	17	10	3.03	1.03
Communicating your firm's views to IASB technical staff in pre-arranged private meetings ($n = 29$), (DK = 40)	14	35	28	14	10	2.72	1.19
Communicating your firm's views to IASB technical staff through other means (e.g., telephone conversation, meeting at conferences) ($n = 29$), (DK = 40)	3	28	38	21	10	3.07	1.03
Having employees of your firm appointed as members to advisory/working groups set up by IASB for particular projects ($n = 30$), (DK = 39)	13	43	27	10	7	2.53	1.07
<i>Indirect methods</i>							
Commenting in the media ($n = 33$), (DK = 36)	6	18	39	21	15	3.21	1.11
Appealing to UK government and/or European Commission officials for support of your firm's views ($n = 27$), (DK = 42)	7	22	30	22	19	3.22	1.22
Appealing to the members or technical staff of the UK's Accounting Standards Board (ASB) or of the European Financial Reporting Advisory Group (EFRAG) for support of your firm's views ($n = 28$), (DK = 41)	0	39	39	11	11	2.93	0.98
Appealing to your firm's trade association(s) (such as the Investment Management Association) for support of your firm's views and/or participating in the preparation of its response ($n = 36$), (DK = 33)	8	22	36	22	11	3.06	1.12
Sponsoring research studies on financial accounting and reporting issues ($n = 26$), (DK = 43)	0	23	50	8	19	3.23	1.03

n : number of firms that gave a rating; DK: number of respondents that chose the 'Do Not Know' option.

findings offer support to [Sutton's \(1984\)](#) proposition that, in the decision on whether to lobby or not, the cost of lobbying is a far more important factor for report users than for preparers of financial statements.

The second factor is respondents' belief that other investment industry representatives adequately represented their views. This factor was rated by 54% of the respondents as important or very important. Therefore, a majority of investment management firms essentially free ride (expect others to undertake the cost of lobbying and representing their views). This is consistent with the findings of [Durocher et al. \(2007, p. 54\)](#) that 30% of the interviewees believed that it 'was someone else's role to represent their interests'. It is also consistent with the above mentioned finding that the cost of participating was considered important by most of the respondents; *ceteris paribus*, the higher the cost of lobbying, the more likely it is that a party will free ride ([Sutton, 1984](#)).

There is less support for the suggestion that users are less likely to participate due to lack of potential benefits. Nevertheless, this was found to be relevant for a significant minority: 29% rated the lack of impact of the proposed changes as important or very important. It should also be stressed that most respondents did not indicate that lack of participation was due to a belief that the IASB would in any case adopt their preferred positions. This was the least significant reason, eliciting a mean score of 3.51, and was rated as important or very important by only 14% of the respondents. In fact, it appears that it was the opposite belief, i.e., that the IASB would not respond positively to their views, that led to the non-participation of

Table 6

Comparison of users' and non-users' perceptions of the effectiveness of lobbying methods.

Lobbying method	Users no.	Users mean	SD	Non-users no.	Non-users mean	SD	Mann–Whitney	
							Z	p
<i>Direct methods</i>								
Submitting comment letters in response to IASB's invitations to comment (<i>n</i> = 34)	14	2.57	0.94	20	3.30	1.17	−2.164	0.039
Speaking at IASB public hearings (<i>n</i> = 28)	2	2.00	0.00	26	3.23	0.95	−2.024	0.063
Participating in IASB public round-table meetings (<i>n</i> = 29)	7	2.71	1.25	22	3.14	1.08	−0.823	0.438
Participating in field visits and/or field tests (<i>n</i> = 25)	4	2.50	1.00	21	3.19	1.25	−0.775	0.496
Communicating your firm's views to IASB members in pre-arranged private meetings (<i>n</i> = 29)	8	2.38	1.19	21	2.81	1.17	−0.887	0.401
Communicating your firm's views to IASB members through other means (e.g., telephone conversation, meeting at conferences) (<i>n</i> = 30)	7	2.57	0.98	23	3.17	1.03	−1.277	0.245
Communicating your firm's views to IASB technical staff in pre-arranged private meetings (<i>n</i> = 29)	5	1.80	0.84	24	2.92	1.18	−1.943	0.059
Communicating your firm's views to IASB technical staff through other means (e.g., telephone conversation, meeting at conferences) (<i>n</i> = 29)	7	2.71	0.76	22	3.18	1.10	−1.065	0.328
Having employees of your firm appointed as members to advisory/working groups set up by IASB for particular projects (<i>n</i> = 30)	8	2.12	1.13	22	2.68	0.83	−1.065	0.320
<i>Indirect methods</i>								
Commenting in the media (<i>n</i> = 33)	11	3.09	1.14	22	3.27	1.12	−0.338	0.749
Appealing to UK government and/or European Commission officials for support of your firm's views (<i>n</i> = 27)	4	2.00	0.82	23	3.43	1.16	−2.175	0.034
Appealing to the members or technical staff of the UK's Accounting Standards Board (ASB) or of the European Financial Reporting Advisory Group (EFRAG) for support of your firm's views (<i>n</i> = 28)	8	2.50	0.53	20	3.10	1.07	−1.303	0.237
Appealing to your firm's trade association(s) (such as the Investment Management Association) for support of your firm's views and/or participating in the preparation of its response (<i>n</i> = 36)	22	3.09	1.19	14	3.00	1.04	−0.219	0.835
Sponsoring research studies on financial accounting and reporting issues (<i>n</i> = 26)	2	2.00	0.00	24	3.33	1.01	−2.080	0.055

n: number of firms responding to this item.

a substantial minority of respondents, with 25% rating it as important or very important (mean score of 3.17). Therefore, it cannot be argued that investment managers are complacent about the need to get involved in the process because they consider the standard-setter to be 'on their side'.

5.4. Perceptions of influence

Table 8 summarises the responses that managers gave to the question on how influential in the standard-setting process they considered 11 interest groups. Both parametric and non-parametric tests showed that the respondents considered these groups to exert significantly different levels of influence on the IASB: within subjects ANOVA ($F_{5,131, 302.714} = 39.021, p < 0.01$) and Friedman test, $\chi^2 = 244.379, p < 0.01$. Therefore, the null hypothesis (H5) is rejected. Professional accounting bodies, European accounting standard-setters, auditors and the FASB are perceived to be by far the most influential groups in the process. On a scale of 1–5, where 1 was 'very influential' and 5 'not at all influential', these groups elicited a mean score of 1.66, 1.67, 1.75 and 1.76 respectively. In addition, at least 80% of the respondents gave a score of 1 or 2 to each of these groups, e.g., 87% gave such a score to auditing firms.

Of the remaining groups, the most influential were considered to be the SEC and the European Governments (including the European Commission), which elicited very similar average scores: 2.31 and 2.33 respectively. Preparers were the group which elicited the next highest average score, i.e., 2.72. Overall, however, preparers were clearly considered significantly less influential than professional bodies/auditors and accounting standard-setters. This finding is not consistent with that of Kwok and Sharp (2005), who determined that, in the promulgation of two standards by the IASC, the preparers had more influence than other parties. It is likely that this inconsistency is due to the different nature of the two studies. Whilst this study is concerned with perceptions of influence, Kwok and Sharp's (2005) study was concerned with the actual effectiveness of the various interest groups as inferred from an analysis of the content of lobbying. Another possibility is that the influence of preparers has waned during the IASB period.

Table 7

Reasons for not participating in the IASB process.

	1 Very important %	2 Important %	3 Neither important nor unimportant %	4 Unimportant %	5 Very unimportant %	Mean of Likert score	SD of Likert score
The cost (including time) of participating in the IASB standard-setting process (<i>n</i> = 64)	33	28	19	9	11	2.38	1.33
The belief that your firm's views were adequately represented by other investment industry representatives (<i>n</i> = 63)	27	27	21	10	16	2.60	1.40
Lack of sufficient expertise to identify the impact of the proposed changes (<i>n</i> = 64)	11	20	28	22	19	3.17	1.27
The belief that the IASB would not have responded positively to your firm's views (<i>n</i> = 63)	9	16	41	17	17	3.17	1.17
Lack of impact of the proposed changes on the ability of your firm's financial analysts to analyse company financial statements (<i>n</i> = 64)	6	23	28	20	22	3.28	1.23
The belief that the IASB would in any case have adopted your firm's preferred position (<i>n</i> = 63)	3	11	46	11	29	3.51	1.12

n: number of firms responding to this item.

Importantly, none of the three user groups identified in the question were considered particularly influential in the process. Of these groups, institutional investors (e.g., pension funds) were perceived to be the most influential, eliciting an average score of 3.05, whilst stockbrokers were perceived to be the least influential (average score of 3.85). Fund management companies were also perceived not to be especially influential (mean score of 3.48 with only 19% giving them a rating of 1 or 2). This perception may explain the relatively low level of participation amongst these groups. An alternative interpretation is that investment firms do not consider themselves to be influential because they are aware that their level of participation is lower than that of other interest groups.¹⁰ Finally, academics were not considered particularly influential by the majority of respondents (mean score of 3.13). This perception is consistent with that of US academics, who cited as one of the main reasons against participation in the FASB process their low expectations of affecting FASB decisions (Tandy & Wilburn, 1996). It contrasts, however, the findings of McLeay, Ordheide, and Young (2000), who reported that academic experts were actually influential during the process of transforming the Fourth European Company Law Directive into German accounting law.

In summary, two main observations can be made. First, the respondents gave very similar ratings to parties which belong to the same interest group. For example, the ratings given to professional accounting bodies and auditors, which both belong to the accounting profession, were very similar, as were those given to regulatory bodies, i.e., the SEC and European Governments (including the European Commission). It is significant that the respondents did not consider the US SEC and FASB to be more influential than their European counterparts. Therefore, at least during the period under study, concerns about US dominance of the IASB process (De Lange & Howieson, 2006) are not shared by investment firms. It should be emphasised, however, that these are UK financial statement users and so, due to the alleged closeness of the UK to the US on financial reporting issues,¹¹ they may not 'feel' any US dominance.

Second, it is clear that respondents considered the accounting profession and the accounting standard-setting bodies, which arguably are heavily influenced by the accounting profession, to be the dominant groups in the standard-setting process. This seems to be consistent with the findings of Durocher et al. (2007, p.53) that some users perceive accounting standard-setting to be the task of accountants. In contrast, financial statement user groups are not perceived as influential. This should be of concern to the IASB, given that users of financial statements are one of the target beneficiaries of its standards. One of the explicit objectives of the International Accounting Standards Committee Foundation (IASCF), which oversees the work of the IASB is:

to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standardsto help participants in the world's capital markets and other users make economic decisions (IASCF, 2007, para. 2).

¹⁰ It is acknowledged that this response may, to an extent, be the result of 'gaming' on the part of respondents as they might have been reluctant to reveal that they were actually influential in the process.

¹¹ For example, up to 2001 the UK's ASB, together with its US, Australian, Canadian, and New Zealand counterparts, were members of the influential G4 + 1 group.

Table 8

Perceived influence of interest groups (1 Very influential, 5 Not Influential at all).

	1 Very influential %	2 %	3 %	4 %	5 Not Influential at all %	Mean of Likert score	SD of Likert score
Professional accountancy bodies (<i>n</i> = 64)	56	27	12	5	0	1.66	0.88
European accounting standard-setters (e.g., the UK's ASB) and EFRAG (<i>n</i> = 64)	50	36	11	3	0	1.67	0.80
Auditing firms (<i>n</i> = 64)	42	45	9	2	2	1.75	0.82
The USA's Financial Accounting Standards Board (<i>n</i> = 62)	47	34	16	3	0	1.76	0.84
The USA's Securities and Exchange Commission (<i>n</i> = 62)	24	35	31	5	5	2.31	1.05
European Governments (e.g., UK) and the European Commission (<i>n</i> = 64)	19	42	30	6	3	2.33	0.96
Preparers of financial statements (<i>n</i> = 64)	11	42	23	11	13	2.72	1.89
Institutional investors (e.g., pension funds, mutual funds, insurance companies) (<i>n</i> = 63)	11	25	25	24	14	3.05	1.24
Academics (<i>n</i> = 61)	13	13	33	30	11	3.13	1.20
Fund management companies (<i>n</i> = 63)	3	16	29	35	17	3.48	1.06
Stockbrokers and other sell-side institutions (<i>n</i> = 62)	2	10	27	24	37	3.85	1.08

n: number of firms responding to this item.

Perceptions by report users that other interest groups are dominating the IASB's decision making process may be evidence either that the IASB is not achieving this goal or, if it is, that it has not managed to convey this message to the user community. Moreover, such perceptions fail to dispel criticism of private standard-setters that, in promulgating their standards, they cite the interests of report users only as a rhetorical device (Young, 2003).

6. Conclusion

There has been a long-standing gap in the literature concerning the nature and volume of participation by financial statement users in the process of setting accounting standards. This paper makes a contribution towards filling this gap, as it reports evidence relating to the perceptions and participation in the IASB process of a sample of UK investment management firms. These firms, however, belong to a nation state which has the capacity for direct participation in the IASB process (Standish, 2003) and caution should be exercised in generalising them to non-UK investment companies or to non-respondent firms.

The findings of the study indicate that the level of lobbying activity undertaken by investment management firms is, relative to that of other interest groups such as financial statement preparers, low. This is a confirmation of the findings of studies which used comment letters as a proxy for this activity. The study's findings are also consistent with Georgiou's (2004) that the use of comment letters is significantly associated with the use of other lobbying methods.

Importantly, however, the study also revealed that a substantial number of firms, instead of using comment letters, choose to lobby through indirect means, notably by appealing to a report user representative organisation, such as the IMA. There are two implications of this finding. First, that the participation of report users in the IASB process is not as low as suggested by the number of comment letters submitted by this interest group. Second, that the IASB should pay more attention to the views of report user organisations as these seem to be relied upon by a considerable number of firms to represent their interests. Future research in this area is warranted to establish the extent, nature and influence of the lobbying activities of these organisations.

Another significant finding of the study relates to the reasons for not participating in the process. Most of the respondents indicated that the most important reasons were the cost of lobbying and the belief that other users would represent their interests. These findings are consistent with this study's other finding: that lobbying through report user organisations is popular, as these organisations, according to the theory of collective action, act as a means of cost-sharing (Lindahl, 1987; Olson, 1965). It is also worth contrasting the finding concerning the importance of cost with the findings of other studies which have shown that the preparers of financial statements do not consider the cost of lobbying as a significant reason for not participating in the process (Georgiou, 2002).

Finally, it is noteworthy that the respondents to the questionnaire did not perceive any of the report user groups as particularly influential in the IASB process. Consistent with this was the finding that non-participation on their part was not prompted by a belief that the IASB would have adopted their preferred position in any case. By contrast, they considered the accounting profession and the accounting standard-setting bodies (both the FASB and the European ones) to be the dominant players in the IASB process. Such perceptions should be of concern to the IASB because, if they persist, they will eventually lead to an erosion of its role as an independent standard-setting body. It should be emphasised that perceptions do not always coincide with reality, and further research is needed to determine whether these perceptions are in fact correct. Moreover, further research relating to the lobbying behaviour of investment management firms post-2006, as well as research involving

other financial statement users based in different countries (e.g., other European countries, the US and Australia), is warranted in order to establish the generalizability of the study's other findings.

Appendix.

Questionnaire instrument

The IASB standard-setting process includes a number of stages through which a proposal passes before it is adopted as an international financial reporting standard (IFRS). For example, an issue has to be first admitted on the IASB's agenda. A firm may participate in the process in a variety of ways (e.g., directly by communicating its views to the IASB, or indirectly by communicating its views to other parties, such as its trade association).

Questions 1 and 2 relate to the **stages** at which, and the **methods** by which a firm may participate in the IASB standard-setting process. As appropriate, please tick Yes or No, and then tick the number on the effectiveness scale which best represents your opinion. Use the scale:

1 = Very effective 2 = Effective 3 = Neither effective nor ineffective 4 = Ineffective 5 = Very ineffective DK = Don't know

1. For each of the following **stages** of the IASB standard-setting process, please indicate:
 - (i) whether your firm has participated at these stages over the period 2001 to 2006 inclusive; and
 - (ii) regardless of whether your firm has actually participated at these stages, how you rate participation at each stage in terms of effectiveness (i.e., having an effect on the final outcome of the process)?

Stage of the standard-setting process	Actual use		Effectiveness scale					
	Yes	No	1	2	3	4	5	DK
Agenda formation stage								
Drafting stage of discussion paper								
Exposure period of discussion paper								
Drafting stage of exposure draft								
Exposure period of exposure draft								
Drafting stage of IFRS								

2. For each of the following **methods of participating** in the IASB standard-setting process, please indicate:
 - (i) whether your firm has used these methods over the period 2001 to 2006 inclusive; and
 - (ii) regardless of whether your firm has actually used these methods, how you rate each method in terms of effectiveness (i.e., having an effect on the final outcome of the process)?

Method of participation	Actual use		Effectiveness scale					
	Yes	No	1	2	3	4	5	DK
Submitting comment letters in response to IASB's invitations to comment								
Speaking at IASB public hearings								
Participating in IASB public round-table meetings								
Participating in field visits and/or field tests								
Communicating your firm's views to IASB members in pre-arranged private meetings								
Communicating your firm's views to IASB members through other means (e.g., telephone conversation, meeting at conferences)								
Communicating your firm's views to IASB technical staff in pre-arranged private meetings								
Communicating your firm's views to IASB technical staff through other means (e.g., telephone conversation, meeting at conferences)								
Commenting in the media								

(continued)							
Method of participation	Actual use		Effectiveness scale				
	Yes	No	1	2	3	4	5 DK
Appealing to UK government and/or European Commission officials for support of your firm's views							
Appealing to the members or technical staff of the UK's Accounting Standards Board (ASB) or of the European Financial Reporting Advisory Group (EFRAG) for support of your firm's views							
Appealing to your firm's trade association(s) (such as the Investment Management Association) for support of your firm's views and/or participating in the preparation of its response							
Having employees of your firm appointed as members to advisory/working groups set up by IASB for particular projects							
Sponsoring research studies on financial accounting and reporting issues							
Other (please specify)							

3. On the occasions in which your firm has not participated or, if your firm has never participated, in the IASB standard-setting process, how important were the following factors in your firm's decision(s) not to participate? Use the scale:

1 = Very important 2 = Important 3 = Neither important nor unimportant 4 = Unimportant 5 = Very unimportant

Lack of sufficient expertise to identify the impact of the proposed changes
Lack of impact of the proposed changes on the ability of your firm's financial analysts to analyse company financial statements
The belief that the IASB would not have responded positively to your firm's views
The belief that the IASB would in any case have adopted your firm's preferred position
The belief that your firm's views were adequately represented by other investment industry representatives
The cost (including time) of participating in the IASB standard-setting process
Other (please specify)

4. How influential do you consider the following interest groups to be in the IASB standard-setting process?

Use a scale of 1–5 where 1 = 'Very influential' and 5 = 'Not at all influential'

Institutional investors (e.g., pension funds, mutual funds, insurance companies)
Fund management companies
Stockbrokers and other sell-side institutions
Preparers of financial statements
Auditing firms
Professional accountancy bodies
European accounting standard-setters (e.g., the UK's ASB) and EFRAG
The USA's Financial Accounting Standards Board
European Governments (e.g., UK) and the European Commission
The USA's Securities and Exchange Commission
Academics
Other (please specify)

5. If you have any additional comments to make please use the space provided below.

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