

**LOBBYING OF THE ACCOUNTING STANDARD-SETTER
BY SOUTH AFRICAN COMPANIES**

by

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DECLARATION

I declare that the dissertation entitled **LOBBYING OF THE ACCOUNTING STANDARD-SETTER BY SOUTH AFRICAN COMPANIES** is my own work, that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references, and that this work has not been submitted before for any other degree at any other institution.



SIGNATURE

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10/09/2016

DATE

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ABSTRACT

This study examined the lobbying of the International Accounting Standards Board (IASB) by South African companies. The aim of this study was to establish the timing and methods of lobbying of the IASB by South African companies.

Central to this study was the seminal work of Sutton (1984), predicting when and how companies lobby an accounting standard-setter. The research hypotheses for this study were formulated on the basis of Sutton's (1984) predictions.

The online questionnaire in this study was distributed to the top 100 JSE primary listed companies in order to collect primary data to test the four hypotheses regarding the timing, methods and perceived effectiveness of lobbying by South African companies.

The findings of the empirical investigation indicated that most South African companies lobby later in the due process of the IASB and prefer using their auditors to support their views at the IASB. The findings are subject to certain limitations that are addressed in the study.

Lastly, the researcher provided recommendations for future research in accounting standard-setting in South Africa.

Key words: accounting standard-setting, accounting standards, due process, effectiveness, lobbying, lobbying methods, International Accounting Standards Board (IASB), International Financial Reporting Standards (IFRS), the South African Institute of Chartered Accountants (SAICA), rational choice theory, stakeholders.

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LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviations and acronyms used in this study include the following:

APB	Accounting Practices Board (South Africa)
APC	Accounting Practices Committee (South Africa)
ASB	Accounting Standards Board (United Kingdom)
DPOC	Due Process Oversight Committee
FRSC	Financial Reporting Standards Committee (South Africa)
SA GAAP	South African Generally Accepted Accounting Practice
IASB	International Accounting Standards Board
IASC	International Accounting Standards Council
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
SAICA	South African Institute of Chartered Accountants
SME	Small and medium-sized enterprises
UK	United Kingdom
Unisa	University of South Africa
US	United States of America

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The actions or attempts by parties to influence a rule-making body are collectively referred to as lobbying (Sutton, 1984:81). Harris and Lock (1996:315) describe lobbying as “...mobilising opinion to exert pressure on public authorities for commercial gain or competitive advantage”.

History abounds with examples of well-known lobbyists exerting pressure on legislators for their own advantage. By far the most famous lobbyist was Samuel Ward, “the king of the lobby” in the United States of America (US) during the post-Civil War period (Jacob, 2012:477). He cunningly organised society dinners with influential people and congressmen as a method of lobbying for or against proposed legislation (Jacob, 2012:490). He is known to have used his elegant dinners as an opportunity to pressure congressmen to sneak certain statutes, which he was paid to advocate, through the US Congress (Jacob, 2012:489). He did not perceive these extravagant dinners as a form of bribery but instead as a method to strengthen his political friendships (Jacob, 2012:490). Jacob (2012:490) ascribes the following compliment to Samuel Ward:

“No one had ever before used canvas-back ducks and Maryland terrapin, fine wines and savoir faire to lobby as systematically, with as much forethought, or to better effect than he.”

Although Samuel Ward’s method of lobbying is not an official lobbying method in the context of this study, the strategy of using extravagant dinners as a lobbying opportunity is a fitting example of the extent to which a lobbyist will go in order to influence a legislative process.

Lobbying is considered to be a highly rational response in a democracy (Downs, 1957:141) and is also beneficial to the maintenance of a legislative system (Patterson, 1963:72). Lobbyists provide the legislator with important information on the impact of its policies on the public, organisations or specific interest groups

(Caldeira and Wright, 1998:504). Therefore, lobbyists are not only the representatives of views but are also crucial in the communication process with the legislator (Patterson, 1963:73). For these reasons, the right to petition and also the right to lobby the government are protected in South Africa in section 17 of the Constitution of the Republic of South Africa (South Africa. South African Government, 1996).

Accounting standards are regulations, and owing to their nature, attract substantial opposition when they are perceived by constituents to have a negative impact (Sutton, 1984:81). It is then not surprising that accounting standard-setters are also the target of lobbying efforts. The accounting standards issued by an accounting standard-setter have economic consequences (Wagenhofer, 2011:229) and may impact, inter alia, on a company's future cash flows (Watts and Zimmerman, 1978:132), accounting numbers and disclosure (Jorissen, Lybaert, Orens & Van der Tas, 2010:28), information-processing load (Elbannan and McKinley, 2006:602) and corporate value (Mathur and Singh, 2011:252). In light of these consequences, companies may attempt to influence, in the pursuit of self-preservation, the outcome of an accounting standard (Georgiou, 2004:222). The lobbying of accounting standards is therefore expected, given its impact on various stakeholders.

1.1.1 Sutton's predictions based on the rational choice theory

Lobbying of an accounting standard-setter is explained by Sutton (1984:81) in a seminal and comprehensive study on the subject in general. In terms of the rational choice model, Sutton (1984:93) argues that a rational individual will only lobby an accounting standard-setter by considering the probability of affecting the outcome, the potential benefits of succeeding and the costs of his or her lobbying efforts.

Sutton's (1984:81) submissions in this regard are primarily based on economist Anthony Downs's (1957) theoretical framework of voting behaviour. Downs's (1957) theoretical framework predicts *when* a constituent will vote and *which* voting methods he or she will employ based on his or her own benefit-cost analysis. Sutton (1984:83) applies Downs's rational choice model to formulate lobbying behaviour as follows:

A lobbyist will lobby an accounting standard-setter only when the potential benefit derived from the difference in two potential outcomes ($U_a - U_b$) of the standard-setting process, multiplied by the probability of influencing the accounting standard-setter decision (P), exceeds the cost (C) of the lobbyist's efforts. It follows that the lobbyist will lobby when $P(U_a - U_b) > C$.

Based on the cost-benefit framework established under the rational choice theory above, Sutton (1984) predicts the timing and methods of lobbying the accounting standard-setter. Twenty years after Sutton's (1984) predictions explaining lobbying of the accounting standard-setter, Georgiou (2004) adopted Sutton's theoretical framework to explain the methods, timing and effectiveness of lobbying of accounting standards in the UK by preparers of financial statements. The empirical study by Georgiou (2004) provides strong support for the relevance and application of Sutton's (1984) hypotheses regarding lobbying, even after 20 years since the origination of Sutton's theoretical framework. This study relied on the seminal work by these two leading researchers.

The accounting standard-setting process provides lobbyists with various opportunities to raise their views on a proposed accounting standard. In order to grasp the timing and methods of corporate lobbying of accounting standards an understanding of the accounting standard-setting process itself is required.

1.1.2 The due process of developing International Accounting Standards

The development of accounting standards, namely International Financial Reporting Standards (IFRS), is assigned to the International Accounting Standards Boards (IASB). The IASB has a mandate of developing "... in the public interest, a set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles" (IFRS Foundation, 2013a:5).

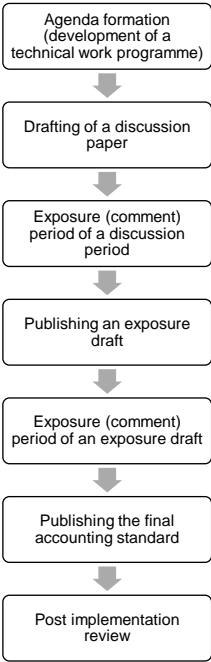
In light of the potential impact a new IFRS may have on companies, as discussed in the preceding paragraphs, the IASB invites the participation of various stakeholders throughout the standard-setting process. Consultation and stakeholder engagement form an integral part of the IASB's process of developing accounting standards

(IFRS Foundation, 2013a:8). The process of the IASB for developing IFRS is referred to as the “due process” of the IASB and affords affected parties various opportunities to influence the outcome of an IFRS. The due process of the IASB serves as a “dispute resolution mechanism” when developing new accounting standards or amending current accounting standards (Wingard, Bosman & Amisi, 2016).

The due process of the IASB is formalised and contained in the Due Process Handbook (IFRS Foundation, 2013a) and is subject to the review of Due Process Oversight Committee (DPOC) (IFRS Foundation, 2013a:6). The due process of the IASB ensures transparency, accessibility and accountability throughout the standard-setting process (IFRS Foundation, 2013a:8). The IASB was commended for its transparent due process of standard-setting in the 2007 Global Accountability Report (Lloyd, Oatham & Hammer, 2007:44). The report reveals that the IASB has advanced capabilities for engaging external stakeholders in its decision-making processes (Lloyd *et al*, 2007:36).

Any proposed accounting standard or major changes to an accounting standard are subjected to the various stages of due process of the IASB, as contained in the Due Process Handbook (IFRS Foundation, 2013a). The stages are summarised in figure 1.1 below.

FIGURE 1.1 – The due process of the IASB to develop IFRS



Source: Own observation from the Due Process Handbook (IFRS Foundation, 2013a)

The first stage in the due process of developing an IFRS is to determine if an accounting issue warrants the IASB’s attention as a project. The importance of an accounting issue is determined by the IASB through formally consulting with the public by way of a document called the “Request for Information” and/or through its research programmes (IFRS Foundation, 2013a:21). During this period, respondents have the opportunity to raise their financial reporting concerns in a comment letter in response to the Request for Information issued by the IASB, which is then analysed and if deemed necessary, prioritised by the IASB in its technical work programme (agenda) (IFRS Foundation, 2013b:22). The research programme of the IASB also plays a pivotal role during this stage by identifying topical accounting issues for its agenda (IFRS Foundation, 2013b:22).

The main output of a Request for Information and the research programme is to issue a discussion paper on the proposed accounting standard in order to further consult with interested parties on the accounting issue (IFRS Foundation, 2013b:23). The discussion paper contains a summary of the accounting issue at hand and the IASB’s preliminary views on the accounting issue (IFRS Foundation, 2013b:23). The

issue of a discussion paper for each proposed accounting standard or amendment is not a mandatory step in the due process of the IASB (IFRS Foundation, 2013b:15).

Once all matters or concerns resulting from the discussion papers have been addressed, the IASB develops an exposure draft for comment from all stakeholders (IFRS Foundation, 2013a:28). The exposure draft is in the form of the proposed final accounting standard (IFRS). During the comment period of the exposure draft, various stakeholders have the opportunity to raise their concerns on the proposed accounting standard by submitting a written comment letter to the IASB. At the end of the comment period, the IASB summarises the major issues raised in the comment letters of stakeholders (IFRS Foundation, 2013a:30). It then attends to these issues by doing additional field work, holding public hearings and consulting with various professional bodies (IFRS Foundation, 2013a:31). Once all issues arising from the exposure draft have been resolved, the IASB informs the DPOC that re-exposure drafts are not necessary (IFRS Foundation, 2013a:31). The final IFRS is then published by the IASB as an accounting standard (IFRS Foundation, 2013a:31).

After the issue of the final IFRS, usually two years since the IFRS has been applied by constituents, the IASB conducts a post-implementation review. The purpose of this review is to determine the effect that a new IFRS has had on preparers of financial statements, auditors and investors (IFRS Foundation, 2013a:35). In order to gather this information, the IASB issues a Request for Information to gather comments from constituents and also conducts various consultative activities (IFRS Foundation, 2013a:35).

It is evident from the above description of the due process that stakeholders have various formal opportunities during the due process to raise their views and concerns on a proposed IFRS with the IASB. Stakeholder participation in the consultative processes that form part of the due process of the IASB is considered a formal method of lobbying (Jorissen *et al*, 2010:4).

The next section discusses how South African companies formally participate in the due process of the IASB.

1.1.3 South Africa's role in accounting standard-setting

The Accounting Practices Board (APB) was the official accounting standard-setter in South Africa before the promulgation of the Corporate Laws Amendment Bill in 2011 (Stainbank, 2010:63). The APB issued accounting standards as statements of South African Generally accepted accounting Practice (SA GAAP), which were primarily based on international accounting standards (Venter and Stiglingh, 2006:87). In 2003, after various conversion projects, the statements of SA GAAP issued by the APB were an exact replica of IFRS (Venter and Stiglingh, 2006:87).

In 2005, the Johannesburg Stock Exchange (JSE) required all listed companies to report their financial statements in accordance with IFRS (Venter and Stiglingh, 2006:87). Non-listed companies continued with the use of SA GAAP as financial reporting standards. In February 2012, a decision was taken to completely withdraw SA GAAP as the financial reporting standards and only allow IFRS or *IFRS for SMEs* as a basis for the preparation of financial statements of South African companies (IFRS Foundation, 2015b).

The APB is not the only role player in accounting standard-setting in South Africa. The South African Institute of Chartered Accountants (SAICA) plays a significant role in accounting standard-setting by serving as the secretariat to the APB (Gloeck, 2003:71).

In essence, SAICA manages the accounting standard-setting process on the APB's behalf in South Africa (Gloeck, 2003:71). SAICA manages the process by issuing the IASB's exposure drafts on proposed accounting standards for comments in South African (Stainbank, 2010). SAICA is also tasked with analysing and interpreting the comments it receives from South African stakeholders to determine the dominant concerns on a proposed accounting standard from a South African perspective (Gloeck, 2003:71). These concerns from stakeholders are considered by SAICA, and its technical committees and are then compiled by SAICA in one comment letter to the IASB. This process affords South African stakeholders opportunities to formally, but *indirectly*, participate in the consultative process of the IASB. Obviously, South

African stakeholders may also *directly* participate in the IASB's standard-setting process by writing a comment letter to the IASB.

1.2 PROBLEM STATEMENT

An examination of extant research indicates that very few comment letters are written by South African stakeholders directly to the IASB compared to the number written by stakeholders in developed countries. Gloeck (2003:73) found in his research on South African accounting standard-setting practices that South African companies are not actively involved during the comment period despite comment invitations by SAICA during the consultation period of an exposure draft.

The limited number of comment letter submissions by South African companies during the consultative periods of the accounting standard-setter has also been observed in other studies. Larson's (1997:185) study of 288 comment letters on 17 exposure drafts issued between 1989 to 1994 showed that during this five-year period, only three South African stakeholders responded to the invitations to comment. These three South African respondents wrote 12 comment letters over a five-year period compared to 121 comment letters from respondents in the US and 43 comment letters from respondents in the UK over a five-year period (Larson, 1997:185).

Also, Stainbank (2010) investigated the responses from South African stakeholders on the exposure draft *IFRS for SMEs* issued by SAICA in 2007. Stainbank's (2010:64) investigation showed that only 14 comment letters on the exposure draft *IFRS for SMEs* were received by SAICA from South African stakeholders during the comment period. Stainbank (2010:62) argues that the reason for this low response rate is the highly technical nature of the accounting standard at hand. Larson and Hertz (2013) analysed comment letters received by the IASB regarding 57 accounting issues from 2001 to 2008. Their geographical analysis shows that South Africa constituted 3% of the worldwide comment letter writers over this period (Larson and Hertz, 2013:16).

In light of the research mentioned above, it is evident that there is hardly any participation by South African stakeholders during a comment period of a proposed accounting standard. One should, however, not assume that the low number of comment letters is proof that South African stakeholders do not lobby accounting standard-setters. Instead, it is suggested by Gloeck (2003:73), that South African stakeholders have found alternative means of influencing the accounting standard-setting process.

Georgiou (2004:230) agrees with Gloeck (2003) that a considerable number of lobbyists prefer using lobbying methods for which there is inadequate public evidence. Comment letters are publicly available, unlike evidence from public meetings, field visits and private meetings with the accounting standard-setter. For the researcher, the investigation of unobservable lobbying methods was a major challenge. In the words of Sutton (1984:93):

“If the success of lobbying depends in large part on disguise, then such activity will doubtless escape the attention of the researcher too.”

Another challenge imposed on researchers in South Africa is the fact that the few comment letters that are received by SAICA on behalf of the IASB are not publicly available. Those few comment letters that are ultimately collected by SAICA during a comment period are researchers (Gloeck, 2003:73). Gloeck (2003:72) argues that the scarcity of extant research in the field of accounting standard-setting in South Africa is as a direct result of SAICA’s “closed” process of accounting standard-setting. This is in stark contrast with the IASB’s “open” process where the comment letters submitted by stakeholders are available to the public on its website (Wingard *et al*, 2016:142) .

In summary, there is a paucity of observable evidence of corporate lobbying attempts by South African companies during the accounting standard-setting process. As a result, the lobbying attempts by South African companies during accounting standard-setting are relatively unexplored from a research perspective. The limited number of South African journal articles on this subject matter is evidence of this. It therefore follows that the research problem of this study was formulated as follows:

The lobbying methods and the timing at which they are employed by South African companies during the accounting standard-setting process are uncertain.

The choices of when to lobby and which lobbying methods to use are driven by the effectiveness principle as discussed by Sutton (1984) in his theoretical framework. Lobbying at certain stages in the standard-setting due process is more effective than lobbying at other stages (Georgiou, 2004). Also, the use of certain lobbying methods is more effective than others (Georgiou, 2004).

According to Sutton (1984), selecting the most effective stages for lobbying and most effective lobbying methods increases the probability of influencing the accounting standard-setter. In other words, companies select lobbying methods and stages of the accounting standard-setting process for lobbying based on their *perceived* effectiveness to influence the accounting-standard setter.

Sutton (1984) admits that observing the effectiveness of lobbying is difficult. Therefore, the lobbying decision is not necessarily based on actual observable evidence of the effectiveness of certain lobbying methods and stages of lobbying. It is suggested that the *perception* of effectiveness is sufficient for the lobbyist to determine when and how to lobby (Georgiou, 2004).

There is a scarcity of empirical evidence on how effective South African companies *perceive* their lobbying attempts to be during accounting standard-setting. For this reason, the research problem stated above included the following sub-problem:

The perceived effectiveness of lobbying by South African companies during the accounting standard-setting process is uncertain.

1.3 HYPOTHESES

The research hypotheses flow logically from the research problem stated above. A research hypothesis is a prediction that the researcher aims to prove as true (Kothari, 2004:186).

The research hypotheses for this study were formulated from Sutton's (1984) predictions based on the rational choice theory. Sutton (1984) predicted when companies would lobby and which lobbying methods they would probably employ based on cost-benefit considerations. He also addressed the effectiveness of lobbying at certain points in the standard-setting process and the effectiveness of the use of the various lobbying methods to increase the probability of influencing the accounting standard-setter.

1.3.1 Timing of lobbying and its perceived effectiveness

Sutton (1984:83) argues that the best time to lobby is in the pre-draft stages of the accounting standard-setting process, which is to say during the stages preceding the exposure draft period of the due process. Lobbying during this period is highly effective and less costly since the accounting standard-setter is still undecided about the accounting issue and is therefore susceptible to external influence (Sutton, 1984:88). During the later stages of the accounting standard-setting process, the accounting standard-setter has formulated an opinion on the accounting issue and is therefore less susceptible to those who wishing to sway its opinion. Consequently, there is a higher probability of influencing the accounting standard-setter earlier rather than later in the process. In light of Sutton's (1984) assertions on the timing of lobbying, the research hypothesis was formulated as follows:

It is expected that the earlier stages are used more by companies to lobby the IASB than the later stages due to the effectiveness of influencing the IASB during the earlier stages of the accounting standard-setting process.

1.3.2 Lobbying methods and their perceived effectiveness

Lobbyists choose a mix of lobbying methods that is the most cost-effective and increases the probability of influencing the accounting standard-setter (Sutton, 1984:89). The most observable form of lobbying of the IASB is comment letter submissions which are publicly available. However, the use of lobbying methods other than comment letter submissions is difficult to observe. Hence hardly any empirical evidence, other than that of Hodges and Mellet (2002) and Georgiou (2004; 2010), exists for lobbying methods other than comment letter submissions.

Hodges and Mellet (2002) and Georgiou (2004) found that the use of comment letters submission is strongly associated with the use of other lobbying methods. In fact, Georgiou (2004) reported that comment letter submissions are not the most used lobbying method. Sutton (1984) also suggests that lobbying methods such as seeking a private audience with the accounting standard-setter are more popular than comment letter submissions.

Therefore, based on the findings of Sutton (1984), Hodges and Mellet (2002) and Georgiou (2004), it is expected that those lobbyists that submit comment letters have, in conjunction with comment letters, also employed other lobbying methods. Consequently, the research hypothesis regarding the use of lobbying methods was formulated as follows:

The use of comment letter submission is strongly associated with the use of other lobbying methods.

The perceived effectiveness of lobbying methods is based on the cost/benefit considerations of Sutton (1984). Companies only lobby if the perceived benefit of influencing the accounting standard-setter outweighs the cost of lobbying (Sutton, 1984).

There is limited evidence of how effective lobbying is perceived to be by the lobbyist. Sutton (1984) predicts that lobbyists rate the various lobbying methods differently in

terms of effectiveness. He also suggests that other lobbying methods are more effective than comment letter submissions (Sutton, 1984). Georgiou's (2004) results from his survey confirm Sutton's predictions about the effectiveness of the various lobbying methods: Lobbying methods are not perceived by lobbyists as equally effective and lobbying methods other than comment letters are perceived to be the most effective. Consequently, the research hypothesis regarding the effectiveness of lobbying methods was formulated as follows:

Other lobbying methods are more effective than comment letter submissions.

1.4 RESEARCH OBJECTIVES

The purpose of this study was to examine the timing, methods and perceived effectiveness of corporate lobbying of accounting standard-setting in South Africa. More specifically, the objectives of this study were as follows:

- to critically analyse the extant literature on accounting lobbying behaviour from which hypotheses are formulated;
- to empirically test the timing, methods and perceived effectiveness of lobbying of the accounting standard-setting process through a questionnaire instrument distributed to a sample of South African listed companies; and
- based on the findings of the empirical investigation, to determine the applicability of Sutton's predictions based on the rational choice theory in the South African context.

1.5 RESEARCH DESIGN

Two research methods were used to achieve the research objectives of the study: a literature review and survey-based research.

1.5.1 Literature review

The literature study is undertaken in chapter 2. The literature review, firstly, includes a broad discussion on the relevant academic works of lobbying in the field of the political, economic and accounting sciences. The literature review narrows its focus as it proceeds to the next discussion on the accounting standard-setting process of the IASB, and more specifically the role of South Africa in the IASB's due process. Thereafter a definitive examination of the methods, timing and benefits of lobbying the accounting standard-setter is undertaken. Finally, the likely stakeholders participating in the lobbying of the accounting standard-setter are discussed in more detail.

1.5.2 Collection of empirical evidence

1.5.2.1 *Research instrument*

Empirical evidence of corporate lobbying by South African companies was obtained through an internet-based questionnaire. The questionnaire is included in appendix A.

Owing to the lack of observable lobbying by South African stakeholders of SAICA's or the IASB's due process, this study lent itself to a questionnaire as a research instrument. Procuring data specifically relating to unobservable lobbying was difficult mainly because of the disguised nature of this form of lobbying. Sutton (1984:93) therefore suggests that researchers make use of survey-based research to collect information on lobbying methods employed by stakeholders. This study's questionnaire was based on Georgiou's (2004) survey, which was used in his research on corporate lobbying behaviour in the UK. Georgiou's (2004) questionnaire addresses a similar research problem and hypotheses as in this study.

The questionnaire was self-administered. The response was internet-based. The software used to develop and administer the questionnaire was LimeSurvey.

1.5.2.2 *Population and sample*

The population for this study consisted of primary listed companies on the JSE. The sample selected for this study was deliberately chosen by the researcher as the top 100 JSE listed companies based on market capitalisation. Only companies with a primary listing on the JSE were eligible for selection of the sample.

The reason for selecting the top 100 companies listed on the JSE was that lobbying companies are larger than non-lobbying companies (Larson, 1997). Sutton (1984:93) also submits that larger companies are more likely to lobby than smaller companies owing to the potential high cost of lobbying. In light of these assumptions, the researcher deemed it appropriate to select the largest primary listed companies in South Africa for collecting empirical evidence for this study.

1.6 SIGNIFICANCE OF THE STUDY

Firstly, the aim of the study aim was to provide insight into the methods, timing and perceived effectiveness of corporate lobbying by leading companies in South Africa. The extant studies on corporate lobbying mainly focus on lobbying activity in the developed world (Sutton, 1984; Lindahl, 1987; Georgiou, 2004; Elbannan and McKinley, 2006; Jorissen *et al*, 2010; Wagenhofer, 2011; Koh, 2011). Very few studies, if any, examine the methods, timing and perceived effectiveness of corporate lobbying of the IASB by South African companies. Hence there is a paucity of empirical research in the South African literature on this subject. This empirical study is significant in that it fills the gap in the accounting literature by providing an understanding of corporate lobbying attempts by South African companies during the accounting standard-setting process of the IASB.

Secondly, the study is important in that it determines the applicability of Sutton's predictions regarding the timing and methods of lobbying of the IASB in the South African context. An extensive literature review has proven that the general applicability of Sutton's predictions to South African companies has not yet been

examined. Georgiou (2004:235) and McLeay, Ordelheide and Young (2000:83) encourage research in accounting standard-setting in other countries in order to establish the general relevance of Sutton's predictions that are based on the rational choice model. The aim of this study was to use the empirical results from the questionnaire to determine if there is support for Sutton's predictions in the South African context.

1.7 LIMITATIONS AND DELIMITATIONS OF THIS STUDY

This study was delimited to focus on the top 100 listed firms on the JSE. The top 100 JSE listed firms were selected on the basis of their market capitalisation and not by means of a random sample. For this reason, the responses received from the listed companies cannot be generalised to all companies in South Africa. However, the top 100 listed companies on the JSE are more likely to lobby since they are able to afford the costs associated with lobbying (Sutton, 1984). Thus a study of the top 100 companies listed on the JSE provided insight into the corporate lobbying behaviour of the leading companies in South Africa. The results of the study should nevertheless be interpreted by taking into account the limitation of the relatively small sample.

The listed companies that responded to the questionnaire were also requested to indicate their lobbying during a specific period, this being from 1 January 2005 to the current year. The reason for this delimitation was that listed companies were required from 1 January 2005 to report their financial statements in accordance with IFRS (IFRS Foundation, 2015b). Prior to this date, financial reporting in terms of GAAP was allowed. Consequently, the accounting regulatory environment before 1 January 2005 was significantly different to the current accounting regulatory environment. The questionnaire therefore focused on participation in the accounting standard-setting process from 1 January 2005.

Lastly, a limitation to the study may have resulted from companies' willingness to disclose their participation in lobbying methods for fear of being perceived as illegitimately influencing a regulatory process (Georgiou, 2005:222). The potential negative publicity a constituent might be subjected to if it is associated with lobbying, especially lobbying outside of the formal due process, may have influenced the

companies' responses to the questionnaire. Given this potential limitation, a cover letter was attached to the questionnaire assuring respondents that the information provided by them would be treated with the utmost confidence and personal details of the respondents would not be disclosed. In terms of the ethical clearance obtained from Unisa for the use of a questionnaire instrument, the researcher undertook to keep all information pertaining to the respondents and their submissions on computer-based records that are password protected and with access privileges only available to the researcher.

1.8 LIST OF DEFINITIONS USED

For the purposes of this study, the following terms are defined:

Direct lobbying

Direct lobbying denotes that the lobbyist communicates directly with the IASB in order to influence the IASB's decisions. Direct lobbying includes communicating directly with the project staff of the IASB, joining a working group of the IASB or writing a formal comment letter directly to the IASB (Georgiou, 2004:222; Jorissen *et al*, 2010:4).

Due process

The due process is the formal stages of the accounting standard-setting procedures of the IASB, as set out in the constitution of the IFRS Foundation. The due process contains established consultative procedures to ensure a standard-setting process that is transparent and that considers a wide range of views from interested parties (IFRS Foundation, 2013a).

Formal lobbying

Formal lobbying means permitted participation methods allowed by the due process of the IASB, as described in the Due Process Handbook (IFRS Foundation, 2013a). Formal lobbying includes direct and indirect lobbying methods.

Indirect lobbying

Indirect lobbying refers to those methods the lobbyist uses to influence the IASB indirectly through a third party such as a national accounting standard-setter, the media or external auditors (Georgiou, 2004:222; Jorissen *et al*, 2010:4).

Informal lobbying

Informal lobbying is defined as lobbying that occurs outside of the formal due process of the IASB (Hodges and Mellet, 2002:144). Informal lobbying may include private conversations and informal meetings with staff of the IASB, or influencing the opinion of accounting professional bodies when they make their representations to the IASB (Jorissen *et al*, 2010:5).

International Financial Reporting Standards (IFRS)

These are the accounting standards and interpretations issued by the IASB. They comprise IFRS, IAS, IFRIC interpretations and SIC interpretations (IFRS Foundation, 2011).

Lobbying

Lobbying refers to the actions by stakeholders to influence a regulatory body (Sutton, 1984:92).

Organisation theory

Organisation theory studies the behaviour of an organisation in response to environmental factors (e.g. scarce resources or political influence) and conversely the impact of the organisation on its environment (Encyclopedia of Small Business, 2007). The human influence on the behaviour of the organisation, and vice versa, is also a key element of organisation theory (Encyclopedia of Small Business, 2007).

Positive accounting theory (PAT)

PAT examines through observation the conditions that lead to existing accounting practices. PAT attempts to predict the outcome, after taking into account certain conditions, and thereafter comparing the predicted outcomes with the observed outcome (Schroeder, Clark & Cathey, 2011).

Rationality

Rationality in the economic sense refers to the decision making behaviour of an intelligent citizen whereby it carries out any act whose marginal return exceeds its marginal costs (Downs, 1957:149).

Rational choice theory

The rational choice theory is an economic theory that explains human behaviour when confronted with decisions and suggests individuals always behave rationally during decision making by weighing the potential benefits against the potential costs before taking action (Parsons, 2005:11).

Stakeholders

Stakeholders refer to those parties with an interest in the outcome of the accounting standard-setting process, and according to Jorissen *et al* (2010:11), include the following parties:

- preparers of financial statements;
- users of financial statements;
- the accounting profession;
- national standard-setters;
- stock exchanges;
- governments;
- academics; and
- individuals.

1.9 OUTLINE OF CHAPTERS

The remainder of this dissertation is organised into chapters as follows.

Chapter 2: Literature review

The literature study first provides an overview of the extant research on lobbying behaviour and the rational choice theory. Thereafter the accounting standard-setting process of the IASB is discussed. This is followed by a discussion of the methods, costs and benefits of lobbying the accounting standard-setter. Furthermore, the stakeholders that are likely to lobby accounting standard-setters are examined. Importantly, South African participation in the due process of the IASB is discussed.

Chapter 3: Research methodology

This chapter explains the research design and methodology of this study. It describes the process used for selecting the sample, the survey instrument utilised and how the data was collected from the sample companies.

The survey instrument was based on Georgiou's (2004) questionnaire used in his study on the timing and methods of corporate lobbying by UK companies. Limited amendments were made to Georgiou's questionnaire in order to adapt the questionnaire for the South African context and the IASB's due process.

In this chapter, the development of the four hypotheses upon which the questionnaire was based are discussed in detail. Finally, chapter 3 concludes with the limitations, delimitations and ethical procedures of the empirical investigation.

Chapter 4: Analysis of the research findings

This chapter presents the data and results from the questionnaire instrument. Statistical tests are employed in this chapter to analyse and draw conclusions on the procured data. Notably, this chapter also describes the results from the testing of the four hypotheses of this study.

Chapter 5: Summary, conclusions and recommendations

Chapter 5 summarises the research problem, research objectives and the research methodology employed in this study. Furthermore, the findings and results reported in chapter 4 are summarised in chapter 5. Next, conclusions are drawn, based on these findings on the general applicability of Sutton's predictions regarding the timing, methods and effectiveness of lobbying. Finally, the contribution of this study and recommendations for further research are discussed.

1.10 SUMMARY

In this chapter Sutton's predictions regarding the methods and timing of lobbying were discussed. Sutton's theoretical model serve as a background to this study. The due process of the IASB and South Africa's role in the accounting standard-setting process of the IASB were examined. The problem statement relevant to this study was formulated and demonstrated that the lobbying methods and the timing at which they are employed by South African companies during the accounting standard-setting process are uncertain.

In light of the above problem statement, the research objectives of the study were discussed and the hypotheses to address each research objective were formulated from Sutton's theoretical model for lobbying the accounting standard-setter.

Even though the empirical research is subject to certain limitations, the researcher suggested that this empirical study will provide insight into the methods, timing and perceived effectiveness of corporate lobbying by leading companies in South Africa.

A list of definitions was provided for words or terms commonly used throughout this study. Lastly, an outline of the chapters in this study was provided to the reader.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

Various scholars agree that the accounting standard-setting process is not only a technical process, but also inherently a political process (Sutton, 1984; McLeay *et al*, 2000; Georgiou, 2004; Elbannan and McKinley, 2006; Perry and Nölke, 2006). This political process of accounting standard-setting creates an ideal opportunity for lobbyists to influence the outcome of the accounting standard-setting process. The aim of this chapter is to examine the methods, timing and perceived effectiveness of such political lobbying of the accounting standard-setter.

The chapter commences with an examination of the nature of lobbying. This overview of lobbying demonstrates that it involves the transfer of information to the regulator, which is a socially responsible action, and in the context of a democracy, deemed to be rational behaviour.

The section that follows examines rational choice theory, an economic theory underlying this study. The review of the rational choice theory is necessary since the remainder of this chapter analyses lobbying of the accounting standard-setter from this theoretical perspective.

Against this background, the accounting standard-setter and its due process are discussed. An analysis of the due process stages of accounting standard-setting demonstrates that various opportunities exist for lobbying by stakeholders.

Sutton's predictions based on the rational choice theory framed this study and highlighted two important principles: the costs and benefits of lobbying. A discussion of these two principles was therefore deemed necessary. Firstly, a review is included on the lobbying methods and associated costs of these lobbying methods during the various stages of the due process of the accounting standard-setter. Secondly, an analysis of the motivations for and benefits of lobbying is included. The costs and benefits examination emphasises the applicability of Sutton's predictions, which are based on the rational choice theory in the context of accounting standard-setting.

Based on the above, a review of who is likely to lobby the accounting standard-setter is included. This review reveals how Sutton's (1984) cost-benefit analysis determines who the most likely lobbyists are.

Finally, lobbying by South African companies during the IASB's due process is examined.

2.2 LOBBYING BEHAVIOUR

An understanding of lobbying in its economic and political forms is necessary before one can examine the lobbying of the accounting standard-setter. This section of the literature study starts off with the seemingly obvious, but necessary discussion on the definition of lobbying. This is followed by an examination of the theorem applied to lobbying in the economic field that forms the framework of this study.

2.2.1 The nature of lobbying

2.2.1.1 *Lobbying is the transfer of information*

Lobbying is described as the collective action by parties to influence a legislator (Sutton, 1984:81). Gullberg (2008:165) explains lobbying as "... interest groups' contact with – and directed at – decision-makers in an attempt to influence public policy" and "... comprises contact made through institutionalised and non-institutionalised participation in the policy-making process".

The word "influence" refers to a wide range of methods to exert pressure on a legislator such as an accounting standard-setter. This type of pressure on a legislator does not necessarily refer to the use of money to sway the legislator, but rather the facilitation of negotiations between the legislator and interested parties (Richter, Samphantharak & Timmons, 2009:895). The lobbying process in its political nature necessitates the transfer of information between parties (De Figueiredo, 2002:126).

The information transferred by interested parties to a legislator may take on various forms such as fact-based reports, statistics, opinions and forecasts, and may even contain threats (De Figueiredo, 2002:125). In the field of accounting specifically, the

comment letters to the standard-setter are an important tool for transferring information from affected parties to the standard-setter. Evidence of the impact of information transfer with comment letters is provided by Brown and Feroz (1992). Their study shows that an accounting standard-setter is influenced or swayed by the views expressed in the comment letters submitted during the due process (Brown and Feroz, 1992:719). Van Lent (1997:22) also notes in his study on lobbying of the Dutch government during the promulgation of two controversial financial reporting laws in the financial services industry that most of the lobbying that occurred was in the form of information transfer to the Dutch government. Surprisingly, in this case, the government even requested interested parties to transfer information on the controversial financial laws to the government (Van Lent, 1997:22).

The above highlights Chung's (1999:244) view that a regulator such as the accounting standard-setter finds the views expressed by interested parties particularly informative. This susceptibility of regulators to interested parties' opinions is not entirely unexpected since it is widely accepted in a democracy that regulators should consider the preferences of affected parties (Brown and Feroz, 1992:715). In this regard Patterson (1963:72), and Keffer and Hill (1997:1371), suggest that the role of the lobbyist is so important in legislative structures that legislators in fact rely heavily on lobbyists as a source of information.

2.2.1.2 *Lobbying is socially responsible*

Apart from being a necessary legislative tool, lobbying is also seen as socially responsible. When companies lobby legislation or government policies that may negatively impact on companies' stakeholders, they are considered to be socially responsible (Hamilton and Hoch, 1997:119).

It is obvious that in reality social responsibility is not the primary driver for companies to lobby. Many companies embark on lobbying out of pure self-interest. However, those companies who pursue their own ends within the framework of sound business ethics may inevitably also carry out their social responsibilities (Downs, 1957:136). The correct balance between public good and self-interest should be maintained by sound business practices and ethical standards (Hamilton and Hoch, 1997:121). This

ethical approach to lobbying is reiterated by Keffer and Hill (1997:1376), who suggest that ethical lobbying can only occur if the lobbyist considers the goals and desires of the community in which it operates.

2.2.1.3 *Lobbying is a rational action*

The lobbyist is a *rational* actor in a political process. According to Downs (1957:149), "... lobbying is effective in a democracy because all the agents concerned, the exploiters, the exploited, and the government, behave rationally". Lobbyists behave rationally because they evaluate the costs, probability of influencing the regulator and the associated benefits of lobbying before embarking on their lobbying activities.

Based on the above assumption of rational behaviour, it is expected that an interested party would only participate in lobbying if the expected benefits of lobbying are greater than the costs thereof (Gullberg, 2008:165). The converse is also true: It is rational to refrain from lobbying if the expected benefits are lower than the costs of lobbying (Gullberg, 2008:165). This rational model of lobbying was the foundation for this study, and an appropriate focus for any study on corporate lobbying. In the words of Gullberg (2008:165):

"...a rational perspective is a useful starting point when trying to explain lobbying by interest groups".

Hence a detailed explanation of the rational choice theory warrants attention in this chapter. The next section expands on this rational choice model for lobbying and the economic theory underlying it.

2.2.2 Lobbying: a rational choice

2.2.2.1 *Rational choice theory: background and relevance*

As mentioned above, the most influential theory applied to study the political phenomenon of lobbying is the *rational choice theory* (Parsons, 2005:1). This is an economic theory that explains human behaviour when confronted with decisions, and suggests individuals always behave rationally during decision making by weighing the potential benefits against the potential costs before taking action (Parsons, 2005:11).

The rational choice theory has its roots in the rational actor theory developed by micro-economist Adam Smith, who suggests individuals act out of self-interest within the constraints of information costs and opportunity costs (Monroe, 2001). The rational actor theory, or rational choice theory, as it is more commonly known, has developed into a widespread theory that is applied in various other fields such as politics, law, sociology, criminology, accounting and even physiology.

In a seminal political study by Downs (1957), voting behaviour is explained in terms of the rational choice theory. Downs goes further by applying his theorem to lobbyists and suggests that individuals in a democracy always act rationally by choosing to lobby if the expected benefit of doing so will exceed the cost of information or the cost of time (Downs, 1957). Gullberg (2008:165) describes the application of the rational choice theory to lobbying behaviour as follows:

“It is rational to lobby if the expected benefits outweigh the costs of lobbying. It is also rational to refrain from lobbying if the expected benefits are outweighed by the costs”.

The rational choice theory is expressed by using the equation $(U_a - U_b) > C$, where P is the probability of influencing the accounting standard-setter, multiplied by two potential outcomes $(U_a - U_b)$ exceeding the lobbyist's costs (C) (Sutton, 1984; Georgiou, 2004; Gullberg, 2008). Therefore, in essence, the rational choice theory explains why an individual chooses to participate in lobbying activities.

The framework of lobbying behaviour formulated by Downs (1957) set the course for other researchers of lobbying behaviour. In particular, it inspired Sutton's (1984) influential study on the lobbying of accounting standard-setters.

2.2.2.2 *Sutton's predictions based on the rational choice theory*

Sutton (1984) applies the Downsian model of rational choice theory to develop hypotheses about the nature, timing and methods of lobbying an accounting standard-setter.

Sutton's (1984:85) first hypothesis is that preparers of financial statements are more likely to lobby the accounting standard-setter than users of financial statements. The reason for this is twofold. Firstly, the earnings and valuation of assets of preparers of financial statements are more affected than users of financial statements when changes are made to accounting standards (Sutton, 1984). Secondly, preparers of financial statements are more likely than users of financial statements to afford the costs associated with lobbying whilst also enjoying greater benefits of successful lobbying than users do (1984). For this reason Sutton (1984:85) also suggests that larger preparers are more likely to lobby than smaller preparers.

The second hypothesis from Sutton's (1984) study relates to the timing of lobbying. Sutton (1984:85) suggests that lobbying during the earlier stages of the standard-setting process (pre-exposure draft period) is more effective and less costly than lobbying during the later stages (post-exposure draft period). This is because of the accounting standard-setter being undecided on the issue at hand during the earlier stages, and as a consequence the accounting standard-setter is more susceptible to external influences at this point (Sutton, 1984:88). As the due process progresses, it becomes more difficult to sway the accounting standard-setter on the accounting issue at hand since the accounting standard-setter's view and opinion become more framed and robust (Sutton, 1984:88).

Regarding lobbying methods, Sutton (1984:89) argues that lobbyists use lobbying methods that "offer the most influence per unit (increase in P) of lobbying costs".

Sutton (1984:90) predicts that indirect lobbying methods are used more than direct lobbying methods since the former are more effective than the latter in influencing the accounting standard-setter. Georgiou (2004:222) defines indirect lobbying methods as those used to lobby through a third party such as the company's external auditors or trade organisations. Direct lobbying methods entail direct communication with the accounting standard-setter through such means as comment letter submissions or having private meetings with the accounting standard-setter (Georgiou, 2004:222). Overall, Sutton (1984:86) suggests that the less visible lobbying methods are more effective in influencing the accounting standard-setter.

Sutton (1984:93) admits that the above predictions or hypotheses regarding the timing and methods of lobbying are difficult for the researcher to test on account of the disguised nature of most lobbying activities. However, 20 years later, Georgiou (2004) empirically examined the timing and methods of lobbying the accounting standard-setter in the UK and found strong support for Sutton's predictions. Other notable research that supports Sutton's predictions of lobbying the accounting standard-setter includes McLeay *et al* (2000), Lindhal (1987), Van Lent (1997) and Jorissen *et al* (2010). The studies by these researchers in the field of accounting sciences provide strong support for the relevance and application of the rational choice theory in accounting.

2.2.2.3 Support for and critics of rational choice theory

The rational choice theory has made a significant and undeniable contribution to our understanding of human behaviour. However, it is not without its critics. The most important critics are Donald Green and Ian Shapiro (hereafter referred to as Green and Shapiro). Their main criticism is that rational choice theory has not contributed any new empirical evidence about politics (Cox, 1999). In response to Green and Shapiro's critique, Cox (1999:157), a supporter of the rational choice theory, strikes back by citing numerous existing and recent empirical studies that provide strong evidence of and support for the rational choice theory. Cox (1999:153) criticises Green and Shapiro for only focusing in their criticism on two weak empirical studies that have already been recognised by rational choice supporters as inferior and unsuccessful models for rational choice theory. Hardly any of the successful

empirical work on rational choice theory is mentioned by Green and Shapiro in their book (Cox, 1999:153). This has certainly left Green and Shapiro's main criticisms on the availability of new empirical evidence on rational choice theory flawed (Cox, 1999:154).

Another critic, Monroe (2001:165), suggests that the rational choice theory has its shortcomings even though it is recognised that the theory has had an influence on various sciences. Monroe (2001:166) explains that a limitation of the theory is that it is based on the assumption that individuals are driven by self-interest motivations. Monroe (2001:166) posits that this assumption ignores the individual's perspective of himself or herself in relation to others. Adding to this statement, Monroe (2001:151) suggests that the only reason for the continued use of the rational choice theory by researchers is that there is no suitable alternative theory in existence to explain human decision-making behaviour. Cox (1999:159) also successfully addresses general criticisms such as these, by stating that rational choice theory does not attempt to describe *all* human behaviour but it does provide a method, which has been successfully applied across different sciences, to analyse interactions between various parties.

Gullberg (2008:165) reiterates the statement of Cox (1999) above, by writing that the rational choice theory provides the researcher with a *means* of analysing lobbying behaviour. It is for this very reason that the theory has also successfully infiltrated the field of accounting sciences and contributed to the knowledge of lobbying of accounting standard-setters. Seminal studies by researchers such as Sutton (1984), Georgiou (2004) and Jorissen *et al* (2010), provide evidence that the rational choice theory is an appropriate and relevant basis for analysing and understanding the lobbying of accounting standard-setters.

2.3 LOBBYING OF THE ACCOUNTING STANDARD-SETTER

The accounting standard-setting process has been described by many scholars as a political process. Haller, Nobes, Cairns, Hjelstrom, Moya, Page and Walton (2012:119) explain why accounting standard-setting is a political process:

“We accept that standard-setting is a political activity, in the sense that it can have major social and economic consequences, such that many parties can be affected”.

Similarly, Sutton (1984:81) explains that standard-setting is a political process characterised by the preservation of self-interest:

“Financial accounting standards are regulations. At best, they restrict the choice of accounting methods available to management. At worst, they force companies to report financial information in a form those companies would not have chosen voluntarily. A party, whether manager, investor or auditor, who is affected by such regulations, will seek to persuade the rule-makers to write the rules to his advantage. Likewise, when balancing the competing demands of "interested parties", the rule makers will be mindful of their own position and, in particular, how their activities are perceived by their masters” (Sutton, 1984:81).

The process of standard-setting is seen as a political process for three reasons:

- the high degree of “openness” of the due process allows for the input of interested parties, and as a consequence subjects the IASB to political pressure (Elbannan and McKinley, 2006:607);
- the IASB operates in a highly politicised environment owing to its wide-reaching authority and impact on various economies around the world (Perry and Nölke, 2006:561); and
- the outcome of a political process such as accounting standard-setting is largely dependent on the strength or influence of the parties involved (Van Lent, 1997:17).

The political process of accounting standard-setting creates an ideal opportunity for the lobbyist to attempt to influence the outcome of the accounting standard-setting process (Stenka and Taylor, 2010:111). The standard-setting process in itself provides the lobbyist with the opportunity to “promote, influence or obstruct proposed standards” (Stenka and Taylor, 2010:111).

There is clear evidence in the literature of this influence over the accounting standard-setting process. A case in point is the political pressures that undermined the agenda of an accounting standard-setter during the 2008 financial crisis. Preparers of financial statements, especially financial institutions, blamed the mark-to-market (fair value) accounting prescribed by the IASB for intensifying the financial crisis in Europe (Zeff, 2012:829). Market prices for securities decreased significantly during the financial crisis. For financial institutions that were required in terms of accounting standards to write down their financial assets to market value, this resulted in the recognition of major unrealised losses in their financial statements (Zeff, 2012:829). The financial institutions urgently pressed the IASB to allow them to discontinue their mark-to-market accounting by allowing them to reclassify their financial assets from “trading instruments” to “held-to-maturity instruments” (Zeff, 2012:829). The reclassification of these financial instruments was not allowed in terms of IFRS (Zeff, 2012:829).

The European Commission, which was under tremendous pressure from various financial institutions at that point in time, notified the IASB that a change in the accounting standards should be authorised and issued immediately (Zeff, 2012:830). Being totally undermined, the IASB responded by approving and issuing the amendment to IFRS without following the normal due process (Zeff, 2012:830). The effect of this change was so significant that the reported earnings of various financial institutions went from major losses to unexpected profits (Zeff, 2012:830).

Another example of political pressure on the accounting standard-setter is provided by Larson (2008) in his research on the lobbying of the draft interpretation note, SIC 12 *Special Purpose Entities*. The most active lobbyists of SIC 12 *Special Purpose Entities*, included banks and financial intuitions are renowned for using and marketing special purposes entities (Larson, 2008:42). Interestingly, Arthur Andersen

also joined the ranks of the lobbyists since many of their major clients, such as Enron, also used special purpose entities. Larson (2008:40) suggests that the strong opposition by Arthur Andersen had its roots in political considerations to protect the interest of its major clients and inevitably its own interests (see section 2.5.1.4).

The political nature of standard-setting creates opportunities and benefits for the lobbyist to influence the outcome of proposed accounting standards. The discussion on lobbying of an accounting standard-setter is therefore based on the following two interlinked philosophies that the researcher in the current study derived from the academic literature.

The first is that the very nature of the accounting standard-setter's democratic process solicits lobbying behaviour (Cortese, Irvine & Kaidonis, 2010:85). In other words, the regulatory structure of the accounting standard-setter creates the *opportunity* for power and influence (McLeay *et al*, 2000:83). In order to understand the regulatory structure and process of the accounting standard-setter and therefore the very opportunity it provides for the lobbyist, the IASB's history and due process are discussed in the next section. The second philosophy is that of *motive* and implies that certain benefits motivate interested parties to lobby accounting standard-setters (Sutton, 1984:85). This is based on the assumption that "... since lobbying activities involve real economic costs, a rational individual or organisation will only lobby if the benefits of the desired outcome, adjusted by the probability that lobbying will lead to the desired outcome, exceed these costs" (Stenka and Taylor, 2010:112). The discussion of the philosophy of motive follows in section 2.5. The philosophy of opportunity and that of motive are interlinked: Interested parties affected adversely by a proposed accounting standard, given the opportunity and means to change the outcome in their favour, are motivated to lobby an accounting standard-setter to influence the outcome of a proposed accounting standard to their benefit (Sutton, 1984).

2.3.1 The International Accounting Standards Board (IASB) and the due process of developing accounting standards

2.3.1.1 A history of the IASB

The development of international accounting standards is assigned to the IASB, a private accounting standard-setter. The IASB members consist of an independent group of experts with appropriate experience that represents various geographical constituents (Perry and Nölke, 2006:563). The 22 trustees of the IASB appoint and supervise the members of the IASB and the IFRS Interpretations Committee (Wingard *et al*, 2016). The members of the IASB and the IFRS Interpretations Committee are mainly of European origin (Wingard *et al*, 2016).

The IASB was established in 2001 and thereby replaced the first international accounting standard-setting body, the International Accounting Standards Committee (IASC) that had existed from 1973 (FASB, 2013). The IASB accepted the accounting standards issued by the IASC during the preceding years but stated that its objective was “to develop, in the public interest, a set of high quality, understandable and enforceable global accounting standards” (IFRS Foundation, 2013a:5). The IASB is a private accounting standard-setter and therefore does not have the authority to impose IFRS on any entity, country or jurisdiction (Financial Stability Board, 2013). Those countries or jurisdictions that choose to adopt IFRS must comply with *all* of the individual IFRSs and the IFRS interpretations (Financial Stability Board, 2013).

The adoption of IFRS by the European Union in 2005 (Perry and Nölke, 2006:561) effected a huge shift in the accounting regulatory environment in European countries because accounting standards had previously been set and regulated at national and not transnational level (Perry and Nölke, 2006:567). For instance, accounting in the Netherlands was vested in Dutch company law, or the Dutch civil code (Van Lent, 1997:3) and was therefore regulated at national level by Dutch law. The move from national to transnational accounting standard-setting in Europe generated substantive changes to the accounting standards themselves (Perry and Nölke, 2006:560) and evoked much controversy. In addition, the different legal, economic and accounting regimes of the various European countries posed a

serious challenge to the IASB to ensure that IFRS is acceptable and applicable in all countries (Hansen, 2011:58). Owing to the above challenges faced by European countries with the convergence with IFRS, the Financial Accounting Services Board (FASB) in the United States is hesitant to converge with IFRS (Perry and Nölke, 2006:576).

In order to address the IFRS convergence challenges and to avoid forcing a “one size fits all” accounting standard on all countries adopting IFRS, the IASB facilitates a consultative process, referred to as the “due process”, before issuing any accounting standard or making amendments to existing accounting standards (IFRS Foundation, 2013b). The purpose of an accounting standard-setter’s due process is to be a “mechanism for transforming individual preferences into societal preferences” (Brown and Feroz, 1992:715). This allows interested parties from various cultural, economic and political backgrounds to participate in the IASB’s accounting standard-setting process through its formalised due process.

2.3.1.2 *The due process of the IASB*

The due process of accounting standard-setting is prescribed in the Due Process Handbook of the IASB and ensures transparency, accessibility and accountability throughout the standard-setting process (IFRS Foundation, 2013a:6). Throughout every step of the due process, the IASB welcomes the participation of interested parties through a formal protocol.

During the agenda setting phase of the due process, the IASB involves professional bodies and accounting standard-setters to determine the pressing accounting matters faced by constituents, that warrant the IASB’s attention (IFRS Foundation, 2013a:25). If the IASB decides to address these issues by making changes to current accounting standards or by issuing a new accounting standard, it invites the opinions of interested parties through a discussion paper on the matter (IFRS Foundation, 2013a:25). After comments are received from interested parties, the IASB decides to add the accounting issue to its work plan (IFRS Foundation, 2013a:25). The technical aspects and possible impact of a proposed IFRS or changes to an IFRS are considered by the IASB

(IFRS Foundation, 2013a:29). A key part of this process is the public meetings facilitated by the IASB to consult with various stakeholders (IFRS Foundation, 2013a:29).

Once all matters or concerns resulting from the public hearings have been addressed, the IASB issues an exposure draft to invite comments from interested parties. These comments are collected by the IASB and are considered when drafting the final accounting standard (IFRS Foundation, 2013a:30).

The following question was relevant to this study: How can South African constituents participate in the formal due process of the IASB? South African interested parties can directly write a comment letter to the IASB to raise their concerns on a discussion paper or exposure draft of a proposed accounting standard. Interested parties in South Africa can also indirectly participate in the due process of the IASB by communicating their concerns to SAICA.

SAICA fulfils a vital role in representing the views of South African interested parties to the IASB. It does this by inviting comments from South African constituents on proposed changes or a new accounting standard and manages the process of collecting, interpreting and analysing those comment letters from South African constituents (Gloeck, 2003:71). SAICA then submits one comment letter, representing the collective comments of interested parties in South Africa that have merit, to the IASB.

Gloeck (2003:73) found that a limited amount of comment letters have been submitted to SAICA, but suggested that the low number of comment letters is an indication that South African stakeholders have found alternative means of influencing the accounting standard-setting process.

Apart from the formal lobbying methods facilitated by the due process of the IASB, stakeholders also use informal lobbying methods. Since informal lobbying methods are employed outside of the due process, they are more disguised in nature (Sutton, 1984:93). In the discussion to follow, the nature of formal and informal methods is discussed in more detail.

2.3.2 An opportunity to persuade: formal lobbying methods

In light of the above discussion, it is evident that the very nature of the formal process of the IASB provides interested parties with an ideal opportunity to influence the outcome of the accounting standard-setting process. Formal lobbying methods are those participation efforts allowed by the due process of the IASB and are specifically outlined in the Due Process Handbook for the IASB (IFRS Foundation, 2013a:6). Formal lobbying methods include the following:

- consulting with the IASB on accounting issues that warrant its attention (IFRS Foundation, 2013a:7);
- participating in project groups of the IASB (IFRS Foundation, 2013a:8);
- submitting comment letters on discussion papers or exposure drafts (IFRS Foundation, 2013a:9); and
- attending public meetings of the IASB (IFRS Foundation, 2013a:9).

In the words of Cortese *et al* (2010:85), it seems that the due process itself provides “a forum within which powerful and self-interested constituents and constituent coalitions could contribute to and capture the standard-setting process in order to secure favourable regulation”. It is therefore not surprising that Weetman, Davie and Collins (1996:61) specifically describe the written submissions period of the due process as a “process of persuasion”.

Although comment letters do not influence the pre-drafting stages of an accounting standard, they do significantly impact on the final form of the accounting standard that is eventually issued by the accounting standard-setter (Hansen, 2011:59). An interesting note by Georgiou (2004:230) and Hodges and Mellet (2002:141) on comment letters is that they are generally an indicator that other lobbying methods have also been employed to influence the accounting standard-setter. It is therefore not unusual for lobbyists to use a mix of lobbying efforts or to combine formal and informal lobbying methods in their efforts to influence the accounting standard-setter.

2.3.3 Behind the scenes: informal lobbying methods

The lobbying efforts of interested parties are of course not limited to the opportunities created by the formal due process. Informal interactions with the accounting standard-setter may accompany the formal participation efforts of the interested parties (Hodges and Mellet, 2005:175). These activities that occur “behind the scenes” fall outside of the formal due process and are considered to be unobservable or disguised lobbying methods (Sutton, 1984:93). Informal lobbying methods include, but are not limited to, the following:

- informal private meetings with members or staff of the accounting standard-setter (Georgiou, 2004:222; Jorissen *et al*, 2010);
- influencing the opinion of accounting professional bodies (Georgiou, 2004:222; Jorissen *et al*, 2010);
- communicating directly with the project staff through other means such as telephone conversations (Georgiou, 2004:222; Jorissen *et al*, 2010);
- becoming a member or consultant of working groups/projects (Georgiou, 2004:222; Jorissen *et al*, 2010);
- communicating with a preparer’s organisation in order to influence its comment letter sent to the IASB (Georgiou, 2004:222; Jorissen *et al*, 2010);
- using external auditors to represent the interests of the company at the accounting standard-setter (Georgiou, 2004:222);
- securing representation on the board, committees or work groups of the accounting standard-setter (Elbannan and McKinley, 2006:602; Sutton, 1984:90); and
- commenting in the media (Georgiou, 2004:222).

Lobbyists favour informal lobbying methods above formal lobbying methods (Georgiou, 2004:230; Hodges and Mellet, 2005:177). Researchers advance various reasons for the preference of informal lobbying methods. Van Lent (1997:18) suggests that informal lobbying is successful because of its secrecy. Sutton (1984:93) also concludes that the success of lobbying is dependent on its “disguised” nature. Also, formal lobbying methods, such as comment letter submissions, may expose the true preferences or motives of a lobbyist to the public (Königsgruber, 2010; Chung, 1999). By expressing their views publically, lobbyists

are revealing their interests, motives or other information to external parties (Chung, 1999:246). This phenomenon is called the “informational effect of lobbying behaviour” (Chung, 1999). By employing informal lobbying methods, lobbyists therefore have the benefit of avoiding the informational effect of lobbying since most informal lobbying methods are unobservable to the public.

The various lobbying methods, their associated costs and the point in time when lobbying occurs are all interlinked. The different stages of the accounting standard setting-process necessitate different lobbying methods. Since lobbying is costly, lobbyists have to choose a mix of lobbying methods with the most influence per unit of lobbying cost that increases the probability of influencing the accounting standard-setter (Sutton, 1984:89). These dependent factors are discussed in more detail in the next section.

2.4 THE METHODS, COST AND TIMING OF LOBBYING THE ACCOUNTING STANDARD-SETTER

Lobbying is not confined to a specific day or time. As discussed in the sections above, the standard-setting process in itself provides lobbyists with multiple opportunities to influence the outcome of a proposed accounting standard. However, it is evident that at certain points in the standard-setting process, it is more efficient to lobby the accounting standard-setter than at other points in time (Sutton, 1984; Georgiou, 2004). The question therefore is: At what point in the standard-setting process is lobbying the most effective in influencing the accounting standard-setter?

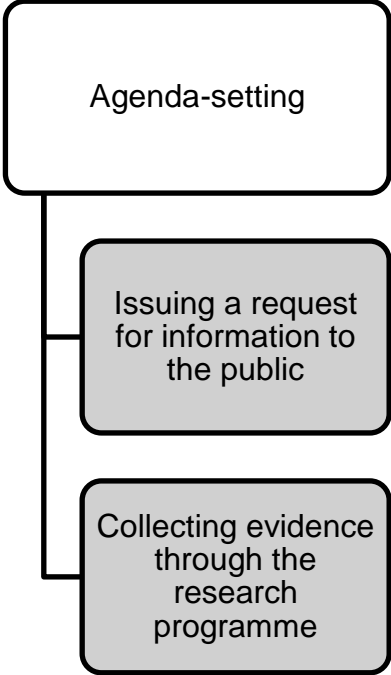
To answer this question, the next section examines the various stages of the due process, the lobbying methods employed during each stage, the costs of these lobbying methods and their efficacy to influence the accounting standard-setter.

2.4.1 Agenda-setting period

The setting of an agenda (technical work programme) by the accounting standard-setter is the first step in the due process. The aim of the agenda-setting exercise, undertaken by the IASB every three years (IFRS Foundation, 2013b:21), is to identify accounting issues that warrant inclusion in the IASB’s technical work programme

(IFRS Foundation, 2013b:22). Therefore the purpose of the agenda-setting period is to “assess and define the problem within existing reporting practice” (IFRS Foundation, 2013b:22). To achieve this, the IASB collects information on relevant accounting issues through two courses of action: Issuing a “request for information” document; and collecting evidence through the IASB’s research programme (IFRS Foundation, 2013b:22).

FIGURE 2.1 – Activities during the agenda-setting period



Source: Own observation from the Due Process Handbook (IFRS Foundation, 2013a)

The purpose of the request for information is to formally consult members of the public for their comments on the strategic direction of the technical work programme and current accounting issues that should be prioritised by the IASB (IFRS Foundation, 2013b:22). In addition, the IASB is also open to discussions on financial reporting issues raised by other accounting standard-setters, other interested parties and the Advisory Council and Interpretations Committee of the IASB (IFRS Foundation, 2013b:22).

The research programme of the IASB plays a pivotal role in adding accounting issues to its agenda. The purpose of the research programme is to collect evidence of accounting issues and how to resolve them (IFRS Foundation, 2013b:22). The

research programme relies on research conducted by the IASB's own staff or research by external parties such as accounting firms, accounting professional bodies and academics (IFRS Foundation, 2013b:22).

The most effective lobbying occurs during the earlier stages of the due process (Van Lent, 1997:22). Sutton (1984:83) argues that the best time to lobby is in the pre-draft stages of the accounting standard-setting process, that is, during the stages preceding the exposure draft period of the due process. Lobbying during this period is effective since the accounting standard-setter is still undecided about the accounting issue and is therefore susceptible to influence from affected parties (Sutton, 1984:88).

As discussed above, one of the main methods of participating in the agenda formation stage is to provide the IASB with research on specific accounting issues. The transfer of sponsored "expert" information from a company to an accounting standard-setter is a well-known lobbying method (Van Lent, 1997:22). McLeay *et al* (2000:96) found that lobbyists collaborating with and using the contributions of academics exert significant influence over the accounting standard-setter.

To employ research as a lobbying method, lobbyists can either use research conducted by their own in-house research department or sponsor academic research (Sutton, 1984:88). Audit firms typically use research undertaken by their in-house research departments to transfer information to the accounting standard-setter (Sutton, 1984:88). Those lobbyists who do not maintain in-house research departments have the option of sponsoring academic research.

It is true that the aim of sound research is to be "unbiased, rigorously crafted and grounded in economic theory" (Barth, 2012:483), but the researcher may be prejudiced by his or her own ideas, incentives and research conclusions (Fülbier, Hitz & Sellhorn, 2009:483). Perry and Nölke (2006:578) agree with Fülbier *et al* (2009) that expert information provided to the accounting standard-setter in the form of research may not be purely technical in nature, but may also include underlying political motivations to influence the agenda items.

However, the fact remains that accounting standard-setters are interested in relevant research and regularly call on academics for their research input (Barth, 2012; Fülbier *et al*, 2009). Without research to rely on, the IASB is left to make judgements on the setting of accounting standards without knowing the impact of such standards on various constituents (Fülbier *et al*, 2009:466). Beresford and Johnson (1995:115), former members of the FASB, confirmed this need for expert information specifically during the early stages of the standard-setting process. During the agenda-setting period, relevant research can assist the accounting standard-setter to address those “questions that arise in the process of deliberating proposed standards as well as before formal deliberations begin” (Beresford and Johnson, 1995:115).

Professor Mary Barth, academic and former member of the IASB, also underscores the importance of research to accounting standard-setting in the following statement: “Thus, research can aid standard setters in identifying issues, structuring their thinking about a particular issue, and providing evidence that informs the debate about the issue ...” (Barth, 2012:8). She further explains that research can specifically assist the accounting standard-setter by resolving conceptual and practical issues with accounting measurements (Barth, 2012:14). Similarly, Fülbier *et al* (2009:469) found that research can contribute to current issues faced by the accounting standard-setter such as recognition, measurement, presentation and disclosure questions.

In light of the above, it is evident that research contributes to the standard-setting process, especially during the early stages of the process (Fülbier *et al*, 2009:479). It is therefore surprising that so few companies use sponsored research as a lobbying method. Georgiou’s (2004:229) results from his survey on corporate lobbying in the UK show that only 1.85% of respondents admitted to using research on financial accounting as a lobbying method. The reasons for this may be twofold. Firstly, the respondents in Georgiou’s (2004) survey, comprising preparers of financial instruments, indicated that they *perceive* lobbying at the agenda stage as extremely ineffective and consequently did not actively lobby during this period. Secondly, the transfer of sponsored research to the accounting standard-setter is a costly exercise since the cost of collecting expert information is high (Downs, 1957:148). One can therefore infer from these results that, in line with Sutton’s (1984) model, interested

parties find that the probability (P) of influencing the accounting standard-setter with research is low and the cost (C) of using research as a lobbying method is high. Georgiou's (2004:226) explanation for the low rate of lobbying during the agenda formation stage is that companies may have been reluctant to admit in the questionnaire that they had attempted to shape the outcome of the agenda of the accounting standard-setter.

Apart from the formal lobbying methods discussed above, the lobbyist can also employ *informal* lobbying methods during the agenda-setting period. One such informal lobbying method is a private meeting with the accounting standard-setter. Private conversations and informal meetings with the accounting standard-setter are some of the most effective lobbying methods in the early stages of the due process (Van Lent, 1997:22). Gullberg (2008:172) agrees that "early lobbying might influence the political debate by defining the political problem from the beginning, before decision-makers have decided on a position". Sutton (1984:90) also suggests that a lobbyist first attempts to have a private meeting with the accounting standard-setter since the cost of this lobbying method is low and the probability of influencing the accounting standard-setter is high compared to other lobbying methods (Sutton, 1984:90).

Another informal method of lobbying is the use of media pressure and campaigns to exert pressure on the accounting standard-setter to include an accounting issue on its agenda (Hodges and Mellet, 2002:129). The challenge with informal methods such as the above is that researchers have difficulty finding observable data of how these methods contributed to the emergence of an item on the accounting standard-setter's agenda (Sutton, 1984:88; Hodges and Mellet, 2002:136).

What is clear is that the inclusion of an item on the agenda of the accounting standard-setter is the result of various external factors at work to influence agenda-setting. Hodges and Mellet (2005:168) suggest that agenda items emerge from the accounting standard-setter's relationships with certain outside stakeholders and also from individuals with "privileged access and influence".

2.4.2 Discussion paper period

The main output of Request for Information and the IASB's research programme is a discussion paper inviting comment from interested parties (IFRS Foundation, 2013b:23). It is important to note that the issuance of a discussion paper on a proposed accounting standard or amendment is not compulsory (IFRS Foundation, 2013b:23).

The purpose of requesting comments from interested parties at this point is to ensure that the IASB fully comprehends the accounting problem at hand and any possible solutions to the problem (IFRS Foundation, 2013b:25). The discussion paper contains a summary of the relevant accounting issues and the IASB's collective views and preliminary approaches to the accounting issues (IFRS Foundation, 2013b:23). The discussion paper does not contain a singular view of the IASB, but sets out the different opinions of IASB members on the accounting problem. From the above, it is evident that at this stage of the process, the IASB is still undecided on the outcomes of the accounting issues on its agenda.

One way to formally participate in the lobbying in the early stages is by writing a comment letter in response to the discussion paper issued. Although comment letters are an ineffective form of lobbying (Lindahl, 1987:70) it is more effective to provide comments at this point of the due process rather than later in the due process (Fülbier *et al*, 2009:481).

It is interesting to note that the exposure period of the discussion paper was the second most used stage in Georgiou's (2004) survey of UK respondents. It was also considered by the UK respondents to be one of the most effective stages for lobbying the ASB (Georgiou, 2004). The reason is the perceived effectiveness of lobbying during the comment periods of the discussion paper and exposure draft of the accounting standard-setter.

At this early stage of the due process, the accounting standard-setter is highly susceptible to external influences (Hodges and Mellet, 2002:135). It is for this reason that Sutton (1984:93) states the following:

“Lobbying is most productive (i.e. has the greatest impact on P per unit of C) when the rulemakers’ preferences are still undecided.”

Thus regarding the timing of lobbying, the proverbial early bird catches the worm.

2.4.3 Exposure draft period

The next step in the due process after the technical programme has been finalised and a discussion paper has been issued, is the finalising of an exposure draft of the proposed accounting standard by the IASB (IFRS Foundation, 2013a:28). The exposure draft is in the form of the proposed IFRS and its main purpose is to petition the public for its views on the proposed accounting standard (IFRS Foundation, 2013a:28). This is the stage where most lobbying occurs, according to Georgiou’s (2004:225) results from his survey in the UK. The main formal lobbying method available to lobbyists during the exposure draft period is writing a comment letter to the IASB. Another formal lobbying method available to the lobbyist during that period includes attending the IASB’s public hearings to raise issues regarding the exposure draft (IFRS Foundation, 2013a:30). The above formal lobbying methods are not costly, but the cost of these measures relates to the opportunity cost of the time spent preparing the comment letters or attending the public hearings (Sutton, 1984:90).

The IASB regards the comment period of the exposure draft as crucial in the consultation process with the public. From these comment letters, the IASB obtains an overview of the major issues and concerns raised by affected parties (IFRS Foundation, 2013a:30). The comment letters collected by the IASB during this period are made available to the public on its website (Wingard *et al*, 2016:142). The comment letters contain the details of the sender and the issues of concern raised by the sender. The availability of these comment letters and the content they include provide researchers with observable evidence of lobbying of accounting standard-setters (Stenka and Taylor, 2010:111).

It is therefore not surprising that most of the empirical evidence in the literature in the area of accounting standard-setting relates to the use of comment letters (Stenka and Taylor, 2010:111). For instance, Jorissen *et al* (2010:17) analysed comment letters to determine the nature and motivation of the parties participating in the comment process of the IASB. Larson (1997) also analysed the characteristics of companies that sent comment letters to the IASC. Stenka and Taylor (2010) and Yen, Hirst and Hopkins (2007) analysed comment letters received by the ASB in the UK to determine the nature of the arguments used by the senders of those comment letters. Hence researchers are able to obtain valuable insight from the content analysis of comment letters into certain lobbying aspects. However, one should exercise caution in relying on comment letters as the main evidence of lobbying behaviour.

Comment letters represent only one lobbying attempt at one point in the accounting standard-setting process (Hodges and Mellet, 2002:145). Lobbying is an extended process that occurs over time (Sutton, 1984:84). There is continuous interaction between the accounting standard-setter and interested parties throughout the accounting standard-setting process (Hodges and Mellet, 2005:175). Hence Lindhal (1987:65) suggests that it is not appropriate to make use of only comment letters submissions to understand the scope of lobbying of the accounting standard-setter. Comment letters are valuable to the researcher in that they are indicative of certain lobbying aspects rather than providing evidence of the extent of lobbying behaviour.

Researchers such as Hansen (2011) and Brown and Feroz (1992) studied the effectiveness of comment letters. Hansen (2011:73) found that the quality of the information provided by the lobbyist in its comment letter and the credibility of the lobbyist are two important factors for lobbying success. Brown and Feroz's (1992:728) analysis of comment letters indicates that the accounting standard-setter is influenced by the comment letters of large companies, but is not equally influenced by all large companies. These two studies suggest that comment letters are effective in lobbying the accounting standard-setter. It is also *perceived* by interested parties to be an effective formal lobbying method (Georgiou, 2004:262). Conversely, Lindhal (1987:75) and Sutton (1984:86) do not concur with

the perceived effectiveness of comment letters. According to Sutton (1984:86), the fact that comment letters are an observable form of lobbying makes them ineffective. The findings of Hansen (2011) and Brown and Feroz (1992) regarding the effectiveness of comment letters may be explained by the results from Hodges and Mellet's (2002) study of comment letters and Georgiou's (2004) study of corporate lobbying in the UK. Hodges and Mellet (2002:144) show that certain companies make reference in their comment letters to earlier lobbying efforts on the accounting standard-setter. This may suggest that comment letters are from respondents that initiated their lobbying efforts *before* the exposure draft period – in other words, during the pre-agenda and agenda-setting stages (Hodges and Mellet, 2002:144). This certainly seems to be consistent with the findings of Georgiou (2004:233) that companies that use comment letters are likely to use a variety of other lobbying methods. Therefore, the submission of a comment letter by a lobbyist during the exposure draft period is *perceived* to be effective simply because it has been preceded by other less overt lobbying attempts. This may include more informal lobbying attempts.

One such informal lobbying method that is perceived to be effective is using auditors to lobby on the company's behalf. Georgiou's (2004:229) findings show that the lobbying method used most by companies is appealing to their auditors to support their views when communicating, formally or informally, with the accounting standard-setter. Sutton (1984:90) acknowledges this perception of the effectiveness of communicating views to the accounting standard-setter through auditors, and suggests that it is an efficient method of lobbying.

Other popular informal lobbying methods include communicating with the accounting standard-setter in a pre-arranged private meeting or through other means such as telephone conversations (Georgiou, 2004:229). The reason for the popularity of using informal communication with the accounting standard-setter as a lobbying method lies in the efficacy of this method. According to Sutton (1984:90), this is the most effective lobbying method because the probability (P) of influencing the accounting standard-setter is high relative to the cost (C) of this lobbying method.

2.4.4 Publishing the final IFRS

Once the IASB has reached consensus on the technical issues in the exposure draft, the final accounting standard is prepared for balloting (IFRS Foundation, 2013a:31). If the IASB has not reached consensus on substantial issues in the accounting standard, the exposure draft may be re-issued for further comment (IFRS Foundation, 2013a:31). If this route is followed, due process is followed in the same manner as during the initial exposure draft period (IFRS Foundation, 2013a:32).

The publishing of the final accounting standard is approved by a supermajority vote when nine of the 15 IASB members are in favour (IFRS Foundation, 2013a:11). Each accounting standard is accompanied by additional material such as the basis of conclusion and Dissenting Opinions (IFRS Foundation, 2013a:32). The IASB also ensures communication material, such as a press release, accompany the release of an accounting standard or amendment (IFRS Foundation, 2013a:33).

Georgiou's (2004:228) survey reveals that few companies lobbied during this stage of drafting the final accounting standard for publishing. Since no formal lobbying is facilitated at this point, one can conclude that if there is lobbying at this point it will consist of informal lobbying.

2.4.5 Post-publication procedures

During the publishing period of the accounting standard or amendment, the IASB does not formally consult with interested parties. The post-publication procedures include editorial corrections to the accounting standard, educational activities and translation of the new accounting standard (IFRS Foundation, 2013a:34). Lobbying is therefore not expected during the post-publication procedures of the IASB.

Once these activities have been completed, a two-year period elapses before the IASB proceeds with its post-implementation review of the new accounting standard (IFRS Foundation, 2013a:35).

2.4.6 Post-implementation review

The post-implementation review of the IASB mainly consists of public consultation to determine the impact of a new accounting standard on interested parties (IFRS Foundation, 2013a:35). This is an important review by the IASB since the benefits of implementing a new accounting standard should exceed the costs of its implementation (IFRS Foundation, 2013a:25).

The IASB is also required to specifically assess those issues that were flagged as important or contentious during the development of this accounting standard (IFRS Foundation, 2013a:35). The main tool for consulting the public during this review is through the Request for Information issued by the IASB (Moldovan, 2014:118). It allows interested parties to raise their opinions, in the form of comment letters, on the impact of a new accounting standard (Moldovan, 2014:130). The IASB may also use academic research, its own analysis of financial statements or surveys of other interested parties to determine if there are any major concerns with the implementation of the new IFRS or amendment (IFRS Foundation, 2013a:36).

The IASB prepares a report of its findings for approval by the DPOC. The IASB then considers if a proposal for an amendment to the new accounting standard or a broader review of the impact of the new IFRS is necessary (IFRS Foundation, 2013a:36). It is interesting to note that the post-implementation review stage is the only stage where the Due Process Handbook mentions that informal consultation with interested parties is allowed (IFRS Foundation, 2013a:36). Informal lobbying methods utilised during the post-implementation review typically include the use of the media, press and private meetings with the accounting standard-setter to exert pressure on it (Hodges and Mellet, 2002:129).

The researcher in the current study again experienced as problematic finding evidence of these informal communications with the IASB. Another problem noted by researchers of the post-implementation review process is that the IASB reviews the implementation and impact of its *own* standards (Moldovan, 2014:18; Haller *et al*, 2012:122). The fact that the post-implementation review is not performed by an independent task team raises concern about the transparency and legitimacy of the

findings of the review (Haller *et al*, 2012:122). The IASB, however, has attempted to mitigate this perceived independence threat by ensuring that the DPOC oversees the complete due process, including the post-implementation review (IFRS Foundation, 2013a:6). Since the DPOC is part of the IFRS foundation, it cannot be seen as entirely objective.

Regarding the efficacy of lobbying the IASB during the post-implementation review, Sutton (1984) and Georgiou (2004) do not specifically address its efficacy during this stage. Moldovan (2014) finds, specifically regarding the post-implementation review of IFRS 8 *operating segments*, that the 64 comments letters sent to the IASB during the post-implementation review were not that effective in influencing it. The IASB indicated after the post-implementation review that it would not make any further changes to IFRS 8 *Operating Segments*, but would include additional guidance for certain aspects of the standard (Moldovan, 2014).

Lobbying during the post-implementation review of IFRS 3 *Business Combinations* had a different and more long-term impact on influencing the accounting standard. After the post-implementation review of IFRS 3 *Business Combinations*, the IASB included issues of concern raised by stakeholders during the post-implementation review, as research projects on its agenda (IFRS Foundation, 2015a). Hence, the lobbying may not have been effective in amending IFRS 3 at that time, but it did influence the next agenda formation of the IASB. It appears that lobbying during the post-implementation review stage in this case had the objective of influencing the next agenda items of the IASB. This long-term strategy of lobbying is in agreement with Sutton's (1984:89) suggestion that lobbyists aim to gain a "greater say in drafting that committee's agenda, with a view to suppressing, as well as raising issues".

2.4.7 Conclusion

In conclusion, it is evident that lobbying begins even before the accounting standard-setter has drafted the exposure draft (Sutton, 1984:90). The lobbyist has an array of lobbying methods available to him or her. These range from the formal methods allowed by the due process to the informal lobbying methods that are more disguised in nature. The lobbyist selects those lobbying methods that are the most effective (P) per unit of cost (C) in influencing the accounting standard-setter.

Regarding the timing of lobbying, Sutton (1984) predicts that lobbying during the earlier stages, such as the agenda-setting stage, is more effective and less costly than lobbying at a later stage (Sutton, 1984:88). Contrary to this prediction, Georgiou's (2004:227) findings show that lobbyists prefer lobbying during the later stages of the accounting standard-setting process.

Lobbyists use a wide range of lobbying methods. Indirect communication with the accounting standard-setter is the most effective lobbying method but can be an extremely costly exercise for the lobbyist (Sutton, 1984:90). The most effective direct lobbying method is private meetings with the accounting standard-setter (Sutton, 1984:89). Using comment letter submissions ranks high as a lobbying method since it is an inexpensive form of lobbying. However, it is not a very effective lobbying method (Lindahl, 1987:70). What is important is that the use of comment letters as a lobbying method indicates that the lobbyist also used a range of other lobbying methods prior to the use of comment letter submissions (Georgiou, 2004:233).

Overall, Sutton (1984:93) suggests that lobbying that takes place behind the scenes of the due process, is the most effective method. Obtaining evidence of such disguised lobbying poses a challenge for researchers. In the words of Hodges and Mellet (2002:149):

“... what is visible in the process through which a particular accounting standard is developed is rather like the tip of the iceberg; its visibility confirms the

existence of a lot more submerged material although its shape and density has still to be confirmed.”

2.5 THE MOTIVATIONS FOR AND BENEFITS OF LOBBYING THE ACCOUNTING STANDARD-SETTER

The motivations for lobbying an accounting standard-setter have been the subject of many studies. Elbannan and McKinley (2006) put forward reasons that drive companies to lobby an accounting standard-setter. They suggest that there are certain attributes in the proposed accounting standards, specific corporation characteristics and industry factors that cause companies to lobby an accounting standard-setter (Elbannan and McKinley, 2006). Koh (2011) and Larson (1997) also suggest that companies that lobby accounting standard-setters display specific characteristics that ultimately drive their decision to lobby. Watts and Zimmerman (1978) propose that the impact of an accounting standard on a company's future cash flow is a major driver for corporate lobbying.

What all of the above studies show is that the main objective of a lobbyist is to influence the outcome of a proposed accounting standard in order to minimise any negative impact on the lobbyist. Olson (2002:7) explains that for this reason lobbying is considered a rational activity since the mere reason for the *existence* of companies is to further the common interests of individuals or groups. Therefore lobbying is expected in that companies that lobby do so to protect their self-interest (Zeff, 2002:43).

The protection of self-interest is not necessarily driven by unethical motives. Lobbying is the natural consequence of complex social interactions between the accounting standard-setter and companies (Elbannan and McKinley, 2006:618). It is also worth noting that lobbying that is guarded by sound business ethics, is a powerful legislative tool, socially responsible and a rational response in a democracy.

Based on a study of the academic literature, the researcher found that the motives for lobbying could be grouped into two primary categories: outcome-orientated motives and theoretical (definitional) motives. Lobbying motives are grouped in this

particular manner in studies on the subject by Yen *et al* (2007) and Stenka and Taylor (2010). Outcome-orientated motives refer to the economic impact of proposed accounting standards (Stenka and Taylor, 2010:113), external users' reaction to new accounting standards (Yen *et al*, 2007:68) and company-related effects such as implementation costs (Yen *et al*, 2007:63). Theoretical motives or definitional arguments refer to a lobbyist's position on accounting concepts or principles (Stenka and Taylor, 2010:112). These arguments include discussions on presentation and disclosure (Yen *et al*, 2007:63), wording in the proposed accounting standard (Stenka and Taylor, 2010:117) and the technical feasibility of the proposed accounting standard (Stenka and Taylor, 2010:118).

The grouping of motives into these two primary categories assists in structuring this wide-ranging discussion into a simpler and more organised one. They are by no means the only motives that drive lobbying of the accounting standard-setter. There is the strong possibility that a respondent is motivated to lobby because of other more unobservable factors. These may include motivations such as industry peer pressure (Koh, 2011:15) or cultural influences (MacArthur, 1996:231). Also, as discussed earlier, the informational effect has a significant impact on lobbying behaviour (Chung, 1999:246). A respondent may choose not to disclose all of his or her motivations in a comment letter in order to avoid revealing some information about himself or herself to the accounting standard-setter and/or the public. The motivations for lobbying are therefore complex and extensive.

The discussion below focuses on the two primary categories of motives, namely outcome-orientated and theoretically orientated motives.

2.5.1 Outcome-orientated motives

Accounting is described as a necessary and important social practice (Perry and Nölke, 2006:560) and is essential to the efficient functioning of the economy (Brown, 1990:91). Accounting standards ensure that credible financial information is presented that is necessary for the functioning of capital markets and sound corporate governance in the economy (Financial Accounting Standards Board (FASB), 1991:2). It affects many different aspects of financial markets such as share

prices, dividends, covenants and management compensations (Haller *et al*, 2012:117). Hence any changes to accounting standards result in economic consequences for various parties and consequently impact on the decision-making behaviour of businesses, governments, unions, investors and creditors (Zeff, 1978:56).

Owing to this economic and social impact, “many parties stand to gain or lose” from the implementation of new accounting standards (Haller *et al*, 2012:117). Avoiding any potential economic losses due to a proposed accounting standard is a major motive for lobbying an accounting standard-setter. It is not surprising then that the “economic consequences” argument is so extensively used by lobbyists (Sutton, 1984; Stenka and Taylor, 2010). Lobbyists who use this argument in comment letters tend to refer to issues such as taxation effects, the variability of financial results, cost versus benefit considerations, cost impact and borrowing costs effects (MacArthur, 1996:231).

Evidently not all companies are affected equally by a proposed accounting standard. The attributes of a proposed accounting standard affect companies differently. For instance, a change to fair value measurement of financial instruments affects companies in the financial services industry more than, say, companies in the manufacturing industry. Hence, the lobbying of a proposed accounting standard is undertaken by the constituent group or industry most affected by the attributes of the proposed standard.

In this regard, accounting choice theory suggests that accounting preferences or choices are “clustered by industry” (Jorissen *et al*, 2010:15). This was proven by Yen *et al*'s (2007:73) results from their content analysis of arguments used in comment letters in response to the *Comprehensive Income* exposure draft:

“... there is a distinctly tailored aspect to the letter-writing process, as the arguments raised in many of the letters appear to reflect firm and industry-specific concerns”.

This statement shows that the motives for lobbying a proposed accounting standard are likely to be similar for constituents of the same industry since they all face similar economic and social consequences if the proposed standard is issued. The economic consequences, specifically the impact of those consequences on management's wealth and companies' accounting numbers, cash flows and client relationships, are now investigated.

2.5.1.1 *Management wealth*

Positive accounting theory (commonly referred to as PAT) is used to predict, through observation, what conditions lead the management of a company to oppose an accounting standard. PAT attempts to predict the outcome, after taking into account certain conditions, and then comparing the predicted outcome with the observed outcome (Schroeder *et al*, 2011). Watts and Zimmerman (1978:113) use this theory to study the lobbying behaviour of management. They (Watts and Zimmerman, 1978:113) predict that proposed accounting standards that negatively affect management's wealth (cash bonuses and stock options) motivate management to lobby the accounting standard-setter. Chung (1999) and Holthauzen (2009) concur with Watts and Zimmerman that this wealth effect is a major driver for lobbying the accounting standard-setter.

The factors that indirectly affect management's wealth are taxes on the company, regulatory procedures, political costs and information production costs. These indirect costs impact on the cash flows, earnings and share price of the company and consequently affect the wealth of the management of the company (Watts and Zimmerman, 1978:114 & 118). In an attempt to avoid this, management are willing to expend resources to affect the standard-setting process (Watts and Zimmerman, 1978:113). In conclusion, management are likely to be involved with lobbying attempts to influence the outcome of the accounting standard-setting process when the impact on accounting numbers affects their compensation (Georgiou, 2005:326) .

2.5.1.2 *Accounting numbers*

Jorissen *et al* (2010) studied the drivers for participation in the lobbying of an accounting standard-setter. They found that preparers of financial statements resist the accounting standard-setter significantly more when their accounting numbers and earnings are negatively affected by a proposed accounting standard (Jorissen *et al*, 2010:20). In this regard, Sutton (1984:87) also suggests that those accounting standards that have an impact on earnings or affect the valuation of companies' assets and liabilities evoke corporate lobbying behaviour. In addition, Jorissen *et al* (2010:22) posit that when a proposed accounting standard deviates from the current accounting practices, companies tend to lobby the accounting standard-setter more.

This was also found to be the case in a seminal study on lobbying behaviour from an organisation theory perspective by Elbannan and McKinley (2006). Organisation theory studies the behaviour of an organisation in response to environmental factors (e.g. scarce resources or political influence) and conversely the impact of the organisation on its environment (Encyclopedia of Small Business, 2007).

Elbannan and McKinley (2006:608) concluded that a proposed accounting standard that causes uncertainty with management drives companies to lobby the accounting standard-setter. An accounting standard may cause uncertainty if management are required to make estimates of accounting numbers or if the accounting standard alters the company's conventional accounting methods (Elbannan and McKinley, 2006:608). Therefore any proposed accounting standard that causes volatility in a company's accounting numbers is likely to be met with lobbying attempts (Saemann, 1999:19). This was demonstrated when a controversial proposed accounting standard on the fair value measurement of financial instruments was issued in March 1997 (Chatham, Larson & Vietze, 2010). The proposed measurement differed significantly from the current measurement practices. It was not surprising that the proposed fair value measurement of financial instruments was severely opposed by companies and the reason cited by 82% of the comment letter writers was that the proposal was inconsistent with the current management of financial instruments (Chatham *et al*, 2010:103). Despite the lobbying efforts of the

stakeholders, the IASC proceeded with the much criticised proposed fair value measurements by issuing IAS 39 *Financial Instruments: Recognition and Measurement* (Chatham *et al*, 2010:105).

2.5.1.3 Cash flow

The negative impact of an accounting standard on a company's cash flows company motivates a company to lobby the accounting standard-setter. In the words of Watts and Zimmerman (1978:132):

“As long as financial accounting standards have potential effects on the firm's future cash flows, standard setting by bodies such as the Accounting Principles Board, the Financial Accounting Standards Board, or the Securities and Exchange Commission will be met by corporate lobbying.”

Accounting standards affect a company's cash flows in multiple ways. They may potentially impact the political costs of the company, debt covenants and the information processing costs of preparing financial statements (Jorissen *et al*, 2010:7). Increased political costs, such as costs imposed by labour unions and government taxes, are a significant motivator for very large companies to lobby (Watts and Zimmerman, 1978:126). The effect of a proposed accounting standard on debt covenants that determine future funding arrangements also motivates a company to lobby an accounting standard-setter (Georgiou, 2005:325). In support of this, Koh (2011:21) found that managers that lobbied the proposed accounting standard on share option expensing, did so mainly because it caused an increase in debt contracting costs for their companies.

On the topic of the information processing cost, Elbannan and McKinley (2006:609) state that an increase in information processing costs is likely to cause companies to lobby a proposed accounting standard. Watts and Zimmerman (1978:126) also found, in terms of PAT, that a major motivator for lobbying is an increase in information processing costs brought on by a proposed accounting standard. The reason for this is that the company may have to expend cash to collect and analyse data to comply with the new accounting standard

(Elbannan and McKinley, 2006:609). The company may also have higher cash outflows since it has to employ additional staff or create additional business units in order to facilitate the new accounting processing (Elbannan and McKinley, 2006:609). Consequently, the impact of an accounting standard on a company's cash resources is a great activator for lobbying behaviour.

Cash is the lifeline of any company, and companies go to great lengths to protect that resource. Holder, Karim, Lin and Woods (2013) illustrated this point. In their study of comment letters on enhanced disclosure requirements for contingent liabilities proposed by the IASB and FASB, they found that the main reason cited by lobbyists for opposing the proposal was litigation issues. This argument was submitted more by United States companies than other countries simply because they operate in a "highly litigious environment" (Holder *et al*, 2013:144). Increased litigation may have a huge impact on a company's resources – hence the result from the companies on the proposed enhanced disclosure on potential contingent losses could be expected.

2.5.1.4 Client effect

The client effect occurs when a corporation is dependent on its stakeholders for resources and consequently adapts its behaviour to support their preferences (Elbannan and McKinley, 2006:612). In other words, the client effect arises when a corporation participates in lobbying the accounting standard-setter mainly because its stakeholders are participating in lobbying the accounting standard-setter (Elbannan and McKinley, 2006:612).

The client effect is best illustrated in the context of an audit firm and its clients. In terms of agency theory specifically, it is suggested that auditors have an incentive to support their clients' views on proposed accounting standard changes (Saemann, 1999:5). McKee, Williams and Frazier (1991) illustrate this theory on the client effect between accounting firms and their clients in a study on an accounting standard for internally generated computer software. The proposed accounting standard was selected by McKee *et al* (1991:276) because it mainly influenced one specific industry and had economic consequences and financial reporting consequences for all the companies in this particular industry. Based on a content

analysis of the comment letters received by the FASB on the proposed accounting standard, McKee *et al* (1991:282) determined that the position of the accounting firms that wrote comment letters was closely aligned with their clients' comment letters on the proposed changes. Their findings indicated that the larger the client, the more likely the accounting firm was to support its client's position (McKee *et al*, 1991:283).

Larson (2008) reported similar results on the client effect. Larson's (2008) study examined the lobbying of the draft interpretation note, SIC 12 *Special Purpose Entities* (hereafter referred to as SIC 12). SIC 12 addresses the accounting of off-balance sheet securitisation financing, also known as Special Purpose Entities (Larson, 2008:30). This interpretation note was urgently required to stipulate the criteria for including a financing vehicle in the corporation's consolidated financial statement, since at the time, many of these financing vehicles were kept off-balance sheet (Larson, 2008:31). SIC 12 was severely opposed, especially by financial institutions, according to Larson's content analysis of comment letters on SIC 12 (Larson, 2008:35). This is significant because all the financial institutions that opposed SIC 12 in this study actively marketed Special Purpose Entities to their clients (Larson, 2008:29). A second significant result from Larson's study is that the only accounting firm that opposed SIC 12 was Arthur Andersen (Larson, 2008:30). One of Arthur Andersen's major clients was Enron, which was well known for using many Special Purpose Entities in its business model (Larson, 2008:40). In order to protect its clients' interests and consequently its own, Arthur Andersen acted as the "hired gun" to advocate Enron's position on SIC 12 with the accounting standard-setter.

Both of the findings from Larson (2008) and McKee (1991) illustrate how the client effect motivates companies, and even professional audit firms, to lobby the accounting standard-setter. Regarding audit or accounting firms presenting their clients' interests to the accounting standard-setter, McKee *et al* (1991:289) express great concern:

“If indeed accounting firms are engaged primarily in advocating the interest of clients when they discuss proposed accounting rules, the intellectual honesty of the process is jeopardised.”

2.5.2 Theoretical motives

Stenka and Taylor (2010:118) provide the following description of theoretical (conceptually based) arguments:

“Conceptually based arguments are taken to refer to accounting concepts and principles as well as technical issues. Respondents using such arguments would base their reasoning on theoretical and conceptual soundness, as well as the technical feasibility of the proposals. They would also refer to potential institutional and legal complications caused by the proposals if they were to be in conflict (in the respondents’ view) with current government policies or already existing regulations and statutory provisions.”

Theoretical arguments are important to the accounting standard-setter. When the accounting standard-setter has to consider the alternatives to its proposal, it needs to “... understand the conceptual basis of the idea and how it can be applied comprehensively in financial reporting” (Barth, 2012:13). Evidence from studies on arguments used in comment letters does suggest that lobbyists are aware of the necessity of conceptually based arguments in their comment letters. Holder *et al* (2013:145) found on the proposed enhanced disclosure requirements on contingencies that 60% of the respondents include theoretical arguments in their comment letters. Stenka and Taylor’s (2010) content analysis of comment letters written in response to four exposure drafts, indicated that 85% of respondents referred to theoretical arguments to state their positions. The theoretical argument mostly cited by these respondents related to the relevance principle of the Conceptual Framework. Chatham *et al* (2010:103) also found the use of conceptually based arguments in 75% of the comment letters written on the proposed fair value measurement of financial instruments.

2.5.3 A combination of motives

Although the motives above are presented separately, one should acknowledge the fact that comment letter writers use a combination of outcome-orientated and technical motives in their comment letters and regularly integrate these when presenting their views (Yen *et al*, 2007:73). Empirical results from studies on which motives are used most often in comment letters, show contradictory results. Chatham *et al* (2010:103) found in their data analysis of comment letters on the proposed fair value measurement of financial instruments that outcome-orientated arguments were used more than theoretical arguments. Yen *et al* (2007:64), like Chatham *et al* (2010), reported that respondents used more outcome-orientated arguments than theoretical arguments when citing their motivations for writing a comment letter. Conversely, Stenka and Taylor's (2010:125) results from their data analysis of comment letters showed that theoretically based arguments were used more by respondents than outcome-orientated arguments. McLeay *et al* (2000:83) suggest that "constituent lobbying may be affected by the scope and nature of the accounting issue under consideration".

Therefore, a proposed accounting standard, severely impacting on the cash flows of companies, naturally leads to more outcome-orientated arguments in comment letter submissions. Conversely, a proposed accounting standard that does not significantly impact on accounting numbers or cash flows, may result in less outcome-orientated arguments and more theoretical arguments in comment letter submissions.

In conclusion, one has to accept that motivations for lobbying the accounting standard are complex and diverse. In the current study, comment letters only gave the researcher a glimpse of the motivations of the lobbyist.

2.6 WHO LOBBIES THE ACCOUNTING STANDARD-SETTER?

McLeay *et al* (2000:96) identified four main lobbying groups in the accounting standard-setting arena: preparers of financial statements, users of financial statements, auditors and academics. Other lobbying groups mentioned in prior studies include accounting standard-setters, regulators, government entities, stock exchanges, financial institutions and trade associations (Yen *et al*, 2007; Chatham *et al*, 2010; Jorissen *et al*, 2010). Sutton's (1984) cost-benefit framework is an important determinant for who is likely to lobby the accounting standard-setter. Constituents lobby with currency (Sutton, 1984:85). Since the cost of lobbying is high, only those parties that expect the greatest financial benefits from its lobbying attempts are willing to expend costs to lobby (Sutton, 1984:85). Hence only certain groups lobby because the "resources are widely but unequally distributed" (Van Lent, 1997:18). In the next section, the four main lobbying groups' participation in the due process of accounting standard-setting is discussed.

2.6.1 Preparers versus users

Preparers of financial statements are the most active lobbying group (Holder *et al*, 2013:141). They are more likely to lobby than users, auditors and academics (Sutton, 1984:93; Larson, 1997:196; Chatham *et al*, 2010:100; Jorissen *et al*, 2010). The empirical results from the content analysis of comment letters in studies such as those by Yen *et al* (2007), Jorissen *et al* (2010), Chatham *et al* (2010) and Holder *et al* (2013) show that preparers dominated the respondents.

The above findings can be assigned to the greater benefits preparers receive from lobbying compared to other constituents (Sutton, 1984:85). Sutton (1984:86) suggests that preparers of financial statements are dependent on a limited number of sources of income and are therefore severely impacted when an accounting standard influences their income. It follows then that the more undiversified a preparer is, the more likely he or she is to participate in lobbying (Sutton, 1984:93). Preparers also lobby more than other constituents because they are wealthier than the other constituents (Jorissen *et al*, 2010:6). There are also certain characteristics of preparers that cause higher participation in lobbying compared to other constituents.

Elbannan and McKinley (2006:615) suggest that preparers in highly concentrated industries are more likely to lobby than those in less concentrated industries. They also argue that preparers in less regulated industries tend to respond significantly more to proposed accounting standards than those in highly regulated industries simply because they are not used to regulatory structures (Elbannan and McKinley, 2006:616).

The larger preparers are more likely to lobby than smaller preparers (Sutton, 1984:93; Jorissen *et al*, 2010:28). The reason is that the possible benefits a preparer is likely to obtain are directly correlated to its size (Lindahl, 1987:62). The lobbying costs are also more easily borne by larger preparers (Elbannan and McKinley, 2006:613). Larger preparers are likely to employ accounting experts who are able to interpret the impact of a proposed accounting standard on the preparer (Elbannan and McKinley, 2006:613). Even if a large preparer does not employ accounting experts, he or she may be willing to hire the expertise (Elbannan and McKinley, 2006:613) or sponsor academic research.

From a user perspective, prior studies show that users write the fewest comment letters to the accounting standard-setter (Yen *et al*, 2007; Jorissen *et al*, 2010; Chatham *et al*, 2010; Holder *et al*, 2013). Users of financial statements include shareholders, financial institutions, tax authorities, potential investors, regulatory bodies, employees, creditors and customers (Saemann, 1999:4). Sutton's (1984:86) explanation for the low participation of users in the due process is that users are generally dependent on various sources of income and are not significantly impacted when an accounting standard influences one of its sources of income. Users are also not the wealthiest group and thus do not lobby as actively as preparers (Van Lent, 1997:18; Holder *et al*, 2013:141). When users do lobby, they are more likely do so for enhanced disclosure in financial statements than for any other reason (Van Lent, 1997:19; Saemann, 1999:4; Jorissen *et al*, 2010:28).

2.6.2 Audit and accounting firms

Chatham *et al* (2010:100), Jorissen *et al* (2010:25) and Holder *et al* (2013:151) found in their analysis of comment letters that after preparers, the audit and accounting firms send more comment letters to the accounting standard-setter than users and academics. The intense participation of audit and accounting firms in the lobbying process may be due to the significant financial interest that audit firms have in their clients' welfare (McLeay *et al*, 2000:82).

It is also interesting to note from Georgiou's (2004:233) findings that preparers of financial statements perceive their auditors to be influential in affecting the accounting standard-setting process. Hence preparers rely greatly on their auditors to represent their preferences to the accounting standard-setter (Van Lent, 1997:25). Accordingly, audit firms are likely to resist the accounting standard-setter when their clients resist an accounting standard (Elbannan and McKinley, 2006:612). The reason for their avid support of the clients' views with the accounting standard-setter is the client effect, which was discussed previously in section 2.5.1.

It is therefore anticipated that preparers and auditors cluster together when presenting their views to the accounting standard-setter (Van Lent, 1997:25). In light of this, it is reasonable to submit that audit and accounting firms belong to the preparer group rather than the user group (Sutton, 1984:86). This increases the probability of audit firm lobbying compared to user and academic lobbying. Larger audit firms, like preparers, are more likely to lobby since they have greater resources at their disposal and receive greater benefits from successful lobbying (Van Lent, 1997:23).

2.6.3 Academics

Academics are one of the lobbying groups who write the fewest comment letters compared to other lobbying groups (Yen *et al*, 2007:59; Jorissen *et al*, 2010:18). There are a few possible reasons for the low response rate from academics. Firstly, academics are perceived to have limited influence over the accounting standard-setter and their likelihood of success in lobbying is therefore

low (McLeay *et al*, 2000:82). Secondly, apart from the low probability of successful lobbying, the low academic participation is partially because of the lack of a significant wealth effect (McLeay *et al*, 2000:82). In other words, the economic effect of a proposed accounting standard is not significant on academics and they therefore stand to gain little from lobbying the accounting standard-setter. Thirdly, academics focus their lobbying efforts more at the earlier stages of the process, that is, the agenda-setting stage (Jorissen *et al*, 2010:28). As discussed previously, the agenda-setting stage requires the involvement of academics in the form of research, to collect evidence on accounting issues and how to resolve these accounting issues (IFRS Foundation, 2013b:22).

Even though it appears from content analysis of comment letters that academics on their own seem to exert little influence over the accounting standard-setter, preparers collaborating with and using the contributions of academics seem to exert more influence over the accounting standard-setter since the preparer's position seems to be more credible because of the academic community's backing (McLeay *et al*, 2000:94 & 96). In light of this supposition, preparers may sponsor academic research projects to support their position on an accounting issue (Sutton, 1984:89). Thus, even if the academic community does not significantly participate in direct lobbying of the accounting standard-setter, it does play an indirect role in transferring information to the accounting standard-setter.

In conclusion, extant academic research supports Sutton's cost-benefit framework in determining who is likely to lobby. Preparers of financial statements are more likely to lobby than users of financial statements (Sutton, 1984:93; Jorissen *et al*, 2010:28; Chatham *et al*, 2010:100). The larger preparers are more likely to lobby than smaller preparers (Sutton, 1984:93; Jorissen *et al*, 2010:28). Audit and accounting firms are likely to support their clients' preferences and are therefore more likely to lobby with the preparers of financial statements (Van Lent, 1997:25; Sutton, 1984:86). Academic participation in the due process of accounting standard-setting is low mainly because of the low success rate in influencing the accounting standard-setter and the cost-benefit considerations of the rational choice theory (McLeay *et al*, 2000:82).

The next section examines South Africa's participation in the IASB's accounting standard-setting process.

2.7 LOBBYING BY SOUTH AFRICAN PARTICIPANTS IN THE ACCOUNTING STANDARD-SETTING PROCESS OF THE IASB

Since 2005, the year in which South African listed companies adopted IFRS as financial reporting standards, interested parties in South Africa have had the opportunity to directly participate in the due process of the international accounting standard-setter.

This section examines the adoption of IFRS by South Africa, the accounting regulators in South Africa and South Africa's participation in the IASB's accounting standard-setting process.

2.7.1 The context of accounting regulation in South Africa

2.7.1.1 *Financial reporting standards in South Africa*

The Accounting Practices Board (APB) was the official accounting standard-setter in South Africa up to late 2011 (IFRS Foundation, 2015b). In 1995, the APB decided to issue accounting standards as statements of South African Generally Accepted Accounting Practice (SA GAAP) that were primarily based on international accounting standards (2006:87). Eventually, the APB completely converged SA GAAP with IFRS and as a consequence, from 2003, issued IFRS as SA GAAP without amendment (IFRS Foundation, 2015b). From this date, all companies were required to compile their financial statements on the basis of SA GAAP (IFRS Foundation, 2015b).

From 1 January 2005, the JSE disallowed the use of SA GAAP for financial reporting by listed companies, and adopted IFRS for financial reporting purposes for all listed companies (Venter and Stiglingh, 2006:87). Non-listed companies continued with the use of the statements of SA GAAP for financial reporting purposes. The promulgation of the Companies Act of 2008 in 2011 resulted in the decision to completely withdraw SA GAAP as the financial reporting standard in South Africa and only allowed IFRS

or *IFRS for SMEs* as a basis for the preparation of financial statements of South African companies (IFRS Foundation, 2015b).

2.7.1.2 *Accounting standard regulators in South Africa*

The APB was established in 1973 as a private accounting standard-setter in South Africa (IFRS Foundation, 2015b). Since its establishment, SAICA has served as the technical advisory body of the APB (IFRS Foundation, 2015b). SAICA has played a significant role in accounting standard-setting by acting as technical advisor to the APB and also by managing the accounting standard-setting process in South Africa on the APB's behalf (Gloeck, 2003:71). In this regard, SAICA's technical body, the APC, has supported SAICA's objective and strategy. The objectives of the APC are discussed in more detail below.

The promulgation, in 2011, of the new Companies Act 2008 in South Africa, established a legally constituted accounting standard-setting body named the Financial Reporting Standards Council (FRSC). The FRSC is tasked to issue financial reporting pronouncements in South Africa in alignment with IFRS (IFRS Foundation, 2015b). Hence the FRSC's establishment resulted in the winding-up of the APB (IFRS Foundation, 2015b). SAICA continues, even after the establishment of the FRSC, to issue the IASB's exposure drafts on proposed accounting standards for comments in South Africa. SAICA also continues to serve, through the APC, as technical advisor to the FRSC (the South African Institute of Chartered Accountants (SAICA), 2014). SAICA consequently remains as a technical secretariat to the national accounting regulator.

The APC has 15 voting members and a chairperson (SAICA, 2014). According to the 2015 APC members list, the members of the APC consist of a board member of the IASB, the five largest audit firms in South Africa, commerce and industry representatives (e.g. MTN and Anglo Gold Ashanti Limited), users of financial statements (e.g. Barclays Bank) and SAICA executives (SAICA, 2016). Owing to its role in South Africa and its support to the APB and now the FRSC, the APC's objectives regarding accounting standard-setting were deemed important in the context of this study and merit comment.

In paragraph 4.3 of its operating procedures, the APC states that its objective is to submit, on behalf of SAICA, comments on exposure drafts or discussion papers issued by the IASB "... with the intention to influence outcomes ..." (SAICA, 2014). This is achieved by inviting South African constituents to send their comments on an IASB issued discussion paper and exposure draft to SAICA (SAICA, 2014). SAICA, in collaboration with the APC, then analyses and interprets the comments it receives from South African constituents to determine the dominant concerns on a proposed accounting standard from a South African perspective (Gloeck, 2003:71). These concerns from stakeholders are considered by the APC and are then compiled in one comment letter to the IASB (Gloeck, 2003:71). This procedure affords South African stakeholders opportunities to formally, but *indirectly*, participate in the consultative process of the IASB. Obviously, South African stakeholders may also *directly* participate in the IASB's discussion period or exposure period by writing a comment letter to the IASB, instead of going through SAICA.

The APC (SAICA, 2014) states in paragraph 4.4 of its operating procedures, that it aims to "influence the setting of new and revised/amended IFRSs, IFRIC Interpretations and IFRS for SMEs, where appropriate, by nominating members to the relevant IFRS Foundation structures". It also has the same objective in paragraph 4.5 with the national accounting standard regulator, the FRSC (SAICA, 2014). Sutton (1984) describes this attempt at representation on the committees or board of the accounting standard-setter, as a "long-term" lobbying method. By obtaining representation on the accounting standard-setters committees or board, the lobbyist has the opportunity to influence not only a proposed accounting standard, but also, in the long run, the accounting standard-process itself (Sutton, 1984).

It is also interesting to note that one of the APC's objectives is to encourage research on financial reporting matters at universities or other institutions (SAICA, 2014). As discussed previously, the transfer of "expert" information to the accounting standard-setter is a well-known informal lobbying method (Van Lent, 1997:22).

In light of the above APC objectives, it is clear that the APC, in collaboration with SAICA, aims to influence on behalf of South African stakeholders the IASB's setting

of accounting standards. Hence Gloeck (2003:71) aptly states that "... SAICA therefore has a major influence on accounting conventions in South Africa. It effectively controls agendas, procedures and publications."

2.7.2 South Africa's participation in the IASB's accounting standard-setting

The following question was relevant to this study: How and when do South African companies participate in the accounting standard-setting process of the IASB? Since 2005, the year listed companies adopted IFRS, interested parties in South Africa have had the opportunity to directly participate in the due process of the international accounting standard-setter. South African interested parties therefore have the same opportunity as other constituent countries to *directly* participate in the formal public consultations of the IASB (e.g. attending public meetings or submitting a comment letter during the discussion or exposure period) as well as to informally participate in the IASB's due process (e.g. informally meeting with IASB members or staff) (Jorissen *et al*, 2010:3). In addition, South African stakeholders can also *indirectly* participate (Jorissen *et al*, 2010:3) in the due process of the IASB by communicating their concerns to SAICA.

There is a paucity of academic literature providing empirical evidence of South Africa's participation, directly or indirectly, in the IASB's due process. What is clear from the academic literature is that hardly any comment letters have been written by South African stakeholders directly to the IASB, compared to the number of comment letters written by stakeholders in developed countries. For example, Larson's (1997:185) study of 288 comment letters on 17 exposure drafts issued between 1989 to 1994 shows that during this period, only three South African stakeholders responded to the invitations to comment by the IASC, the predecessor of the IASB. MacArthur (1996:231) analysed 47 comments letters received from respondents over the world in response to the exposure draft on Comparability of Financial Statements issued by the IASC. The majority of comment letters in this study were received from Australia (12), the United States (10) and the UK. South Africa submitted one comment letter in this regard (MacArthur, 1996:217). Chatham *et al's* (2010:101) geographic analysis of 169 comment letters received by the IASB on the IAS 39

discussion paper indicated that only two comment letters had been received from South Africa. The highest number of comment letters in this regard was received from the Netherlands, namely 23 (Chatham *et al*, 2010:101). Larson and Hertz (2013) analysed comment letters received by the IASB regarding 57 issues from 2001 to 2008. The geographical analysis shows that South Africa constituted 3% of the worldwide comment letter writers over this period (Larson and Hertz, 2013:16).

In light of the above, even though South Africa participates directly and formally in the IASB due process, its participation is low compared to other countries. It should also be noted that those South African stakeholders that submitted comment letters referred to in the above studies, include SAICA, the professional accounting body representing the interest of South African stakeholders. In this regard, Samkin (1996:146) correctly predicted that after the adoption of IFRS as reporting standards in South Africa, “the future role of South African corporate management is likely to be reduced to merely lobbying the South African Institute of Chartered Accountants who, in turn, also faces the very real danger of being relegated to a mere lobbying role on behalf of South African statement users and preparers”.

The indirect participation in the IASB due process merits comment. Evidence of indirect participation in the IASB’s due process by South African companies is difficult to observe. The most obvious evidence of indirect lobbying of the IASB, is the comment letters written by South African companies to SAICA. However, the participation rate in the comment period is low. Stainbank’s (2010:64) investigation shows that a total of 14 comment letters on the exposure draft *IFRS for SMEs* were received by SAICA from South African stakeholders during the comment period. The number of comment letters received in this regard is low, given the significant impact of the proposal on financial reporting for small and medium-sized companies. Given Sutton’s (1984) predictions that those preparers of financial statements that do participate in lobbying are likely to be large, the low number of responses in this case is not entirely unexpected. *IFRS for SMEs* pertains to small and medium-sized companies and based on Sutton’s assumptions, small preparers are not likely to lobby.

However, one cannot assume that the low number of comment letters is proof that South African stakeholders do not lobby the IASB. Instead, Gloeck (2003:73) suggests that South African stakeholders have found alternative means of influencing the accounting standard-setting process. In Stainbank's (2010) study, the use of other lobbying methods by South African stakeholders seems likely. In order to elicit opinions on the proposed exposure draft for *IFRS for SMEs*, a member of the IASB and a member of SAICA held discussion forums throughout South Africa (Stainbank, 2010:64). In total, 800 individuals attended these discussion forums (Stainbank, 2010:64). According to Sutton (1984), the oral testimony of the lobbyist at a public meeting such as this is an effective lobbying method. In Georgiou's (2004:232) empirical study on the timing, methods and perceived effectiveness of lobbying by UK companies, he found that approximately a third of companies *perceived* this lobbying method as effective to very effective. One can therefore conclude that in the case of the *IFRS for SMEs* proposals, the high number of South African companies attending the discussion forums compared to the low number of South African comment letter writers indicates that companies perceived methods other than comment letters to be more effective in this case.

Therefore, in conclusion, at first glance, it appears that there is a low response rate from South African stakeholders during the IASB comment period. The evidence presented by Gloeck (2003) and Stainbank (2010), however, suggests that South African stakeholders make use of other lobbying methods to influence the outcome of accounting standards.

2.8 SUMMARY

In this chapter, the timing, methods and perceived effectiveness of lobbying the accounting standard-setter were examined. Companies have an interest in shaping the outcome of accounting standard-setting owing to its effect on the allocation of scarce economic resources (Jorissen *et al*, 2010:5). The attempts by companies to shape the outcome of an accounting standard are referred to as lobbying.

The point of departure of this study was a discussion on the nature of lobbying and the theoretical framework of lobbying. A discussion on Sutton's (1984) predictions based on the rational choice theory was central to this exposition since it forms the background to this study. Sutton's (1984) hypotheses posit that an individual faced with the different lobbying options prefers the option that provides the greatest benefits subject to cost constraints.

The due process of accounting standard-setting of the IASB was examined. This was necessary since the highly regulatory structure of the accounting standard-setter provides the opportunity for lobbying. The discussion on the stages of the due process demonstrated that the earlier stages of the due process (agenda formation and discussion paper stages) are expected to be used more by lobbyists because of the effectiveness of influencing the accounting standard-setter during these stages. The discussion of the due process also included the various lobbying methods employed during the various stages. These lobbying methods include formal lobbying methods, namely those participation efforts allowed by the due process and informal lobbying methods, that are informal interactions with the accounting standard-setter that occur behind the scenes. The literature examination of lobbying methods and their associated costs revealed that lobbyists tend to choose the mix of lobbying methods with the most influence per unit of lobbying cost.

Ensuing from the above discussion on lobbying methods and their associated costs, the expected benefits from lobbying were explained. The analysis of the motivations revealed that lobbyists are driven by outcome-orientated and theoretical motives. Avoiding any negative economic impact of a proposed accounting standard was shown to be a major motive for lobbying an accounting standard-setter. However, in formally addressing the accounting standard-setter on an accounting issue, a

theoretical argument is necessary. The literature revealed that the use of one of these motives above another or a combination of motives is dependent on the accounting issue at hand or the so-called “informational effect”.

Finally, the applicability of Sutton’s predictions to the question of who is likely to lobby was studied. On the question of who is likely to lobby the accounting standard-setter, the conclusion was that preparers are more likely to lobby than users; larger preparers are more likely to lobby than small preparers; preparers and auditors cluster together when presenting their views; and lastly, the academic participation rate in lobbying is low.

The literature study ended with a discussion of lobbying by South African companies of the IASB’s accounting standard-setting process. Firstly, the context of South Africa’s financial reporting standards and the relevant regulatory bodies responsible for those accounting standards were outlined. In this regard, SAICA, in collaboration with the APC, has played a significant role in accounting standard-setting in South Africa. Secondly, the participation of South African companies in the IASB’s due process was deliberated. Although evidence from the academic literature indicates a low response rate from South African stakeholders during the IASB comment period, Gloeck (2003) and Stainbank’s (2010) findings suggest that South African stakeholders make use of other lobbying methods to influence the outcome of accounting standards.

The next chapter presents the study’s research methodology, which includes a discussion on the research design, development of the hypotheses, research limitations and ethical considerations of the study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

In the previous chapter, corporate lobbying of the accounting standard-setter was reviewed. The objective of this study was to examine the timing, methods and perceived effectiveness of lobbying by South African companies during the accounting standard-setting process. The study's objective was first addressed in chapter 2 in the form of a review of the relevant literature in the field of political economy and accounting.

It was submitted that there is a paucity of empirical evidence of South African companies' participation, directly or indirectly, in the IASB's due process. This chapter addresses the research design and method of this study to determine the timing, methods and perceived effectiveness of lobbying by South African companies of the accounting standard-setter. Survey-based research was employed in this study to collect primary data on the timing, method and perceived effectiveness of lobbying by a sample of South African companies. By comparing the empirical results from the questionnaire with Sutton's (1984) theoretical model, as examined in chapter 2, support for Sutton's (1984) theoretical model in the South African context could be determined.

This chapter provides the related research design (section 3.2), the development of the hypotheses (section 3.3.), the research methodology used to determine the timing, methods and perceived effectiveness of lobbying by South African companies during the accounting standard-setting process (section 3.4), the limitations of this research methodology (section 3.5), and lastly, the ethical procedures followed in the study (section 3.7).

3.2 RESEARCH DESIGN

In determining the research design of this study, the nature of the proposed research had to be considered (Blaxter, 2010:81). The nature of the research in this study was the collection of primary data to provide evidence of the timing, methods and perceived effectiveness of lobbying by South African companies of the accounting standard-setter. In principle, the research aimed to collect this information from a sample of listed companies in South Africa through survey-based research.

3.2.1 Survey-based research

A survey-based research design was selected as a suitable design since a survey “uses a series of written and verbal prompts/items to quantify personal opinions, beliefs and ideas from a group of respondents” (Lee Abott and McKinney, 2013:206). According to Vogt, Haeffele and Gardener (2012:16), a survey-based research design is suitable when the following criteria are met:

- the data is best obtained directly from respondents;
- the data is best obtained by brief answers to structured questions;
- it is expected that the respondents will provide reliable information;
- the answers will be useful to the researcher; and
- an adequate response rate is expected.

The acceptability of a survey based-research design for this study, based on the above criteria of Vogt *et al* (2012), is discussed in more detail below.

According to Sutton (1984:93), the “construction of hypotheses concerning the timing and nature of lobbying is not difficult, but their testing is”. The reason why the testing of lobbying activity is difficult is that much of the lobbying of the accounting standard-setter is private and unobservable (Sutton, 1984:93).

Many studies, such as those of Larson (2008), Jorissen *et al* (2010) and Stenka and Taylor (2010), examine the most observable form of lobbying, that is, the respondents’ use of comment letters to the accounting standard-setter. Evidence gathered from comment letters is considered weak in respect of theoretical

propositions of corporate lobbying behaviour (Lindahl, 1987:63) and does not provide insight into other forms of lobbying during the accounting standard-setting process (Georgiou, 2004:220). Sutton (1984:93) and Georgiou (2004:220) thus suggest that a survey based-research design, using survey instruments such as questionnaires, should be employed to gather data on other lobbying methods.

In the context of South Africa, the use of a survey-based research design was also deemed more appropriate for this study because of the limited availability of observable evidence (such as comment letters) of lobbying during the accounting standard-setting process (Gloeck, 2003:73). Hardly any empirical studies on the lobbying by South African companies of the accounting standard-setter have been conducted in this country. Consequently, archival research was not deemed an appropriate research design for this study.

In light of the above, evidence of the timing, methods and perceived effectiveness of lobbying by South African companies during the accounting standard-setting process could best be obtained directly from a sample of South African companies through the use of a questionnaire instrument.

Georgiou's (2004) study examined the timing, methods and perceived effectiveness of lobbying of the accounting standard-setter by UK companies. Georgiou (2004) used a questionnaire instrument to collect data from respondents. Georgiou's (2004) survey delivered useful information regarding when UK companies lobby, how they lobby and how effective they perceive their lobbying to be. Based on these results, Georgiou (2004:223) found strong support for Sutton's (1984) predictions drawn from rational choice theory in the UK context.

Since Georgiou's questionnaire addressed similar hypotheses to those in this study, and his questionnaire provided useful and reliable results, it was considered a suitable survey instrument for this study. Georgiou's (2004) questionnaire is included in appendix C of this dissertation.

3.2.2 Questionnaire instrument

As discussed above, a questionnaire instrument was deemed an appropriate survey instrument for this study. A self-administered questionnaire has many advantages. Vogt *et al* (2012) and Lee Abbott and McKinney (2013) highlight various advantages of questionnaires. Three of the advantages mentioned by them warrant attention. One significant advantage of using questionnaires as a survey instrument is that the researcher can be certain that all respondents are asked the same questions in the same manner (Vogt *et al*, 2012:21). This is not the case with face-to-face interviews where the tone, appearance or sex of the researcher may influence the respondent's answers to questions (Vogt *et al*, 2012:21). Another advantage of questionnaires is that they can elicit more sensitive information from respondents (Lee Abbott and McKinney, 2013:210). In interviews, respondents tend to be biased towards answers that are socially acceptable (Schonlau, Fricker & Elliot, 2002:10). In this regard, it has been found that questionnaires provide better quality answers, especially from sensitive questions (Schonlau *et al*, 2002:10).

In this study, the researcher required information on lobbying from the respondents, which included unobservable (or disguised) lobbying of the accounting standard-setter. Respondents might have been reluctant to disclose that they were trying to influence the accounting standard-setter outside of the formal due process, as this could be deemed to be professionally and socially unacceptable. A questionnaire could have potentially elicited this information more easily than with an interview. Another advantage of questionnaires is that they are less costly than interviews (Lee Abbott and McKinney, 2013:210).

Two disadvantages of questionnaires merit discussion. Firstly, respondents tend to lose interest in a questionnaire if the questions are long, complex or dependent on many contingency options (Lee Abbott and McKinney, 2013:210). Secondly, the evidence suggests that questionnaires have a lower response rate than interviews (Lee Abbott and McKinney, 2013:210). Proper survey design techniques, preparation and follow-up procedures can enable the researcher to overcome these disadvantages and mitigate the associated risks. More details on the research

method followed to overcome the above challenges are discussed in section 3.4 below.

3.2.3 A standard theory-testing model

Vogt *et al* (2012:10) describe research where the researcher reflects on the theory, formulates hypotheses on the basis of that theory and then tests the hypotheses, as a standard theory-testing model. According to Vogt *et al* (2012:10), this “kind of research is very important and, according to many, the only way science progresses”. The standard theory-testing model approach was followed in this research.

Chapter 2 reflected on Sutton’s (1984) predictions drawn from the rational choice model that served as a central theme in this study. The rational choice theory posits that a rational individual only lobbies an accounting standard-setter when the potential benefits of doing so exceed the costs of lobbying. In light of this, Sutton’s (1984) theoretical model predicts at which point in the accounting standard-setting process a company embarks on lobbying the accounting standard-setter and which lobbying methods it is likely to use based on cost/benefit considerations. The rational choice theory is therefore an ordered set of propositions about how something works (Vogt *et al*, 2012:11). Sutton’s (1984) predictions that are drawn from the rational choice theory can therefore be tested. Hence this study formulated testable hypotheses from Sutton’s predictions, as shown in section 3.3 below. The results of the survey-based research and testing of the hypotheses are discussed in chapter 4.

3.3 THE DEVELOPMENT OF THE HYPOTHESES

A research hypothesis is a prediction that the researcher aims to prove as true (Kothari, 2004:186). It is a testable predictive statement relating to at least one dependent and one independent variable (Kothari, 2004:34). An independent variable is the “cause” variable since it is a variable that influences another variable (Lee Abott and McKinney, 2013:34). The dependent variable in a hypothesis is the “effect” variable since it is a variable that is influenced by an independent variable (Lee Abott and McKinney, 2013:34). The research hypotheses for this study were set out in section 1.3 of chapter 1.

In hypotheses testing, the null basis of the hypotheses is used for statistical analysis (Kothari, 2004:186). The null hypothesis is based on the premise that there is no difference between the mean of the study sample and the mean of the population, and the prediction stated thus posits no difference (Lee Abott and McKinney, 2013:340). The hypotheses in this study were formulated in their null form and were indicated in section 3.3 of chapter 3 for the purposes of statistical analysis, as discussed in chapter 4.

The null hypotheses used in this study were based on the null hypotheses formulated by Georgiou (2004:222) in his research on the timing, methods and perceived effectiveness of lobbying in the UK context. The reason for using the hypotheses as formulated by Georgiou (2004) was that his research problem, research objectives and research methods were similar to those employed in this study. However, Georgiou’s (2004) study was conducted in the UK and investigated lobbying of the ASB’s due process, whilst this study was conducted in South Africa and investigated lobbying of the IASB’s due process. The due process of the ASB is similar to that of other accounting standard-setters, including the IASB’s due process.

Support for the hypotheses used in this research is provided below.

3.3.1 The timing of lobbying

The various stages of the accounting standard-setting process of the IASB were discussed in detail in section 1.1.2 of chapter 1. The seven stages of the due process provide lobbyists with a number of opportunities to participate in lobbying of the IASB.

As discussed earlier in section 2.4.1, the literature on the timing of lobbying suggests that lobbying during the earlier stages is effective because it is less costly and the probability of influencing the accounting standard-setter is high (Sutton, 1984:88). Lobbying during this period is effective since the accounting standard-setter is still undecided about the accounting issue and is therefore susceptible to influence from affected parties (Sutton, 1984:88). Gullberg (2008:172) agrees that “early lobbying might influence the political debate by defining the political problem from the beginning, before decision-makers have decided on a position”. Hence lobbying is likely to be successful if it “takes place before a civil servant sets pencil to paper for the first time to write a proposal” (Van Lent, 1997:22). In light of the above, most lobbying activity is expected during the earlier stages since it is the most effective time in the process to influence the accounting standard-setter.

It is also less costly for the lobbyist to participate during the earlier stages than the later stages. The accounting standard-setter progresses towards a more definite view on the accounting issue at hand as the standard-setting process progresses towards the exposure draft stage (Sutton, 1984:88). More resources are therefore required from the lobbyist to sway the accounting standard-setter’s settled position during the later stages of the process than to sway the undecided position of the accounting standard-setter during the earlier stages of the process. In formal terms, more companies lobby during the earlier stages because $P(U_a - U_b) > C$.

As demonstrated above, there is a link between the perceived effectiveness of lobbying during a specific stage and the use of that stage by the lobbyist. Two hypotheses were therefore formulated in order to test Sutton’s predictions. The hypotheses were stated in their null form:

H₀₁: There is no significant difference between the use of the earlier stages and the later stages of the accounting standard-setting process to lobby the IASB.

H₀₂: Companies perceive lobbying during all the stages of the accounting standard-setting process as equally effective.

3.3.2 The methods of lobbying and their perceived effectiveness

Sutton (1984:89) predicts that a lobbyist uses a lobbying method if it “offers him the most influence (increase in P) per unit of lobbying expenditure”. Therefore when choosing a mix of lobbying methods, the lobbyist seeks benefits that exceed the total costs of the lobbying methods (Georgiou, 2004).

Consistent with Sutton’s prediction that lobbying is not restricted to comment letter submissions, Georgiou found (2004:230) that companies make use of a variety of lobbying methods of which comment letter submissions are not the most popular. Sutton (1984) also suggests that other lobbying methods, such as seeking a private audience with the accounting standard-setter or using a third party to lobby on behalf of the lobbyists, are more popular than comment letter submissions. Based on the conclusions of Sutton (1984) and Georgiou (2004), one would therefore expect South African companies to prefer using lobbying methods other than comment letter submissions. Gloeck (2003:73) also alluded to this assumption:

“... the SAICA pre-standards documents (exposure drafts) elicit very little comment and therefore give rise to speculation that role players have found alternative ways of influencing the standard setting process”.

Nonetheless, as indicated earlier in section 1.2, evidence of lobbying methods, other than the use of comment letters, is difficult to obtain and there is a paucity of academic literature available on the use of other lobbying methods. In this regard, Hodges and Mellet (2002) and Georgiou (2004) point researchers in a direction when attempting to investigate other lobbying methods. Georgiou (2004:230) found that overall comment letters submission are an effective indicator of the use of other lobbying methods by lobbyists. Georgiou’s findings are consistent with the findings of an investigation by Hodges and Mellet (2002:144) that show that companies make

reference in their comment letters of earlier lobbying attempts to influence the outcome of a proposed accounting standard.

It is therefore hypothesised that there is significant association between the use of comment letter submissions and other lobbying methods. The hypothesis was stated in its null form:

H₀₃: The use of comment letters submissions is not significantly associated with the use of other lobbying methods.

Sutton (1984:90) submits that it is difficult for the researcher to judge the relative efficacy of all the lobbying methods. Sutton (1984:90) suggests that indirect lobbying methods, though extremely costly (*C*), are perceived to be more effective (*P*) in influencing the accounting standard-setter than direct methods. Regarding direct methods, Sutton (1984:90) suggests that private meetings with the accounting standard-setter are the most effective. Sutton predicts (1984:90) that “the effectiveness of lobbying (its effect on *P*) is likely to vary inversely with its visibility”. Hence one would not expect an observable form such as comment letter submissions to be rated as a very effective lobbying method.

To date, there is limited evidence available on how effective the lobbyists perceive lobbying to be. Georgiou’s (2004) survey results do provide some insight into the perceived effectiveness of lobbying methods. He found that lobbyists do not perceive the various lobbying methods to be equally effective, and they perceive lobbying methods other than comment letters to be more effective than comment letter submissions.

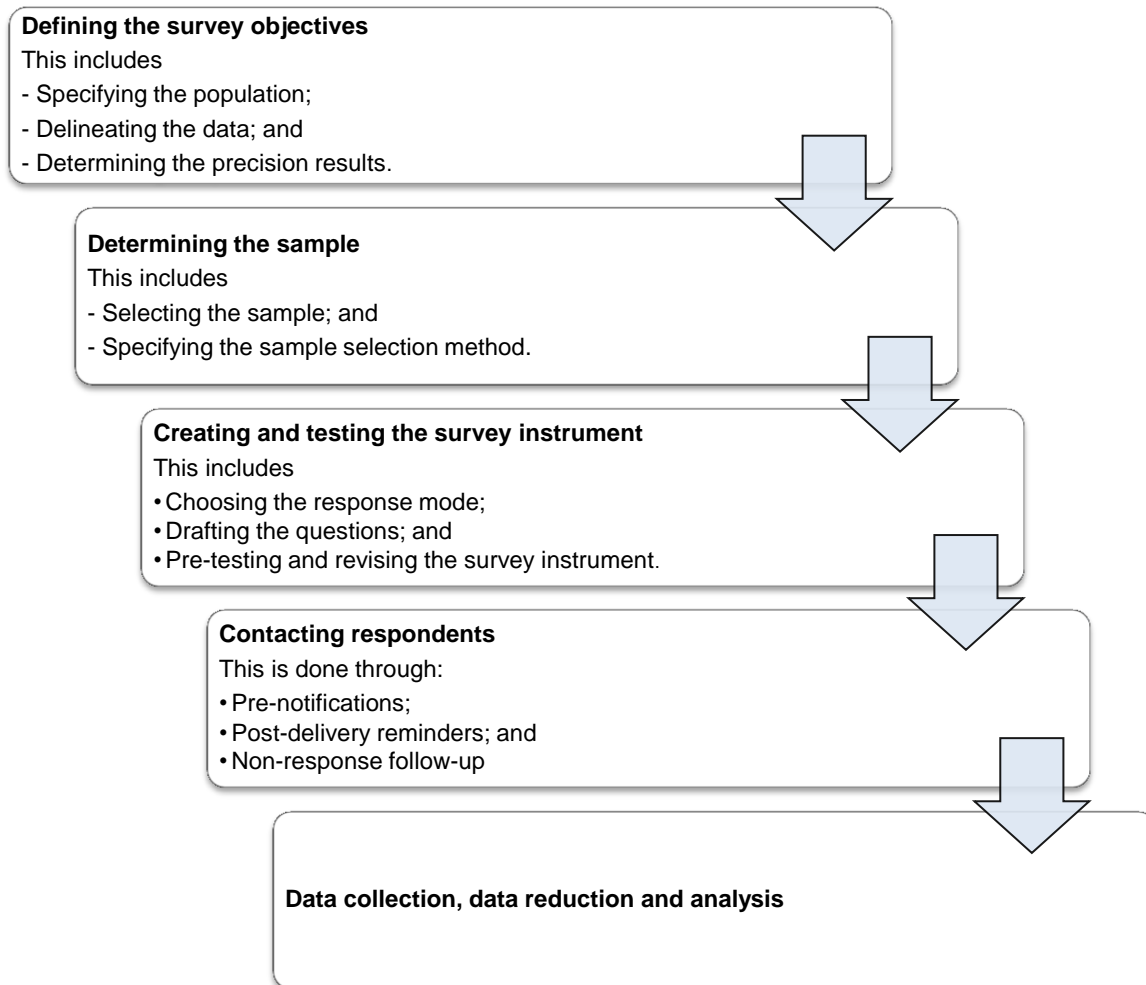
In light of the above, the research hypothesis was that companies perceive lobbying methods other than comment letters to be significantly more effective than comment letter submissions. The hypothesis was stated in its null form:

H₀₄: Companies perceive all lobbying methods to be equally effective.

3.4 RESEARCH METHODOLOGY

Schonlau *et al* (2002:6) suggest that proper construction of the entire survey process is essential to research success. The survey-process framework suggested by Schonlau *et al* (2002:6-7) is illustrated as follows:

FIGURE 3.1 – Survey process framework



Source: Own observation from Schonlau *et al* (2002)

The research methodology followed by the researcher in this study is discussed in terms of Schonlau *et al*'s (2002) survey process framework.

3.4.1 Determining the survey objectives

The objective of the survey was to collect empirical evidence of the timing, methods and perceived effectiveness of lobbying of the accounting standard-setter by South African companies. The population, therefore, included South African companies.

3.4.1.1 Population

According to Lee Abbott and McKinney (2013:102), a researcher determines the population for his or her study on the basis of his or her research problem and design. Since the research problem of this study was the uncertainty of the timing, methods and perceived effectiveness of lobbying by South African companies of the accounting standard-setter, the researcher decided to select South African companies listed on the JSE as the population.

A list of JSE-listed companies was obtained from the Share Data website on 25 November 2015. From this list of companies, a sample for the survey based-research was selected.

3.4.2 Sample

The procedure for selecting the sample is described below.

The sample for this survey-based research was selected from a list of JSE-listed companies. Only those companies with a primary listing on the JSE were eligible for selection. The reason for excluding companies with a secondary listing on the JSE, is that it is likely that such companies lobby from the foreign country where they are primarily listed because this is where their administrative and accounting functions are probably situated. For example, British American Tobacco PLC was excluded from the list because it has a primary listing on the London Stock Exchange and a secondary listing on the JSE. This study aimed to examine companies' lobbying behaviour in the South African context and it was therefore deemed prudent to exclude from the sample those "foreign" companies with a secondary listing on the JSE.

Also, in determining the top 100 primary JSE-listed companies, those listed companies belonging to the same group were treated as one company. The rationale for treating companies in the same group of companies as one, was that it is unlikely that companies in the same group would lobby separately. In line with Olson's (2002) theory of collective action, companies with similar interests and cost sharing rules choose to lobby collectively rather than separately.

The remaining companies on the list were ranked in descending order according to the market capitalisation of each company. The sample selected for this study comprised the top 100 listed companies based on their market capitalisation. The rationale for selecting the top 100 companies was based on the academic literature referred to in section 2.6.1, which indicated that larger companies are more likely to lobby than smaller companies. Georgiou (2004:224) also submitted that smaller companies are less likely to respond to a questionnaire on lobbying. The researcher therefore deliberately selected the 100 largest companies on the list, based on the suppositions from the academic literature.

The above method for selecting a sample for this survey-based research was consistent with the approach followed by Samkin (1996:201) in his survey-based study. Khotari (2004:67) submitted that deliberate sampling is acceptable where the population is small and characteristics specific to that population are to be studied. In such cases the results are "tolerably reliable" (2004:59). Hence, even though the sample was not selected by a random sampling method, the results from this empirical study were still usable to make inferences about the timing, methods and perceived effectiveness of lobby by South African companies of the IASB.

3.4.3 Creating and testing the questionnaire instrument

The researcher accepted Georgiou's (2004) questionnaire as a survey instrument in this research for the following reasons:

- Georgiou's (2004) research objective was the same as the research objectives for this study, the only difference being that this empirical study was conducted among South African participants;
- Georgiou's (2004) hypotheses were developed and formulated from Sutton's predictions drawn from the rational choice theory, which was also the underlying theoretical framework of this research; and
- Georgiou's (2004) questionnaire delivered reliable and usable responses.

Based on the above, the researcher concluded that Georgiou's (2004) questionnaire was a suitable survey instrument to address the research objectives of this study.

The main difference between this empirical study and Georgiou's empirical study was the accounting institutional setting and the country where Georgiou's (2004) research was conducted. Georgiou's (2004) research was undertaken in the UK and was specifically aimed at the timing, method and perceived effectiveness of lobbying on the UK accounting standard-setter at the time, the Accounting Standards Board (ASB). The accounting standard-setting process of the ASB is similar to that of other accounting standard-setting bodies (Georgiou, 2004:221).

This survey-based research was performed in South Africa and aimed to determine the timing, method and perceived effectiveness of lobbying by South African companies of the IASB's standard-setting process. The researcher elected to use Georgiou's (2004) questionnaire for this empirical study by adapting it to the South African context. The details of the questionnaire instrument of Georgiou (2004) are discussed in section 3.4.3.1 below. The adaption of Georgiou's (2004) questionnaire for this empirical study is discussed in section 3.4.3.2 below.

3.4.3.1 Georgiou's (2004) questionnaire

Question format

Georgiou's (2004) questionnaire consisted of three questions. The first two questions were close-ended questions, often referred to as "forced choice" questions (Vogt *et al*, 2012:25). The third question invited companies to provide additional comments if considered necessary. The questionnaire was therefore mainly a structured one. One of the main advantages of a structured survey such as this questionnaire is that it delivers higher response rates (Dilmann, 1999) cited in Lee Abott and McKinney, 2013).

Structure of the questionnaire

Question 1 related to the **stages** at which companies participated in the standard-setting process. The stages specified on the questionnaire referred to the accounting standard-setting stages of the ASB. The respondents had to choose between a "Yes" and "No" option to indicate involvement of the company at certain stages in the ASB's process of developing an accounting standard. Regardless of a "Yes" or "No" answer, the respondents also had to indicate next to their responses, by using the following five-point Likert scale, the *perceived* effectiveness of participation at certain stages of the accounting standard-setting process. The Likert scale used by the respondents was as follows:

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

A Likert-scale gives respondents the option to express their level of agreement or disagreement with a statement by using a value from one to five (Schonlau *et al*, 2002:58). Georgiou added the "don't know" option to the scaling system to avoid "... forcing an answer which might not have been well-informed" (2004:223). Likert scales are efficient in examining the degree of support for "... a belief, policy, or

practice” (Vogt *et al*, 2012:27) and were therefore deemed appropriate in this study to assess the perceived effectiveness of lobbying.

Question 2 related to the **methods** used by a company to participate in the process of accounting standard-setting. Georgiou (2004:222) included in the questionnaire *direct* lobbying methods, where the respondents lobbied the ASB directly, and *indirect* lobbying methods, where the lobbyist lobbied the ASB via a third party. Again respondents had a “**Yes**” or “**No**” to indicate the type of methods employed by the company. Irrespective of their use of a method or not, they had to indicate the *perceived* effectiveness of the methods by using the Likert scale above. An “other” option was provided at the end of question 2, in order to allow respondents to indicate if a lobbying method, other than those mentioned in the questionnaire, was used.

Question 3 invited companies to make additional comments if considered necessary. This question was therefore a general open-ended question and not designed to address a specific hypothesis, but information supplied here may provide the researcher with additional insights (Vogt *et al*, 2012:37).

3.4.3.2 *Adaptation of Georgiou’s (2004) questionnaire*

Georgiou’s (2004) questionnaire focused on the accounting standard-setting process of the ASB, a private accounting standard-setter in the UK at the time. The focus of the study was the lobbying of the IASB by South African companies. The researcher therefore had to ensure that the accounting standard-setting stages (question 1) and the lobbying methods (question 2) were relevant and complete in the context of this empirical investigation.

Amendments to question 1

The accounting standard-setting stages of the ASB are similar to the accounting standard-setting stages of the IASB (Georgiou, 2010:105). However, Georgiou’s (2004) questionnaire did not include the post-implementation review stage even though this was part of the ASB’s due process. The post-implementation review stage of the IASB mainly consists of public consultation to determine the impact of a

new accounting standard or amendment on the public (IFRS Foundation, 2013a:35). This is also the only stage in the due process where the IASB officially mentions that informal consultation with interested parties is allowed (IFRS Foundation, 2013a:36).

It was important to include the post-implementation review stage in question 1 of this study for two reasons. Firstly, the accounting standard-setting stages referred to in question 1 would have been incomplete if the post-implementation review stage had been excluded, since this is a formal stage of the IASB's due process (IFRS Foundation, 2013a:35). Secondly, the public consultation by the IASB during the post-implementation review stage provides the ideal opportunity for lobbying with a view to affecting the next agenda formation stage (see section 2.4.5 in this regard). Based on the above, the researcher amended the Georgiou's (2004) questionnaire to include the post-implementation review stage in question 1 of this study's questionnaire.

Amendments to question 2

Regarding the lobbying methods (question 2) mentioned by Georgiou (2004) in his questionnaire, the researcher had to ascertain if the lobbying methods mentioned in Georgiou's (2004) questionnaire were relevant and complete in the context of the accounting standard-setting process of the IASB. To ascertain this, the researcher agreed the *formal* lobbying methods used in Georgiou's (2004) questionnaire in the context of the ASB to the formal lobbying methods outlined in the Due Process Handbook (IFRS Foundation, 2013a). The researcher noted no exceptions in this regard and concluded that the formal lobbying methods in Georgiou's (2004) questionnaire were relevant and complete in the context of this study. Therefore no amendments were made to the formal lobbying methods mentioned in Georgiou's (2004) questionnaire.

Since *informal* lobbying methods are not publicly available or documented by any accounting standard-setter (Jorissen *et al*, 2010:3), it is impossible to determine if the informal methods mentioned in Georgiou (2004) are complete. Although the completeness of informal lobbying methods mentioned by Georgiou (2004) cannot be tested, the researcher resolved to compare other scholarly observations of informal lobbying methods with Georgiou's (2004) informal lobbying methods. In this way, the researcher ensured that, at the least, the most evident informal methods were

included in the questionnaire. The comparison between informal lobbying methods mentioned by other scholarly works and Georgiou (2004) is illustrated below:

TABLE 3.1 – Comparison of literature examining informal lobbying methods

	Informal lobbying methods mentioned by Sutton (1984)	Informal lobbying methods mentioned by Jorissen <i>et al</i> (2010)	Informal lobbying methods in Georgiou’s (2004) questionnaire
1.	Private meetings with the accounting standard setter	Informal meetings with members or staff of the accounting standard-setter	Communicating the company’s views to ASB members in prearranged private meetings
2.	Appealing to SEC/Congress or UK accountancy bodies	Influencing the opinion of the accounting professional bodies	Appealing to FRC members for support of the company’s views
3.	Private appeals to board officials	Intervening directly with the project staff	Communicating to the ASB members through other means (e.g. telephone conversation, meeting at conferences)
4.	Securing representation on the board of the accounting standard-setter or a task force	Becoming a member of the working group when it is formed	Having members of one’s company appointed as consultants to the ASB on particular projects
5.	Using the company’s accounting firm as an information channel for the views of the company	-	Appealing to the company’s external auditors for support on the company’s views
6.	-	Communicating with a preparer’s organisation in order to influence its comment letter sent to the IASB	Appealing to the company’s trade organisation(s) for support of its views
7.	-	-	Commenting in the media

In light of the above comparison it is clear that all of the lobbying methods mentioned by Jorissen *et al* (2010) and Sutton (1984) were included in Georgiou’s (2004)

questionnaire. Georgiou's (2004) questionnaire included one additional informal lobbying method not mentioned by Jorissen *et al* (2010) and Sutton (1984), that is, commenting in the media. There was also support from other studies (Hodges and Mellet, 2002:129) to justify inclusion of this informal method in Georgiou's (2004) questionnaire. In this regard, the researcher was satisfied that Georgiou's (2004) questionnaire included the most evident informal lobbying methods. The researcher also accepted the relevance of the informal lobbying methods in the IASB context because the ASB and IASB standard-setting processes are similar and it is therefore likely that similar informal lobbying methods are employed in the IASB's standard-setting process. In conclusion, the researcher was satisfied with the completeness and relevance of the lobbying methods mentioned by Georgiou (2004), and no amendments were made in this regard.

The researcher amended question 2 of Georgiou's (2004) questionnaire by replacing all references to the ASB with the IASB in order to reflect the accounting standard-setter in the case of this study. The reference in Georgiou's (2004) questionnaire to the Financial Reporting Council (FRC) was also replaced with the Financial Reporting Standards Council. The aim of the FRC in the UK is to "implement and monitor standards for corporate reporting ..." (Financial Reporting Council (FRC), 2016). The Financial Reporting Standards Council (FRSC) in South Africa was established in 2011 in terms of the Companies Act 2008 (Financial Reporting Standards Council (FRSC), 2016:2). The FRSCs objective is to review "... any newly issued International Financial Reporting Standards and Interpretations and assesses the impact thereof in a South African context with a view to determining whether local interpretations in the form of FRPs are required" (FRSC, 2016). The FRSC in South Africa therefore has a similar objective to that of the FRS in the UK, and the researcher consequently resolved to replace the reference to FRS to FRSC in the questionnaire for this study.

Question 2 was also amended by including the lobbying methods used to lobby the IASB through SAICA. This amendment was made in order for the questionnaire instrument to include *indirect* lobbying that refers to using SAICA as a lobbying body on behalf of South African companies. "Indirect methods" are defined as those

lobbying methods where the lobbyist uses a third party to communicate its views to the accounting standard-setter (Georgiou, 2004:222).

Inclusion of lobbying methods aimed at SAICA was deemed necessary for the following reasons: Samkin (1996:146) suggests that it is likely that SAICA will be used in a lobbying role once IFRS is adopted in South Africa. Also, SAICA is responsible for the products of the accounting standard-setting process in South Africa

(Gloeck, 2003:221) and consequently a target for lobbyists.

In light of the above, the researcher included in the questionnaire the indirect lobbying methods used to influence SAICA. These indirect methods are mirrored on the direct lobbying methods mentioned in Georgiou's (2004) questionnaire in the context of the ASB.

In order to conclude on the above discussion, the amendments to Georgiou's (2004) questionnaire can be summarised as follows:

- the inclusion of the post-implementation review stage in question 1;
- amending UK institutional references to South African institutions in question 2; and
- the inclusion of a question relevant to the lobbying methods to influence SAICA.

3.4.4 Pre-testing the questionnaire

This study's questionnaire was primarily based on the questionnaire used by Georgiou (2004) and therefore consisted largely of standard items as opposed to new or original items. Lee Abbott and McKinney (2013:212) describe standard items as "... survey items that have been used before in previous surveys and have been found to be reliable and valid". Pre-testing of a survey by using a small sample of the target population is only necessary if the survey items are new and original (2013:212). Although a few amendments were made to Georgiou's (2004) questions, as discussed in section 3.3.3.2, these amendments did not result in a new or completely original questionnaire.

Although there were no major amendments to Georgiou's (2004) questionnaire and it was consequently not necessary to pre-test the questionnaire, the researcher decided that a pre-test of the questionnaire was necessary to ensure that in the context of South Africa, the questionnaire was *reliable* and *valid*. Reliability is the extent to which the questionnaire produces the same result (Lee Abbott and McKinney, 2013:45). Validity refers to the accuracy of the questionnaire, that is, whether it examines what it purports to examine (Lee Abbott and McKinney, 2013:45).

The researcher selected two academic colleagues in the Department of Financial Accounting at the University of South Africa and two external parties involved in financial reporting at their companies, to pre-test this questionnaire. All four individuals are Chartered Accountants (SA). The motivation for selecting these individuals to pre-test the questionnaire was that they have the necessary academic qualifications, financial reporting experience, as well as a sound understanding of the accounting standard-setting process. After completing the questionnaire, the respondents were required to provide feedback on the clarity, understandability, length of the questionnaire and the time it took them to complete it. They were also requested to indicate if the instructions to the questionnaire were clear and understandable.

The results from the pre-test indicated to the researcher that the questionnaire was reliable and valid. The questionnaire was therefore not amended in any way after the pre-test.

3.4.5 Response mode

The questionnaire in this study was an internet-based survey. Respondents replied to this survey by following the hyperlink contained in the communication email sent to them. The hyperlink contained a token that could only be used once to submit the survey online. In this way, the researcher could prevent a company from submitting more than one survey. The participant was able to save the questionnaire and return to it later in order to complete the questionnaire. In this way, the researcher was able to monitor on LimeSurvey any incomplete responses.

For an internet-based survey to be successful, the questionnaire design should have a simple presentation and all user-inputs should be understandable. In this regard, the researcher selected LimeSurvey as the survey tool since its presentation and functionality are simple and understandable to users. The researcher administered the internet-based survey on LimeSurvey.

The researcher pre-tested the online functionality of the questionnaire. Schonlau *et al* (2002:51) suggest that pre-testing of internet-based surveys is important to ensure that different computing platforms, browsers and connection speeds can accommodate the survey. The researcher selected two individuals employed at different companies to complete the internet-based survey in order to test the online functionality of the questionnaire from various locations and computer platforms. The researcher was satisfied with results from the pre-test of the online functionality of the questionnaire.

3.4.6 Contact, response and follow-up

The researcher obtained the contact information of the head offices of the selected top 100 JSE primary listed companies from the Share Data website and also from the relevant companies' websites. The researcher contacted the respective head offices telephonically to determine who the appropriate individuals at the companies were for participating in the survey. The researcher made contact with these individuals to determine their willingness to participate in the survey. Those individuals that indicated that they were willing to participate in the survey provided the researcher with their email addresses and contact details. These individuals received an email from the researcher containing the hyperlink to the survey.

The email body contained the cover letter to the questionnaire that stated the following:

- the purpose of the questionnaire;
- the general target group of the questionnaire;
- the estimated time to complete the questionnaire;

- assurance (to respondents) that the results of the survey would be reported in aggregate and treated as confidential;
- the fact that the information provided by respondents would be treated as confidential; and
- the researcher's name and contact details.

The results of the questionnaire were collected through LimeSurvey. Five follow-up reminders were emailed to those individuals that failed to respond but had indicated that they were willing to participate in the survey.

3.4.7 Data collection, data reduction and analysis

The statistical analysis of the empirical results was similar to that applied in Georgiou's (2004) empirical study. The data collection, results and analysis are discussed in chapter 4.

3.5 LIMITATIONS AND DELIMITATIONS

The top 100 primary JSE listed companies were selected by means of non-random sampling. For this reason, the results of this survey based-research cannot be generalised to the whole population. However, the largest companies on the JSE listed companies are more likely to lobby than the smaller companies on the JSE since the larger companies are able to afford the costs associated with lobbying and also obtain great benefits from lobbying (Sutton, 1984). The researcher thus felt that a study of the largest companies listed on the JSE would assist her to make inferences about the corporate lobbying of the accounting standard-setter by South African companies.

Another limitation of this study might have been the companies' willingness to disclose their participation in lobbying of the accounting standard-setter for fear of being perceived as illegitimately influencing a regulatory process. The potential negative publicity a constituent might be subjected to if they are associated with lobbying, and especially disguised lobbying, might have influenced the constituents' responses in the questionnaire.

The research methodology of this study contained a delimitation. The listed companies that responded to the questionnaire were requested to indicate their lobbying during a specific period; from 1 January 2005 to December 2015. The reason for a time period delimitation was that listed companies were required to report in terms of IFRS from 1 January 2005.

3.6 ETHICAL PROCEDURES

The main ethical concern of the research methodology arises from the use of the questionnaire instrument to procure information from individuals. The protection of the individual's personal details and the information of the companies they present is an important aspect of any survey-based research. The researcher employed the following procedures to counter the above ethical concern:

- the details of the participants were kept confidential when reporting the findings and results of the questionnaire in chapter 4;
- the details of the individuals, as well as their responses, were kept secure on a password-protected database. Only the researcher had access to the database;
- the participants were informed that participation in the survey was voluntarily and they could withdraw at any time without any obligation to explain;
- the identities of the researcher and the organisation she represents were presented in her email to the participants; and
- the purpose of the questionnaire and the reason for collecting the information from the individuals were clearly described in the covering letter of the questionnaire.

Although the nature of survey-based research has the potential of harm, the researcher made every effort to counteract it. Approval for this research was obtained from the Research Ethics Review Committee of the College of Accounting Sciences at Unisa. The ethics clearance certificate is included in appendix D.

3.7 SUMMARY

Chapter 3 first addressed the research design relevant to this study. The chosen empirical research design consisted of the distribution of a questionnaire instrument to a sample of South African companies in order to collect data on the timing, methods and perceived effectiveness of lobbying the IASB.

The next section proceeded with the formulation of the four hypotheses. The hypotheses were based on Sutton's (1984) theoretical model and the hypotheses used in Georgiou's (2004) study. The questionnaire instrument used in this study was based on the four hypotheses formulated in section 3.3.

Section 3.4 explained the research method employed by the researcher. This included a discussion on the selection of the top 100 listed South African companies. This was followed by a discussion of the questionnaire instrument distributed to the sample companies. The questionnaire instrument mirrored Georgiou's (2004) questionnaire instrument used in his UK study on lobbying of the ASB. Importantly, the relevance and completeness of Georgiou's (2004) questionnaire were considered and some minor changes were made to Georgiou's original questionnaire.

This chapter further dealt with the testing the questionnaire, the chosen response mode, contacting respondents and follow-up procedures.

In the next section, the limitations and the delimitations of the empirical study were considered. An important limitation of the study arose from the non-random sampling method applied to selecting the top 100 listed companies. The results from the questionnaire instrument can therefore not be generalised to all South African companies.

Lastly, the ethical procedures followed in terms of the prescriptions of the ethical approval obtained from the Research Review Committee of the College of Accounting Sciences at Unisa were discussed.

The next chapter presents the research findings from the questionnaire instrument. Chapter 4 specifically deals with the response rate, profile of the respondents and

preparation of the raw data. Chapter 4 further reports on the testing of the four hypotheses and the statistical analysis of the results.

CHAPTER 4: ANALYSIS OF RESEARCH FINDINGS

4.1 INTRODUCTION

This chapter focuses on the findings of the empirical study of the corporate lobbying of the accounting standard-setter by South African companies. The chapter commences with a discussion of the number of responses received from the questionnaire, followed by an analysis of the respondents' profiles. Thereafter the preparation of the data collected from the questionnaire is described. The various appropriate statistical tests for analysing the data are outlined in the section to follow. Finally, the four hypotheses are tested and the statistics for the data are interpreted and discussed. The chapter concludes with a summary of the findings of this study.

4.2 RESPONSES

The researcher contacted the sample of the top 100 primary JSE-listed companies. Of these, 84 companies indicated that they were willing to participate in the survey. The questionnaire was distributed to the 84 companies willing to participate. The survey achieved 41 responses. Five companies submitted responses that were incomplete to the extent that they were not usable for analysis and were consequently excluded from the data. A 36% usable response rate was therefore obtained for the questionnaire.

The low response rate of this survey is similar to the response rate of other survey-based research conducted among listed companies. For example, Georgiou's (2004:224) questionnaire aimed at listed companies in the UK, delivered a response rate of 30,4 percent (2004:224). Another example, Venter and Stiglingh (2006:89) sent their questionnaire to the top 200 JSE-listed companies in South Africa and obtained a 40% response rate.

Owing to the low response rate of the questionnaire, the extent of the non-response bias was investigated by comparing the market capitalisation of the 36 respondents and the 64 non-respondents. A Wilcoxon rank sum test was employed to determine if

there was a statistically significant difference between the market capitalisation of the companies that submitted the questionnaire and the companies that did not.

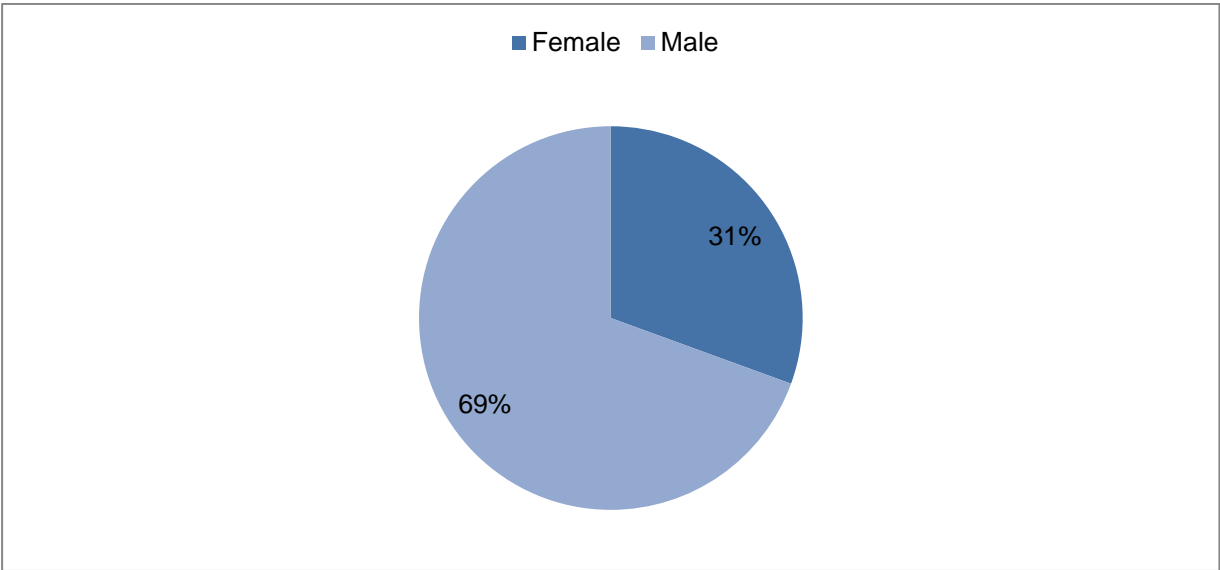
The results revealed that the mean market capitalisation of the respondent companies was 53.417 and the mean market capitalisation of the non-respondent companies was 48.860. There was statistically no significant difference between the market capitalisation of the respondent companies and the non-respondent companies ($Z = 0.750$, $p = 0.453$). The results of the Wilcoxon rank sum test indicated that there was probably no bias in opinion that could be caused by differences in company size of the respondents and non-respondents.

4.3 RESPONDENTS' PROFILES

The questionnaire distributed to the sample companies included questions pertaining to the profile of the individuals answering the questionnaire. The data of the respondents' profile were gathered from questions 1 to 4 of the questionnaire. The profile questions required information from the respondents regarding their gender, position in the company, number of years of accounting-related work experience and if they are qualified Chartered Accountants (SA). The results from the profile questions are reported below in figures 4.1 to 4.4.

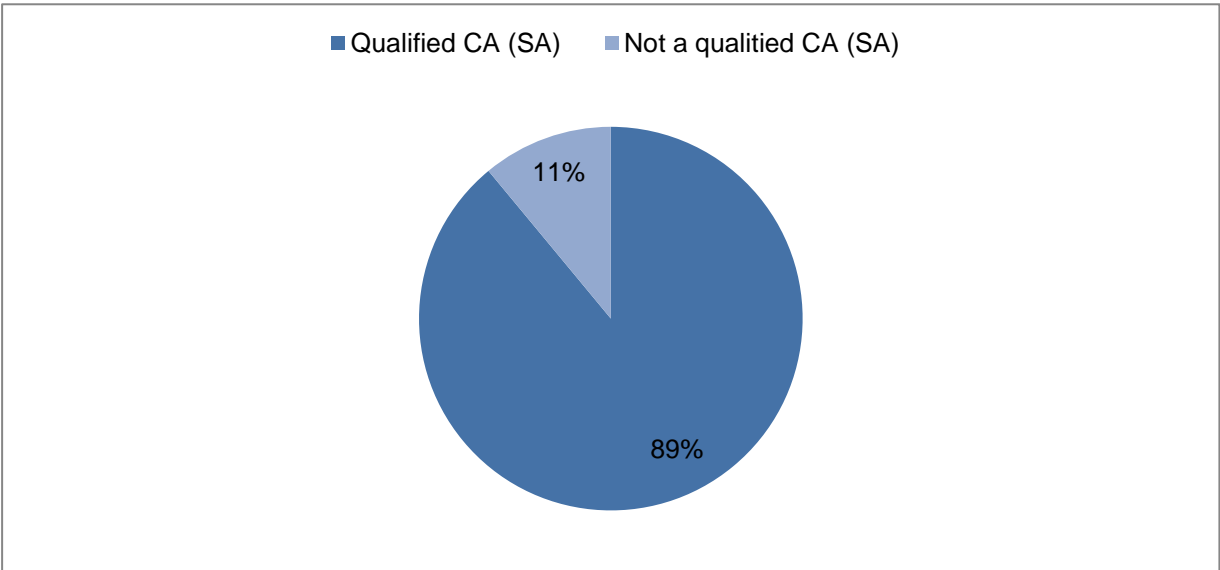
Figure 4.1 illustrates that almost 70% of the respondents to the survey were male.

FIGURE 4.1 – Gender of respondents



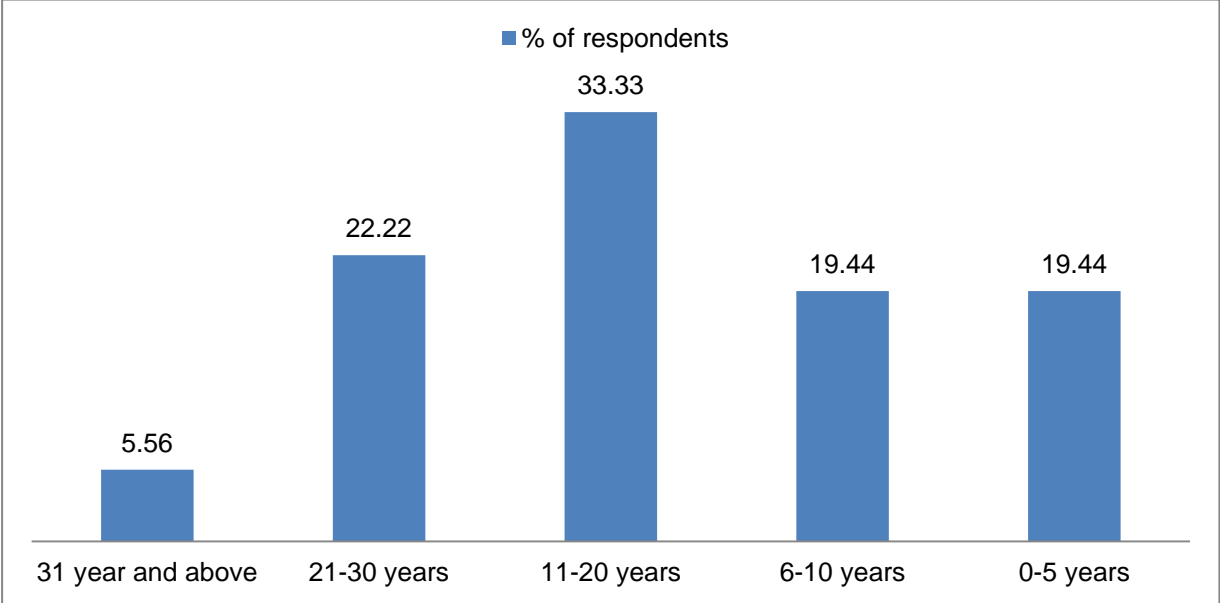
Nearly 90% of the respondents hold the professional designation of a Chartered Accountant (SA), as illustrated in figure 4.2. Owing to the high number of respondents being Chartered Accountants, the researcher was satisfied that the respondents had sufficient knowledge of the IASB’s accounting standard-setting process to understand and answer the questions in the survey.

FIGURE 4.2 – Respondents holding the Chartered Accountant (SA) designation



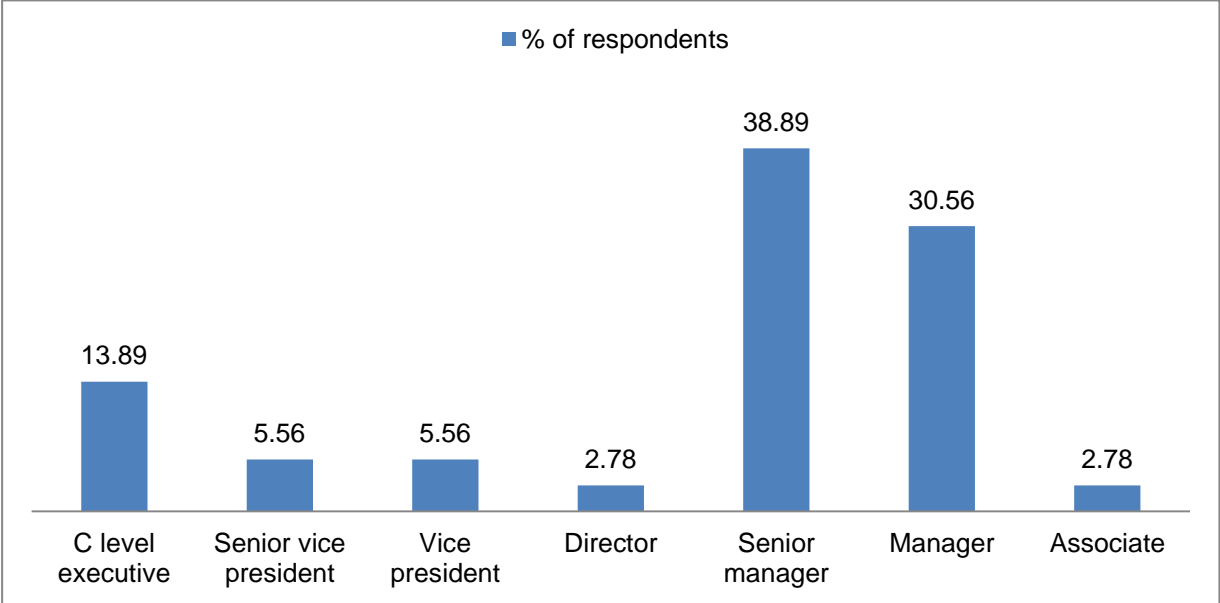
According to figure 4.3, approximately 60% of the respondents had more than 11 years of accounting-related work experience.

FIGURE 4.3 – Years of accounting-related work experience



The questionnaire was mostly answered by individuals employed as senior managers (38.89%) and managers (30.56%).

FIGURE 4.4 – Positions of respondents in their company



4.4 DATA PREPARATION

Data preparation includes editing of raw data, and coding, classification and tabulation of data (Kothari, 2004:122). The details of the preparation of primary data collected through the questionnaire used in this study are discussed below.

4.4.1 Editing of raw data

Editing of data entails examining the raw data for errors or omissions to ensure that it is accurate and complete (Kothari, 2004:122). In order to edit the data in this manner, the results from the questionnaire instrument were exported from LimeSurvey into an Excel worksheet. All the responses were scrutinised for completeness. Five of the responses were incomplete to the extent that they were not usable for data analysis purposes. No further editing of the raw data was required since the remaining data in Excel was of good quality and was well arranged for coding.

4.4.2 Coding of data

Coding is assigning numerals to answers so that responses can be grouped in categories to ensure efficient statistical analysis (Kothari, 2004:123). The survey data was imported into SAS JMP version 12, a statistical programme used to analyse data. Coding of the data was performed in SAS JMP version 12.

4.4.3 Classification of data

Classification of data entails arranging it into classes on the basis of common characteristics (Kothari, 2004:123). Classification of data was not performed in this study. Instead, the data from the questionnaire instrument was grouped for the purposes of testing the four hypotheses and for further analysis. For instance, in order to test hypothesis 1 in section 4.6.1.1, the various stages of the accounting standard-setting process were grouped into two categories, namely the earlier and later stages. The grouping of the data was necessary in order to test hypothesis 1 by means of a statistical test such as the paired t-test.

4.4.4 Tabulation of data

Tabulation of data is the orderly arrangement of data in table format (Kothari, 2004:127). Tabulation of data was done throughout the analysis of the statistics relating to the four hypotheses. The tabulation of data was necessary in order to present the various data and statistical tests in a summarised and concise format. This chapter contains eight tables explaining the results and findings of the survey-based research.

4.5 STATISTICAL ANALYSIS

The following statistical procedures were employed to analyse the data from the questionnaire to determine the corporate lobbying of accounting standard-setting by South African companies.

- Paired t-test: This test is used to test if a significant difference exists between the means of two related (paired) samples. The test statistic is expressed as t and is compared to the p -value based on t -distributions at a specified level of significance to determine if the null hypothesis can be rejected or accepted (Kothari, 2004:196);
- Chi-square test of independence: This test determines if categorical data shows significant dependency (Kothari, 2004:233) or if it is significantly associated (Lee Abott and McKinney, 2013:94). This test determines how well the sample proportions fit the proportions specified in the null hypothesis (Corder and Foreman, 2009:168). The test of independence uses the contingency table format. Cramer's V is used to measure the association between the variables;
- Fisher's exact test: This test is used instead of a chi-square test when the data obtained is from small independent samples. Fisher's exact test follows the same method as the chi-square test, and analyses the scores of two independent samples (Corder and Foreman, 2009:168);
- Analysis of variance (ANOVA): This is a parametric test to test if significant differences exist between the means of various groups (Lee Abott and McKinney, 2013:397);

- Friedman test: This is a nonparametric test to determine if more than two samples are related. The ANOVA is the parametric equivalent of the Friedman test (Corder and Foreman, 2009:79);
- Wilcoxon signed rank test: This is a non-parametric test that determines the differences between the values of two related (paired) samples and assigns a rank to absolute values of the differences, from the smallest differences to the largest differences (Kothari, 2004:291). Differences of zero are discarded and tied differences are assigned an average ranking. Thereafter the ranks are awarded the sign of the original difference of the data. The test of significance under the Wilcoxon signed rank test determines if the computed sum of signed ranks is significantly different from zero (Williams, Sweeney & Anderson, 2009); and
- Wilcoxon rank sum test: The rank sum test differs from the signed rank test in that it is not based on matched samples but on two independent samples. The Wilcoxon rank sum test determines if two populations are equal. This test ranks the combined data from the two samples from low to high. The ranks of each sample are then added separately and the test of significant differences is performed (Williams *et al*, 2009:765).

The researcher employed the services of an independent statistician to minimise the risk of bias during the statistical analysis of the data.

4.6 TESTING THE HYPOTHESES

The null hypotheses are tested to determine if the null hypotheses can be accepted or rejected. If a null hypothesis is rejected, then the set of alternatives to the null hypothesis is considered. The set of alternatives is referred to as the alternative hypothesis or the research hypothesis (Kothari, 2004:186).

The procedure for testing hypotheses includes

- determining a level of significance;
- calculating the appropriate sampling distribution;
- calculating the probability that the sample diverges from expectations if the null hypothesis is true; and
- comparing the above probability with the level of significance (Kothari, 2004:191).

The probability value (p -value) for hypothesis testing in this study was calculated as 0.05, indicating a statistical significance at a 95% level of confidence. Therefore, a null hypothesis was rejected when the sampling result had a less than 0.05 probability of occurring if the null hypothesis was true.

Both parametric and non-parametric tests were employed to test the four hypotheses. In instances where data was not normally distributed, a parametric test was not performed. In such instances, only a non-parametric test was performed.

Where respondents selected the “do not know” option when rating the effectiveness of the various stages and lobbying methods, the “do not know” responses were excluded from the sample when conducting statistical analysis. This was necessary since a score cannot be allocated to the “do not know” option and including it in the statistical analysis would result in errors.

In the next section, each of the four hypotheses is discussed using the following structure:

- results of the testing of the hypothesis; and
- interpretation of the results.

4.6.1 Timing of lobbying

4.6.1.1 Testing of hypothesis 1

Hypothesis 1 dealt with the lobbying by companies during the various stages of the accounting standard-setting process of the IASB. The data used to test the hypothesis was gathered from question 5 of the questionnaire where respondents were required to answer “yes” or “no” to the actual use of each stage of the accounting standard-setting process to lobby the IASB.

H₀₁: There is no significant difference between the use of the earlier stages and the later stages of the accounting standard-setting process to lobby the IASB.

The data gathered from question 5 regarding the use of the various stages indicated that any stage of the accounting standard-setting process was used by no more than approximately 30% of the respondents.

In order to test hypothesis 1, firstly, the stages of the accounting standard-setting process were classified into two groups, namely the earlier stages and the later stages. Sutton (1984) refers to the earlier stages as all the stages preceding the exposure draft stage. Therefore, for the purposes of grouping the stages into earlier and later stages, the agenda formation stage, drafting stage of the discussion paper and exposure period of the discussion paper were classified as earlier stages. The drafting stage of the exposure draft, its exposure period, the drafting of the final IFRS and the post-implementation review stage were classified as the later stages.

Secondly, the appropriate statistical tests were considered. In order to examine the difference between the means of the two related samples, that is, the earlier stages and the later stages, a paired t-test was deemed an appropriate test to test hypothesis 1. Since the data was not normally distributed, a Wilcoxon signed rank test was conducted to confirm if the null hypothesis could be rejected.

To perform the above statistical tests, the use of the earlier stages was scored from 0 to 3 and each of the later stages was scored from 0 to 4, in both cases for every

respondent. For example, a score of 2 was awarded to the earlier stages if a respondent used two stages of the earlier stages to lobby the IASB. The scores out of 3 and out of 4 were calculated as percentages so that they were comparable.

The results of the paired t-test indicate a significant mean difference of 8.80% between the mean scores of the earlier stages (mean use = 12.03%) and later stages (mean use = 20.83). The paired t-tests revealed that the null hypothesis of no significant difference between the use of the earlier or later stages to lobby the accounting standard-setter could be rejected ($t(35) = 3.214, p = 0.003$).

The results of the Wilcoxon signed rank test showed a p -value less than 0.05 ($S = 157.500, p = 0.001$), with the scores for the later stages and earlier stages differing significantly at a 95% level of confidence. Therefore, the results of the test confirmed that the null hypothesis of no significant difference between the use of the earlier or later stages to lobby the accounting standard-setter, could be rejected.

The above results from the paired t-test and Wilcoxon signed rank test confirming that the later stages were used more for lobbying than the earlier stages, contradicted the research hypothesis, based on Sutton's (1984) prediction, that the earlier stages are used more for lobbying than the later stages of the accounting standard-setting process.

A detailed examination of the descriptive statistics in table 4.1 also demonstrates that the later stages of the accounting standard-setting process were the most used by companies. The most used stage was the exposure period of the exposure draft (30.56% users), followed by the post-implementation review (25% users). Both of these stages are later stages in the accounting standard-setting process.

In contrast, the two stages used least by companies were in the earliest stages, these being the agenda formation stage (8.33% users) and the drafting stage of the discussion paper (8.33% users).

Georgiou (2004) had similar findings, showing that UK respondents mostly used the exposure period of the exposure draft. The least used stage by UK companies was

the agenda formation stage to lobby the ASB. Importantly, Georgiou’s (2004) results also rejected Sutton’s (1984) prediction that stakeholders lobby more during the earlier stages of the accounting standard-setting process than later in the process.

TABLE 4.1 – Lobbying at different stages of the due process

Stage of the process		Number of users	Number of non-users	% of respondents using this method
<i>Earlier stages</i>				
1	Agenda formation stage	3	33	8.33
2	Drafting stage of the discussion paper	3	33	8.33
3	Exposure period of the discussion paper	7	29	19.44
<i>Later stages</i>				
4	Drafting stage of the exposure draft	5	31	13.89
5	Exposure period of the exposure draft	11	25	30.56
6	Drafting stage of the final IFRS	5	31	13.89
7	Post-implementation review of the final IFRS	9	27	25.00

A statistical test, such as the McNemar test, to determine if there is a significant difference between the two most used stages and the use of any other stage was not performed because of the small sample size of this study. This could be considered a limitation of the study.

4.6.1.2 Interpretation of the results regarding the use of the various stages

The inferential and descriptive statistics above show that the later stages were used more by respondents to lobby the IASB than the earlier stages. This finding should, however, be understood in the context of the IASB's process of accounting standard-setting. The earlier stages of the standard-setting process, as mentioned previously, consist of the agenda formation stage, the drafting stage and exposure period of the discussion paper. The two stages relating to the discussion paper are not mandatory steps of the due process. In other words, for every accounting standard proposed by the IASB, there is not necessarily a discussion paper issued for the standard. In fact, the number of discussion papers issued is small compared to the number of exposure drafts issued, which is a mandatory step in the due process. For instance, in Georgiou's (2010) study conducted between 2001 and 2006, he found that 28 exposure drafts were issued by the IASB compared to only four discussion papers issued.

In light of the nature of the due process, the low number of users of the earlier stages could be simply explained by the fact that there were fewer opportunities for participation during the earlier stages since there were fewer documents (discussion papers) issued by the IASB during the earlier stages compared to the number of compulsory documents (exposure drafts) issued by it during the later stages.

Surprisingly, the two stages of the discussion paper were perceived by respondents to be the two most effective stages for lobbying the IASB, based on the mean effectiveness ratings awarded by respondents to the various stages. The results of the effectiveness ratings of the various stages are reported in table 4.2. Therefore, based on the perceived effectiveness ratings awarded to the two stages of the discussion paper, greater use of the earlier stages would be expected. The researcher concluded that the results showing a low usage of the two stages of the discussion paper to lobby the IASB could not be attributed to ineffectiveness perceptions of these stages. Instead, the researcher suggested that the low use of the two discussion paper stages could be attributed to the low number of discussion papers issued by the IASB.

4.6.1.3 Testing of hypothesis 2

The prediction that the earlier stages are used more for lobbying than the later stages of the accounting standard-setting process is based on the effectiveness of lobbying during the earlier stages compared to the later stages (Sutton, 1984). Hypothesis 2 deals with the perceived effectiveness of lobbying during the various stages of the accounting standard-setting process. The data used to test the hypothesis was gathered from question 5 of the questionnaire where respondents were required to indicate on a Likert scale how effective they perceived lobbying to be during each stage of the accounting standard-setting process. Table 4.2 analyses the perceived effectiveness of each stage. The table excludes responses that selected the “do not know” option of the Likert scale.

H₀₂: Companies perceive lobbying during all the stages of the accounting standard-setting process as equally effective.

In order to test hypothesis 2, the assumption of repeated measures of ANOVA that the distributions of variables are normal, was tested. Since the assumption was not satisfied, a nonparametric test involving the Friedman test was employed to test hypothesis 2.

The results from the Friedman test ($\chi^2(6) = 6.626$, p -value = 0.357) indicated that there was no significant difference between the effectiveness ratings of the seven stages of the accounting standard-setting process. Based on results from the Friedman test, the hypothesis that lobbying during all the stages of the accounting standard-setting process are perceived as equally effective was not rejected.

TABLE 4.2 – Perceived effectiveness of the stages of the due process

Stage of the process		Very ineffective % of total	Ineffective % of total	Neither % of total	Effective % of total	Very effective % of total	Mean of the Likert score ¹	SD ²
1	Agenda formation stage	5.88%	11.76%	52.94%	23.53%	5.88%	3.12	0.93
2	Drafting stage of the discussion paper	0.00%	10.00%	50.00%	30.00%	10.00%	3.40	0.82
3	Exposure period of the discussion paper	4.76%	0.00%	38.10%	42.86%	14.29%	3.62	0.92
4	Drafting stage of the exposure draft	0.00%	14.29%	52.38%	28.57%	4.76%	3.24	0.77
5	Exposure period of the exposure draft	4.17%	8.33%	37.50%	45.83%	4.17%	3.38	0.88
6	Drafting stage of the final IFRS	4.55%	18.18%	50.00%	22.73%	4.55%	3.05	0.93
7	Post-implementation review of the final IFRS	0.00%	13.64%	63.64%	18.18%	4.55%	3.12	0.82

¹ The mean of the Likert scores was used only for interpretation and discussion purposes and not for statistical analysis.

² Standard deviation

Although the respondents did not generally perceive the effectiveness of the various stages to be significantly different, the descriptive statistics reported in table 4.2 show that respondents did consider some stages to be more effective than others. The results in table 4.2 prove that, in line with Sutton's (1984) predictions, companies rate the various stages of the accounting standard-setting process differently in terms of effectiveness.

An analysis of the descriptive statistics in table 4.2 shows that the two stages that were perceived to be the most effective were the exposure period of the discussion paper (mean effectiveness = 3.62) and the drafting stage of the discussion paper (mean effectiveness = 3.40). Therefore, respondents perceived two of the three earlier stages to be the most effective time for lobbying the IASB. However, as discussed earlier in section 4.6.1.2, the high effectiveness of the two stages of the discussion paper did not correspond with the low use of the two stages of the discussion paper. It was explained in section 4.6.1.2 that low use of the two discussion paper stages may be explained by the low number of discussion papers issued by the IASB compared to the higher number of exposure drafts issued.

The respondents considered the least effective stages as the drafting stage of the final IFRS (mean = 3.05), the agenda formation stage (mean = 3.12) and the post-implementation review stage (mean = 3.12). Georgiou's (2004) findings indicate that, based on the effectiveness mean of the stages, the most effective stage for lobbying the ASB is the exposure period of the exposure draft, and the least effective stage the agenda formation stage.

The respondents in this survey gave the highest score of effectiveness, based on the sum of the "very effective" and "effective" ratings of each stage, to the exposure period of the discussion paper (sum of 57.15% effectiveness) and the exposure period of the exposure draft (sum of 50% effectiveness). Georgiou's (2004) findings similarly demonstrated that UK companies awarded the highest score of effectiveness, based on the sum of the "very effective" and "effective" ratings of each stage, to the exposure draft period of the exposure draft and the exposure period of the discussion paper.

Approximately 40% of the respondents in this study selected the “do not know” option when rating the perceived effectiveness of the various stages. Since these “do not know responses” had to be excluded from the sample, it reduced the sample size significantly. For this reason, it was not considered practical to mirror Georgiou’s (2004) tests of running multiple paired t-tests to determine if the two most effective stages were considered significantly different than any other stage in terms of perceived effectiveness.

The perceived effectiveness results from table 4.2 were divided between users and non-users in order to determine if the mean effectiveness of the stages between users and non-users were significantly different. Independent t-tests were performed to determine how the actual use of the various stages influenced the respondents’ perceived effectiveness of the various stages. However, since the distribution of the differences between the users and non-users was not normally distributed, Wilcoxon rank sum tests were employed to confirm the results. The results from the Wilcoxon rank sum tests and independent t-tests are reported in table 4.3.

The independent t-tests showed that users perceived lobbying during the exposure period of the discussion paper ($t(19) = -2.687, p = 0.015$) and the drafting stage of the exposure draft ($t(19) = -3.008, p = 0.007$) to be significantly more effective than non-users, at a 95% level of confidence.

The results from the Wilcoxon rank sum tests supported the above findings: the results of the agenda formation stage ($Z = 2.200, p = 0.028$), the drafting stage of the exposure draft ($Z = 2.445, p = 0.015$) and the exposure period of the discussion paper ($Z = 2.607, p = 0.009$) were considered to be significantly more effective by users than by non-users.

In general, the results reported in table 4.3 show that the mean effectiveness of all the stages was higher for users than for non-users, suggesting that lobbying experience increased the perception of the effectiveness of lobbying.

TABLE 4.3 – Comparison of the perceived effectiveness of users and non-users of the stages

Stage	Users			Non-users			Independent t-tests		Wilcoxon sum rank tests	
	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>t</i>	<i>p</i>	<i>Z</i>	<i>p</i>
Agenda formation stage	3	4.000	0.493	14	2.929	0.228	-1.973	0.067	2.200	0.028
Drafting stage of the discussion paper	3	3.667	0.482	17	3.353	0.203	0.600	0.556	0.747	0.455
Exposure period of the discussion paper	7	4.286	0.304	14	3.286	0.215	-2.687	0.015	2.607	0.009
Drafting stage of the exposure draft	5	4.000	0.290	16	0.162	2.661	-3.008	0.007	2.445	0.015
Exposure period of the exposure draft	11	3.455	0.269	13	3.308	0.247	-0.402	0.692	0.314	0.754
Drafting stage of the final IFRS	5	3.400	0.402	17	2.941	0.218	-1.004	0.327	0.719	0.472
Post-implementation review of the final IFRS	8	3.250	0.255	14	3.071	0.193	-0.558	0.583	0.279	0.781

n = number of users or non-users

SD = standard deviation

4.6.1.4 Interpretation of results regarding the perceived effectiveness of lobbying during the various stages

The prediction that most lobbying occurs early in the standard-setting process, is based on Sutton's assumption that there is a higher probability of influencing the accounting standard-setter early in the process compared to later in the process. The findings from testing hypothesis 2 show that, regarding the effectiveness of the stages, respondents perceived the effectiveness of each stage not to be significantly different. However, the findings did support Sutton's prediction that companies rate the different stages of the accounting standard-setting process differently in terms of effectiveness.

Based on the ratings awarded to effectiveness of each stage, ranging from effective to very effective, the respondents rated the agenda formation stage as the least effective stage. As is to be expected, the results in table 4.1 showed that the agenda formation stage was also one of the least used stages.

Analysis of the three respondents that used the agenda formation stage to lobby the IASB was revealing. Of the three respondents that used the agenda formation stage, two of them currently serve or previously served as members of the APC in South Africa, SAICA's reporting technical committee. All three of the respondents that used the agenda formation stage rated lobbying during the agenda formation stage as very effective. Results from a Wilcoxon sum rank test reported in table 4.3 confirm there was a significant difference at a 95% level of confidence between the perceived effectiveness of the three users of the agenda formation stage and non-users of the agenda formation stage ($Z = 2.200, p = 0.028$). Although this result was based on limited data, it was apparent that these three users of the agenda formation stage shared Sutton's view of the efficacy of lobbying during the agenda formation stage.

Regarding the most effective stages of the accounting standard-setting process, respondents perceived the other two remaining stages of the earlier stages as the two most effective stages to lobby (based on the mean effectiveness of each stage) – in other words, the drafting period of the discussion paper and the exposure period of the discussion paper. As discussed in sections 4.6.1.2 and 4.6.1.3, the low use of the

two discussion periods to lobby surprisingly did not correlate with the high effectiveness ratings awarded to these two stages. It was explained that the low number of discussion papers issued by the IASB results in fewer opportunities to participate, and the lobbying activity during the two stages of discussion papers tends to be low.

The results from this study's questionnaire should make a contribution to the literature on lobbying during the post-enactment period of a final IFRS. The questionnaire instrument used in this survey-based research included the post-implementation review stage in question, while neither Georgiou (2004, 2010) nor Sutton (1984) addressed the post-implementation review stage of the accounting standard-setter in their studies.

The results indicate that after the use of the exposure draft period, the respondents favoured the use of the post-implementation review period for lobbying. This finding was unexpected given the fact that respondents did not perceive the post-implementation review as an effective stage for lobbying, as can be seen from the mean effectiveness of the post-implementation review stage in table 4.2.

The IASB had completed two major post-implementation reviews in the last few years, namely the post-implementation review for IFRS 3 *Business Combinations* and IFRS 8 *Operating Segments*. Investigation of the comment letters received by the IASB during both the above post-implementation reviews showed that the CFO Forum of South Africa responded to both the IFRS 3 post-implementation review and the IFRS 8 post-implementation review. The CFO Forum members consolidated their views in one comment letter to the IASB during the post-implementation review. The CFO Forum members consist of the CFOs of the JSE top 40 listed companies. Since the JSE top 40 listed companies were also included in the top 100 JSE listed companies that served as a sample of this study, this explains the results of the survey regarding the much used post-implementation review stage for lobbying the IASB.

As discussed earlier in section 2.4.5, the post-implementation review is not an effective time to lobby, but it may afford the lobbyist an opportunity to influence the

items included in the next agenda formation. Hence, it is suggested that respondents to this survey would only have perceived lobbying during the post-implementation review of IFRS 3 and IFRS 8 as effective, if their lobbying had had the potential of affecting the next agenda formation.

4.6.2 Methods of lobbying

4.6.2.1 Testing of hypothesis 3

Hypothesis 3 dealt with the methods of lobbying employed by companies during the accounting process of the IASB. The data used to test the hypothesis was gathered from question 6 of the questionnaire where respondents were required to answer “yes” or “no” to the actual use of a method to lobby the IASB.

H03: The use of comment letter submissions is not significantly associated with the use of other lobbying methods.

The data gathered from question 6 regarding the use of the various lobbying methods are presented in table 4.6. The appropriate statistical tests were considered to determine if there is a significant association between the use of comment letter submissions and other lobbying methods. The Pearson chi-square test is an appropriate test to determine the association between the use of comment letters and other lobbying methods. However, owing to the small sample size of the study, Fisher’s exact test is preferred when the p-value of the Pearson chi-square tests are inconclusive in rejecting the hypothesis. Hence the two-tailed results of Fisher’s exact tests are reported in conjunction with the Pearson chi-square tests results in tables 4.4 and 4.5.

The questionnaire of this study had two lobbying methods relating to the use of comment letters, namely submitting a comment letter to the IASB and submitting a comment letter to SAICA. The Pearson chi-square tests and Fisher’s exact tests were therefore firstly performed by using the submission of comment letters to the IASB as a variable to determine if there is a significant association with the use of other lobbying methods (excluding comment letter submissions to SAICA). The

results of the first analysis are reported in table 4.4. Secondly, the submission of comment letters to SAICA was used as a variable in the Pearson chi-square and Fisher's exact tests to determine its significant association with other lobbying methods (excluding comment letter submissions to the IASB). The results of the second analysis are reported in table 4.5.

The Pearson chi-square test results in table 4.4 demonstrated that there was a significant association at a 95% level of confidence between the use of comment letter submissions to the IASB and at least seven other lobbying methods. The two-tailed results of Fisher's exact test confirm that a significant association existed between the use of comment letter submissions and five of the seven other lobbying methods reported above for the Pearson chi-square results, at a 95% level of confidence.

Further analysis to determine how many of the eight users of comment letters to the IASB also used at least one other lobbying method (other than comment letters to SAICA) revealed that six out of the eight (75.00%) users of comment letters to the IASB, also used at least one other lobbying method ($p = 0.114$, Fisher's exact test). In contrast, 11 of the 28 respondents (39.93%) who indicated that they did not submit a comment letter to the IASB, used at least one other lobbying method.

The above findings suggest that the submission of comment letters to the IASB by a lobbyist is a strong indicator that he or she also used other lobbying methods.

The results of the statistical tests to determine the association between the comment letter submissions to SAICA and other lobbying methods are reported in table 4.5. The Pearson chi-square test results in table 4.5 show that there was a significant association at a 95% level of confidence between the use of comment letter submissions to SAICA and at least nine other lobbying methods. The two-tailed results of Fisher's exact tests confirm that there was significant association at a 95% level of confidence between the use of comment letter submissions to SAICA and seven of the nine other lobbying methods reported above for the chi-square tests.

Further analysis to determine how many of the six users of comment letter submissions to SAICA also used at least one other lobbying method (other than comment letters to SAICA) revealed that five out of the six (83.33%) users of comment letters to SAICA, also used at least one other lobbying method ($p = 0.081$, Fisher's exact test). In contrast, 12 of the 30 respondents (40%) who indicated that they did not submit a comment letter to SAICA, used at least one other lobbying method. The above results indicate that the submission of comment letters to SAICA by a lobbyist is a good proxy for the use of other lobbying methods.

In light of the above findings, hypothesis 3, which stated that the use of comment letter submissions is not significantly associated with the use of other lobbying methods, was rejected.

The results of the hypothesis testing provided evidence, similar to the evidence of Hodges and Mellet (2002) and Georgiou (2004), that the use of comment letter submissions by a lobbyist is associated with the use of other lobbying methods.

In addition, the results also indicated that an informal lobbying method was the most used method. The respondents mostly used appeals to their auditors for support of their views (36.11% of the respondents) as a lobbying method. The above finding indicates that a less observable lobbying method was preferred by respondents above comment letter submissions.

The results in table 4.6 also supported Gloeck's (2003:73) suggestions that comment letter submissions to SAICA are not the most attractive form of lobbying. In fact, the most used lobbying methods by respondents, such as appealing to auditors and communicating with SAICA's members or staff through other means are unobservable lobbying methods that fall outside of the scope of the due process.

One respondent noted the following in the additional comments of the questionnaire, illustrating how the use of lobbying methods other than comment letters takes precedence over the use of comment letter submissions:

“Due to our committee representation and high attendance rate at SAICA committee comment letter writing meetings, our views tend to be well echoed in the APC’s comment letter to the IASB, hence we don’t need to prepare separate comment letters.”

Gaining representation on the technical committees of an accounting standard-setter enables the lobbyist to be “close to the seat of power” (Sutton, 1984:85). This lobbying method enables the lobbyist to influence the accounting standard-setter over a period of time and is therefore considered a long-term lobbying strategy (Sutton, 1984:89).

TABLE 4.4 – Cross-tabulations and statistical tests: comment letter submissions to the IASB and other lobbying methods

Lobbying methods (other than comment letters)		Comment letters IASB		Pearson chi-square	Prob>chi-square	Fisher's exact test p
		User	Non-user			
Speaking at the IASB's public meetings	User	4	0	15.750	<.0001	0.001
	Non-user	4	28			
Speaking at SAICA's public meetings	User	3	2	4.794	0.029	0.061
	Non-user	5	26			
Communicating your company's views to the IASB's member or staff at pre-arranged private meetings	User	5	1	15.557	<.0001	<.0001
	Non-user	3	27			
Communicating your company's views to SAICA's member or staff at pre-arranged private meetings	User	4	2	8.229	0.004	0.014
	Non-user	4	26			
Communicating your company's views to the IASB's members or staff through other means (e.g. telephone conversations, meeting at conferences)	User	4	1	11.215	0.001	<.0001
	Non-user	4	27			
Communicating your company's views to SAICA's members or staff through other means (e.g. telephone conversations, meeting at conferences)	User	4	4	4.592	0.032	0.054
	Non-user	4	24			

TABLE 4.4 – Cross-tabulations and statistical tests: comment letter submissions to the IASB and other lobbying methods (continued)

Lobbying methods (other than comment letters)		Comment letters IASB		Pearson chi-square	Prob>chi-square	Fisher's exact test p
		User	Non-user			
Commenting in the media on a proposed accounting standard	User	1	0	3.6	0.058	0.222
	Non-user	7	28			
Appealing to the Financial Reporting Standards Council (FRSC) in South Africa for support of your company's views	User	1	0	3.600	0.058	0.222
	Non-user	7	28			
Appealing to your company's external auditors for support of your company's views	User	5	8	3.105	0.078	0.107
	Non-user	3	20			
Having staff of your company appointed as consultants to the IASB on particular projects	User	1	1	0.945	0.331	0.400
	Non-user	7	27			
Having staff of your company appointed as consultants to SAICA on particular projects	User	4	2	8.229	0.004	0.014
	Non-user	4	26			
Sponsoring research studies on financial accounting and reporting issues	User	1	1	0.945	0.331	0.400
	Non-user	7	27			

TABLE 4.5 – Cross-tabulations and statistical tests: comment letter submissions to SAICA and other lobbying methods

Lobbying methods (other than comment letters)		Comment letters SAICA		Pearson chi-square	Prob>chi- square	Fisher's exact test <i>p</i>
		User	Non- user			
Speaking at the IASB's public meetings	User	4	0	22.500	<.0001	0.000
	Non- user	2	30			
Speaking at SAICA's public meetings	User	3	2	7.850	0.005	0.024
	Non- user	3	28			
Communicating your company's views to the IASB's member or staff at pre-arranged private meetings	User	5	1	23.040	<.0001	<0.0001
	Non- user	1	29			
Communicating your company's views to SAICA's member or staff at pre- arranged private meetings	User	4	2	12.960	0.000	0.000
	Non- user	2	28			
Communicating your company's views to the IASB's members or staff through other means (e.g. telephone conversations, meeting at conferences)	User	4	1	16.769	<0.0001	0.001
	Non- user	2	29			
Communicating your company's views to SAICA's members or staff through other means (e.g. telephone conversations, meeting at conferences)	User	4	4	8.229	0.004	0.014
	Non- user	2	26			

TABLE 4.5 – Cross-tabulations and statistical tests: comment letter submissions to SAICA and other lobbying methods (continued)

Lobbying methods (other than comment letters)		Comment letters SAICA		Pearson chi-square	Prob>chi- square	Fisher's exact test <i>p</i>
		User	Non- user			
Commenting in the media on a proposed accounting standard	User	1	0	5.143	0.023	0.167
	Non- user	5	30			
Appealing to Financial Reporting Standards Council (FRSC) in South Africa for support of your company's views	User	1	0	5.143	0.023	0.167
	Non- user	5	30			
Appealing to your company's external auditors for support of your company's views	User	4	9	2.914	0.088	0.161
	Non- user	2	31			
Having staff of your company appointed as consultants to the IASB on particular projects	User	1	1	1.694	0.193	0.310
	Non- user	5	29			
Having staff of your company appointed as consultants to SAICA on particular projects	User	4	2	12.960	0.000	0.003
	Non- user	2	28			
Sponsoring research studies on financial accounting and reporting issues	User	1	1	1.694	0.193	0.310
	Non- user	5	29			

TABLE 4.6 – The use of lobbying methods during the due process

Lobbying methods	Number of users	Number of non-users	% of respondents using this method
Submitting a comment letter to the IASB during the comment period	8	28	22.22
Submitting a comment letter to SAICA during the comment period	6	30	16.67
Speaking at the IASB's public meetings	4	32	11.11
Speaking at SAICA's public meetings	5	31	13.89
Communicating your company's views to the IASB's members or staff at pre-arranged private meetings	6	30	16.67
Communicating your company's views to SAICA's members or staff at pre-arranged private meetings	6	30	16.67
Communicating your company's views to the IASB's members or staff through other means (e.g. telephone conversations, meeting at conferences)	5	31	13.89
Communicating your company's views to SAICA's members or staff through other means (e.g. telephone conversations, meeting at conferences)	8	28	22.22
Commenting in the media on a proposed accounting standard	1	35	2.78
Appealing to Financial Reporting Standards Council (FRSC) in South Africa for support of your company's views.	1	35	2.78
Appealing to your company's external auditors for support of your company's views	13	23	36.11
Having staff of your company appointed as consultants to the IASB on particular projects	2	34	5.56
Having staff of your company appointed as consultants to SAICA on particular projects	6	30	16.67
Sponsoring research studies on financial accounting and reporting issues	2	34	5.56

4.6.2.2 Interpretation of statistics regarding the use of the various lobbying methods

The most used lobbying methods by respondents, similar to those in Georgiou's (2004) study, were the use of appeals to the company's auditors for support of their views (36.11% users). Interestingly, almost half of the respondents rated the use of auditors to present their views to the accounting standard-setter as an effective lobbying method, as illustrated in table 4.7. The use of auditors to present the views of their clients to the IASB as an attractive and effective lobbying method is best illustrated by a comment received from one of the respondents in the survey:

“The accounting team indicated that their feedback to the IASB is all routed through Deloitte, as they are probably better positioned to collate feedback on behalf of their clients.”

The literature, as discussed in section 2.6.3, suggests that auditors are willing to present the views of clients to the accounting standard-setter because of the significant financial interest they hold in their clients' welfare. Not only are auditors willing to lobby on behalf of their clients, but they also have more access to the accounting standard-setter than most preparers of financial statements. Evidence of their access to the accounting standard-setter is illustrated in their representation on the committees of the accounting standard-setters. For instance, four major audit firms serve as members of the APC, SAICA's technical financial reporting committee (SAICA, 2016) and four major audit firms also serve as members of the FRSC (The Department of Trade and Industry, 2016).

The results presented in table 4.6 indicated that other popular lobbying methods were communicating with SAICA through other means, such as through telephone conversations (22.2% users), communicating with the IASB and SAICA staff in private meetings (both showed 16.67% users) and having staff appointed on SAICA projects (16.67% users). This illustrates that lobbyists seek “a private audience with the rule making body”, as suggested by Sutton (1984:90).

Table 4.6 demonstrates that the least used lobbying methods by respondents were appealing to the FRSC for support (one user) and commenting in the media (one user). The lobbying methods of appealing to the national accounting standard-setter, the FRSC, lagged far behind the use of lobbying methods employed to influence SAICA. For instance, communicating the company's views to SAICA's members or staff through other means was used by eight respondents, as indicated in table 4.6. As discussed previously in section 2.7.1, the FRSC was established in 2011 as the national accounting regulator in terms of the Companies Act, thereby replacing the private accounting regulator, the APB of SAICA. SAICA, however, continues to issue exposure drafts, discussion papers and requests for information on behalf of the IASB in South Africa.

The low number of respondents lobbying the FRSC could suggest that companies were unsure about the influence and/or role of the FRSC in the accounting standard-setting process of the IASB. The above assumption was supported by the low effectiveness rating awarded by respondents to the lobbying method of appealing to the FRSC for support. As indicated in table 4.7 shows, respondents considered appealing to the FRSC as one of the most ineffective lobbying methods (mean effectiveness = 2.95).

Also, the lobbying of a regulated accounting standard-setter such as the FRSC might be different to the lobbying of a private accounting standard-setter, in terms of the type of lobbying methods employed and their perceived effectiveness of influencing the regulator. This study, like those of Sutton (1984) and Georgiou (2004), were conducted in the context of a private accounting standard-setting body. Hence the lobbying methods employed to lobby a regulatory body such as the FRSC might be different to the lobbying methods employed to lobby a private accounting standard-setter. An interesting topic for future research would be lobbying of the FRSC since lobbying of a national regulatory body such as the FRSC may be unlike lobbying a private body such as SAICA and the IASB.

The use of sponsored research to influence the IASB was also one of the least used lobbying methods by respondents (5.56% users). The reasons for this could be twofold. Firstly, sponsored research is a lobbying method mostly employed during the

agenda formation stage, but as indicated in table 4.1, the majority of respondents did not lobby during agenda formation. Therefore, owing to the lack of lobbying activity during the agenda formation stage, a low number of respondents used methods associated with the agenda formation stage, such as sponsoring research. Secondly, the transfer of sponsored research to the IASB is a costly exercise because of the high cost of collecting expert information (Downs, 1957:148). As indicated in table 4.7, respondents perceived the lobbying method of sponsoring research to be rather ineffective (mean effectiveness = 3.06). Thus the low number of respondents using sponsored research as a lobbying method could be explained by the fact that the high cost of using research as a lobbying method exceeds the perceived effectiveness of this method to influence the IASB. In conclusion, even though the literature shows that research contributes to the standard-setting process, especially during the early stages of this process (Fülbier *et al*, 2009:479), it is not a popular lobby method employed by South African companies.

The researcher further analysed the data from the question on the use of the various lobbying methods to determine if South African companies' use of lobbying methods directed at SAICA was significantly different to the use of lobbying methods directed at the IASB. The Wilcoxon signed rank test indicated that there was no significant difference between the use of lobbying methods directed at SAICA and the use of lobbying methods directed at the IASB ($S = -75.500$; $p = 0.1452$).

4.6.2.3 Testing of hypothesis 4

Hypothesis 4 dealt with the perceived effectiveness of the lobbying methods employed during the accounting standard-setting process. The data used to test the hypothesis was gathered from question 6 of the questionnaire where respondents were required to indicate on a Likert scale how effective they perceived the various lobbying methods to be. Table 4.7 analyses the perceived effectiveness of each lobbying method by excluding the “do not know” option of the Likert scale.

H04: Companies perceive all lobbying methods to be equally effective.

Table 4.7 reports the effectiveness ratings awarded by the respondents for each of the lobbying methods.

In order to test hypothesis 4, the assumption of ANOVA that the distributions of variables are normal, was tested. Owing to the fact that the assumption was not satisfied, a non-parametric test involving the Friedman test was employed to test hypothesis 4.

The results from the Friedman test (Friedman chi-squared value = 13.8626, df = 13, p-value = 0.3836) indicated that there was no significant difference between the effectiveness ratings of the various lobbying methods. Based on these findings, the hypothesis that the perceived effectiveness of lobbying methods is equally effective was not rejected.

TABLE 4.7 – The perceived effectiveness of lobbying methods

Lobbying methods	Very ineffective % of total	Ineffective % of total	Neither % of total	Effective % of total	Very effective % of total	Mean of the Likert score	SD of Likert score
Submitting a comment letter to the IASB during the comment period	0.00%	9.09%	54.55%	22.73%	1.64%	3.41	0.85
Submitting a comment letter to SAICA during the comment period	0.00%	9.09%	40.91%	45.45%	4.55%	3.45	0.74
Speaking at the IASB's public meetings	0.00%	14.29%	42.86%	38.10%	4.76%	3.33	0.80
Speaking at SAICA's public meetings	0.00%	9.52%	52.38%	28.57%	9.52%	3.38	0.80
Communicating your company's views to the IASB's members or staff at pre-arranged private meetings	0.00%	9.09%	36.36%	45.45%	9.09%	3.55	0.80
Communicating your company's views to SAICA's members or staff at pre-arranged private meetings	0.00%	9.52%	38.10%	47.62%	4.76%	3.48	0.75

TABLE 4.7 – The perceived effectiveness of lobbying methods (continued)

Lobbying methods	Very ineffective % of total	Ineffective % of total	Neither % of total	Effective % of total	Very effective % of total	Mean of the Likert score	SD of Likert score
Communicating your company's views to the IASB's members or staff through other means (e.g. telephone conversations, meeting at conferences)	0.00%	14.29%	52.38%	28.57%	4.76%	3.24	0.77
Communicating your company's views to SAICA's members or staff through other means (e.g. telephone conversations, meeting at conferences).	0.00%	9.09%	40.91%	50.00%	0.00%	3.41	0.67
Commenting in the media on a proposed accounting standard	10.53%	15.79%	52.63%	21.05%	0.00%	2.84	0.90
Appealing to Financial Reporting Standards Council (FRSC) in South Africa for support of your company's views	10.53%	10.53%	52.63%	26.32%	0.00%	2.95	0.91
Appealing to your company's external auditors for support of your company's views	4.00%	12.00%	36.00%	48.00%	0.00%	3.28	0.84
Having staff of your company appointed as consultants to the IASB on particular projects	5.26%	10.53%	47.37%	26.32%	10.53%	3.26	0.99

TABLE 4.7 – The perceived effectiveness of lobbying methods (continued)

Lobbying methods	Very ineffective % of total	Ineffective % of total	Neither % of total	Effective % of total	Very effective % of total	Mean of the Likert score	SD of Likert score
Having staff of your company appointed as consultants to SAICA on particular projects	0.00%	5.00%	50.00%	30.00%	15.00%	3.55	0.83
Sponsoring research studies on financial accounting and reporting issues	5.56%	16.67%	50.00%	22.22%	5.56%	3.06	0.94

Although the respondents did not generally perceive the effectiveness of the various lobbying methods to be significantly different, the descriptive statistics reported in table 4.7 indicate that respondents did consider certain lobbying methods to be more effective than others.

Importantly, the descriptive statistics in table 4.7 indicate that the research hypothesis that respondents perceive lobbying methods other than comment letter submissions to be more effective than comment letter submissions was true. Respondents perceived communicating with the IASB's members or staff at pre-arranged private meetings (mean effectiveness = 3.55) and having staff of the company appointed as consultants to SAICA projects (mean effectiveness of 3.55) as the most effective lobbying methods. The mean effectiveness of the use of comment letters submitted to the IASB and SAICA was 3.41 and 3.45, respectively. Similarly, in Georgiou's (2004) study, the most effective lobbying methods, based on the mean effectiveness, were having members appointed as consultants on ASB projects and communicating with the ASB's members or staff at pre-arranged private meetings.

The least effective methods were perceived by respondents to be the lobbying methods of commenting in the media (mean effectiveness = 2.84) and appealing to the FRSC for support (mean effectiveness = 2.95). The perceived ineffectiveness of the two methods above corresponds with their low use by respondents for lobbying, as illustrated in table 4.6. Georgiou (2004) found that the two least effective lobbying methods, based on the mean effectiveness methods, were sponsoring research studies and appealing to FRC members for support of the companies' views.

Approximately 40% of the respondents in this study selected the "do not know" option when rating the perceived effectiveness of the various lobbying methods. Excluding the "do not know responses" from the sample, reduced the sample size significantly. Consequently, multiple paired t-tests to determine if the two most effective lobbying methods were considered significantly different than any other stage in terms of perceived effectiveness, as performed in Georgiou's (2004) study, were not considered feasible for this study.

Statistical tests were performed to determine how the actual use of the lobbying methods influenced the respondents' perceived effectiveness of the various lobbying methods. The perceived effectiveness results from table 4.7 were divided between users and non-users of the various lobbying methods. The appropriate statistical test to determine how the actual use of lobbying methods affected perceived effectiveness was an independent t-test. However, since the differences between the users and non-users were not normally distributed, non-parametric Wilcoxon rank sum tests were employed to confirm the results of the independent t-tests.

The results from the Wilcoxon rank sum tests and independent t-tests are reported in table 4.8. The independent t-tests in table 4.8 report that six of the lobbying methods were considered significantly more effective by users than non-users at a 95% level of confidence. The p-value of the various lobbying methods calculated by the Wilcoxon rank sum tests confirmed the results of the independent t-test, demonstrating that in the case of six lobbying methods, users perceived the use of the lobbying methods to be significantly more effective than non-users did, at a 95% level of confidence.

Also, the results reported in table 4.8 indicate that the mean effectiveness of all the stages was higher for users than for non-users, suggesting that lobbying experience increased the perception of the effectiveness of lobbying. The only exception was in the case of the lobbying method of having staff appointed as consultants to the IASB on particular projects; the mean effectiveness by non-users (mean effectiveness = 3.294) was somewhat higher than the mean effectiveness by users (mean effectiveness = 3.000).

TABLE 4.8 – Comparison of the perceived effectiveness of users and non-users of lobbying methods

Lobbying method	Users			Non-users			Independent t-test		Wilcoxon rank sum test	
	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>t</i>	<i>p</i>	<i>Z</i>	<i>p</i>
Submitting a comment letter to the IASB during the comment period	8	3.750	0.294	14	3.214	0.223	-1.452	0.162	1.428	0.153
Submitting a comment letter to SAICA during the comment period	6	4.167	0.246	16	3.188	0.151	-3.392	0.003	2.818	0.005
Speaking at the IASB's public meetings	4	4.000	0.371	17	3.177	0.180	-1.996	0.060	1.685	0.092
Speaking at SAICA's public meetings	5	3.800	0.0352	16	3.250	0.197	-1.362	0.189	1.267	0.205
Communicating your company's views to the IASB's members of staff at pre-arranged private meetings	6	4.167	0.293	16	3.313	0.179	-2.490	0.022	2.348	0.019
Communicating your company's views to SAICA's members of staff at pre-arranged private meetings	6	4.167	0.252	15	3.200	0.159	-3.243	0.004	2.722	0.007

TABLE 4.8 – Comparison of the perceived effectiveness of users and non-users of lobbying methods (continued)

Lobbying method	Users			Non-users			Independent t-test		Wilcoxon rank sum test	
	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>t</i>	<i>p</i>	<i>Z</i>	<i>p</i>
Communicating your company's views to the IASB's members of staff through other means (e.g. telephone conversations, meeting at conferences)	5	4.000	0.290	16	3.000	0.162	-3008	0.007	2.445	0.015
Communicating your company's views to SAICA's members of staff through other means (e.g. telephone conversations, meeting at conferences)	8	3.875	0.203	14	3.143	0.153	-2.878	0.009	2.545	0.011
Commenting in the media on a proposed accounting standard.	1	3.000	0.924	18	2.833	0.218	0.176	0.863	0.000	1.000
Appealing to the Financial Reporting Standards Council (FRSC) in South Africa for support of your company's views	1	4.000	0.0900	18	2.889	0.212	-1.201	0.246	1.298	0.194
Appealing to your company's external auditors for support of your company's views.	12	3.583	0.233	13	3.000	0.223	-1.809	0.084	2.252	0.024
Having staff of your company appointed as consultants to the IASB on particular projects.	2	3.000	0.718	17	3.294	0.246	0.387	0.703	-0.284	0.776
Having staff of your company appointed as consultants to SAICA on particular projects.	6	4.000	0.322	14	3.357	0.211	-1.669	0.112	1.479	0.139

TABLE 4.8 – Comparison of the perceived effectiveness of users and non-users of lobbying methods (continued)

Lobbying method	Users			Non-users			Independent t-test		Wilcoxon rank sum test	
	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>n</i>	Mean effectiveness	<i>SD</i>	<i>t</i>	<i>p</i>	<i>Z</i>	<i>p</i>
Sponsoring research studies on financial accounting and reporting issues	2	4.000	0.636	16	2.938	0.225	-1.575	0.135	1.135	0.256

n = number of users or non-users

SD = standard deviation

4.6.2.4 Interpretation of statistics regarding the perceived effectiveness of the various lobbying methods

Respondents indicated that the equally most effective lobbying methods were having staff appointed as consultants to SAICA on particular projects (mean effectiveness = 3.55) and communicating with the IASB's members of staff at pre-arranged private meetings (mean effectiveness = 3.55). The third most effective method was communicating with SAICA's members of staff at pre-arranged private meetings. Thus, respondents rated informal lobbying methods, those methods that are employed outside of the due process, as the most effective form of lobbying. Also the fact that respondents considered meetings with the IASB and SAICA as some of the most effective lobbying methods revealed that the respondents shared Sutton's (1984:90) view that of all the direct methods, a private meeting with the accounting standard-setter is the most effective lobbying method.

Sutton (1984:66) predicted that comment letter submissions are not the most effective lobbying method and respondents supported this notion, as is indicated in the discussion above. One respondent advanced the following reason for rating the comment letter submission as an ineffective lobbying method:

“It is often difficult to understand how the comments are taken into account and how some are ignored while others are accepted. Two recent examples – leases and the amendment to bearer plants in agriculture.”

4.7 SUMMARY

This chapter described the findings and results of the testing of the four hypotheses. Statistical tests were employed to analyse the 36 usable responses to the questionnaire that was distributed to the JSE top 100 primary listed companies.

Firstly, the type of statistical tests employed in this study was described. Following this discussion, the testing of the four hypotheses in conjunction with analysis of the findings and interpretation of the results, was performed. The statistical results from the hypothesis testing revealed the following about the sample South African companies in this study:

- South African companies used the later stages of the accounting standard-setting process more for lobbying the IASB than the earlier stages;
- South African companies did not generally perceive the effectiveness of the various stages to be significantly different;
- the use of comment letter submissions by South African companies was significantly associated with the use of other lobbying methods; and
- in general, South African companies did not perceive the effectiveness of the various lobbying methods to be significantly different, but they did consider some lobbying methods to be more effective than others.

Contrary to the research hypothesis regarding the timing of lobbying, the later stages were more used by South African companies to lobby the IASB than the earlier stages. The low number of users of the earlier stages could be explained by the fewer documents (discussion papers) issued by the IASB during the earlier stages compared to the later stages. As a consequence, there were fewer opportunities for formal lobbying during the earlier stages compared to the later stages. In conclusion, even though South African companies perceived the two discussion paper stages as effective stages for lobbying, there was a limited number of discussion papers issued in which they could participate.

Regarding the effectiveness of the various stages, the results showed that South African companies generally perceived the effectiveness of the various stages not to be significantly different. Still, the companies did rate the various stages differently in terms of effectiveness: Two of the three earlier stages were rated by respondents as

the most effective time for lobbying. Based on the mean effectiveness of the various stages, users considered all the stages of the accounting standard-setting process to be more effective than non-users of the stages did.

South African companies used a variety of lobbying methods, which they rated differently in terms of perceived effectiveness. The findings from the use of lobbying methods supported the research hypothesis that the use of comment letter submissions is strongly associated with the use of other lobbying methods. In addition, the descriptive statistics showed that comment letter submissions were not the most popular lobbying methods employed by South African companies.

In terms of the perceived effectiveness of the various lobbying methods, the findings supported the research hypothesis that lobbying methods other than comment letters are considered to be more effective than comment letter submissions. Notably, the results demonstrated that respondents perceived a private audience with the accounting standard-setter to be an effective lobbying method.

Notably, the findings from the descriptive and inferential statistics in this chapter also supported many of the findings and conclusions of Georgiou's (2004) survey-based research in the UK. The similarities between lobbying by South African companies examined in this study and the UK companies examined in Georgiou's (2004) study are summarised below:

- there is greater use by companies of the later stages of the accounting standard-setting process compared to the earlier stages of the accounting standard-setting process;
- the most used stage for lobbying is the exposure period of the exposure draft;
- the least used stage for lobbying is the agenda formation stage;
- a strong association exists between the use of comment letter submissions and other lobbying methods;
- the most used lobbying method is appealing to the company's auditors for support of its views;
- the two most effective lobbying methods are communicating with the accounting standard-setter at pre-arranged private meetings and having staff of the company appointed as consultants to projects of the accounting standard-setter;

- users of the stages of the accounting standard-setter for lobbying perceived lobbying during the stages to be more effective than non-users did; and
- users of the various lobbying methods perceived the various lobbying methods to be more effective than non-users did.

The difference between this study's findings and those of Georgiou (2004) resulted from the perceived effectiveness ratings awarded to the various stages.

The findings from this study and those of Georgiou (2004) lend strong support for Sutton's (1984) predictions regarding lobbying that are based on the rational choice theory. In the next chapter, the findings of this study supporting Sutton's predictions are summarised.

In conclusion, it is evident that South African companies lobby the IASB during various stages of the accounting standard-setting process, and these companies employ different lobbying methods. Yet not all respondents to the questionnaire participated in lobbying of the IASB. Wingard *et al* (2016:143) provide the following reason for the low participation in lobbying of the IASB:

“The actions of the IASB of kowtowing to powerful interests can cause other affected parties to stay away from standard-setting activities if they believe that they have no real prospect of influencing the content of standards.”

The next chapter also presents a summary of the results of the testing of the hypotheses, draws conclusions on the outcome of the study, highlights the contributions of the work and makes suggestions for further research.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarises the findings of the empirical investigation and draws conclusions on the corporate lobbying of the accounting standard-setter by South African companies. It specifically presents the findings that supported the predictions made by Sutton (1984) regarding lobbying of the accounting standard-setter.

Before proceeding with the summary of the findings and the discussion of the applicability of Sutton's predictions to the South African context, the chapter commences with a summary of the research study.

5.2 SUMMARY OF THE RESEARCH STUDY

The lobbying attempts by South African companies during the accounting standard-setting process are uncertain because of the paucity of empirical research available in this regard. The reason this study was conducted was to empirically investigate the timing, methods and perceived effectiveness of lobbying the IASB by South African companies. The research objectives were stated in chapter 1 (refer to 1.4) as:

- to critically analyse the extant literature on accounting lobbying behaviour from which hypotheses are formulated;
- to empirically test the timing, methods and perceived effectiveness of lobbying of the accounting standard-setting process through a questionnaire instrument distributed to a sample of South African listed companies; and
- based on the findings of the empirical investigation, to determine the applicability of Sutton's predictions based on the rational choice theory in the South African context.

The critical analysis of the extant literature demonstrated that the theoretical model of Sutton (1984) on lobbying of the accounting standard-setter, which is based on the rational choice theory, is central to this study. Sutton (1984) used this theory to explain when and how companies lobby the accounting standard-setter.

From the literature review it was also determined that Georgiou's (2004) research in the UK, strongly supports Sutton's (1984) prediction that companies employ various lobbying methods ranging from formal methods allowed by the due process and informal lobbying methods that are more disguised in nature. According to Sutton (1984), lobbyists tend to select those lobbying methods that are the most effective (P) per unit of cost (C) in influencing the accounting standard-setter. The above assumption is based on the rational choice theory. From this perspective, Sutton (1984) predicts that the most used lobbying methods include indirect lobbying methods, such as using a third party to present the lobbyist's views. Regarding the timing of lobbying, Sutton (1984) predicts that lobbying during the earlier stages is more effective and less costly than lobbying at later stages in the accounting standard-setting process.

Both the seminal work of Sutton (1984) and Georgiou (2004) served as a platform on which the hypotheses and questionnaire instrument for this study were developed. The study included the following four null hypotheses based on the predictions of Sutton (1984) and the empirical research of Georgiou (2004):

H₀₁: There is no significant difference between the use of the earlier stages and the later stages of the accounting standard-setting process to lobby the IASB.

H₀₂: Companies perceive lobbying during all the stages of the accounting standard-setting process as equally effective.

H₀₃: The use of comment letter submissions is not significantly associated with the use of other lobbying methods.

H₀₄: Companies perceive all lobbying methods to be equally effective.

In order to test the four hypotheses above, data was obtained from South African companies through a questionnaire instrument. The questionnaire was based on the questionnaire used by Georgiou (2004) in his UK study on corporate lobbying of the ASB. The questionnaire in this study was distributed to the top 100 JSE primary

listed companies in order to collect primary data on the timing, methods and perceived effectiveness of lobbying by South African companies during the IASB's accounting standard-setting process. The online questionnaire was administered by the researcher using LimeSurvey software.

The data collected from the questionnaire instrument was reported in chapter 4. The data in chapter 4 was statistically analysed, the hypotheses were tested and the findings were discussed. It is clear from the findings that South African companies use various lobbying methods and lobby during different stages of the accounting standard-setting process.

The next section provides a summary of the findings and concludes on the applicability of Sutton's predictions to lobbying in the South African context.

5.3 SUMMARY OF FINDINGS

The second objective of the research was to empirically test the timing, methods and perceived effectiveness of lobbying of the accounting standard-setting process through a questionnaire instrument distributed to a sample of South African listed companies. The empirical investigation established the following factors regarding the timing, methods and perceived effectiveness of lobbying of the accounting standard-setter by South African companies:

5.3.1 Timing of lobbying

It was observed from the data collected from the question regarding the use of the stages of the accounting standard-setting process to lobby, that the later stages were used more for lobbying than the earlier stages of the due process of the IASB. The South African companies mostly used the exposure period of the exposure draft to lobby the IASB.

Regarding the perceived effectiveness of lobbying during the various stages of the accounting standard-setting process, the findings indicated that South African companies generally did not perceive the effectiveness of the various stages to be significantly different. However, the descriptive statistics of the data obtained from the

question regarding the perceived effectiveness of the various stages, indicated that South African companies did consider certain stages to be more effective than others to influence a proposed accounting standard. South African companies perceived two of the earlier stages as the most effective stages for lobbying the IASB, namely the exposure period and drafting period of the discussion paper.

Further analysis and comparisons of the results of the questions related to the use of the various stages and the perceived effectiveness of the stages, revealed that users perceived lobbying during the various stages of the accounting standard-setting process to be more effective than non-users did. This finding suggests that lobbying experience increases the perception of the effectiveness of lobbying.

5.3.2 Methods of lobbying

The data collected from the question regarding the use of lobbying methods illustrated that South African companies use a variety of lobbying methods to influence the outcome of the IASB's accounting standard-setting process.

The results from the question regarding the use of lobbying methods, revealed the following:

- comment letter submissions are not the most attractive form of lobbying;
- the use of appeals to the company's auditors for support of their views was the most used lobbying method; and
- the use of comment letter submissions by a lobbyist is strongly associated with the use of other lobbying methods. Therefore, even though comment letter submissions are not the most popular lobbying method, they are still a good proxy for the use of other lobbying methods. In other words, comment letter submissions are rarely used on their own. Companies submitting a comment letter to the IASB and/or SAICA are likely to have employed other lobbying methods to influence the accounting standard-setting process.

The empirical evidence also revealed that South African companies rate the various lobbying methods differently in terms of effectiveness. Of all the lobbying methods, respondents perceived those lobbying methods seeking a private audience with the accounting standard-setter as some of the most effective. Respondents also

perceived as effective a more long-term lobbying strategy, such as having staff of a company appointed as consultants to SAICA projects.

The results from the effectiveness of lobbying methods suggested that users of lobbying methods perceived the various lobbying methods to be more effective than non-users did.

5.4 CONCLUSION

According to Sutton (1984:93), a rational individual only lobbies an accounting standard-setter by considering the probability of affecting the outcome, the potential benefits of succeeding with its lobbying and the costs of his or her lobbying efforts. The above is established under the rational choice theory, and from this perspective, Sutton (1984) predicts the timing and methods of lobbying the accounting standard-setter.

The third objective of the research was to determine the applicability of Sutton's predictions based on the rational choice theory in the South African context.

The findings from the hypotheses testing and the descriptive statistics of the empirical evidence from the questionnaire provided support for Sutton's (1984) predictions (with an exception mentioned in section 5.4.1 below). The applicability of Sutton's (1984) predictions in the South African context is discussed below.

5.4.1 Timing of lobbying

Sutton (1984) predicts that lobbying during the earlier stages, such as the agenda-setting stage, is more effective and less costly than lobbying at a later stages of the accounting standard-setting process (Sutton, 1984:88). However, contrary to Sutton's (1984) predictions, the results showed that South African companies use the later stages more than earlier stages of the accounting standard-setting process to lobby. This result contradicted the research hypothesis of this study, based on Sutton's (1984) prediction, that the earlier stages are used more for lobbying than the later stages of the accounting standard-setting process. However, it is suggested by the researcher and Georgiou (2010) that this contradiction of Sutton's (1984)

prediction regarding the timing of lobbying is likely a consequence of the fewer opportunities awarded for formal lobbying during earlier stages compared to the later stages of the accounting standard-setting process. The discussion paper stages are not compulsory stages of the due process, leaving only the agenda formation stage for lobbying during the earlier stages. In situations where accounting standard are proposed, where no discussion papers are issued, the use of the earlier stages for lobbying compared to the use of the later stages for lobbying is expected to be low.

Regarding the effectiveness of the various stages for lobbying, South African companies view earlier lobbying as more effective than belated lobbying, thereby sharing Sutton's (1984) view that the earlier stages are more effective for lobbying the accounting standard-setter than the later stages. Since the low use of the earlier stages for lobbying does not correspond with the high effectiveness ratings awarded to two of the earlier stages, it is suggested that the low use of the earlier stages for lobbying may be ascribed to the limited number of discussion papers available for participation. Hence rejecting Sutton's (1984) hypothesis regarding the timing of lobbying would not be judicious. Instead, it is proposed that further research on the timing of lobbying be conducted to establish the use of the earlier stages compared to the later stages of the due process of the IASB.

For the purposes of comparing lobbying during the earlier stages to the later stages, the researcher recommends conducting a study that would include the counting of comment letters submitted during the exposure period of discussion papers and the exposure period of the exposure drafts of multiple proposed accounting standards issued by the IASB. Through such an investigation one would be able to determine, at the minimum, if the formal participation during the earlier stages exceeds the formal participation during the later stages of the due process of the IASB.

5.4.2 Methods of lobbying

The results of the questionnaire regarding the use of the various lobbying methods supported Sutton's (1984) view that lobbyists prefer indirect lobbying methods. The results of this study revealed that South African companies relied heavily on their auditors to support and defend their views on accounting issues with the IASB. This

lobbying method is an indirect lobbying attempt to influence the accounting standard-setting process. As Sutton (1984) predicted, companies preferred indirect lobbying methods above direct lobbying methods.

Sutton (1984) also predicted that if lobbyists employ direct lobbying methods, they prefer direct lobbying methods that include a private audience with the accounting standard-setter. South African companies did communicate their views directly to the IASB and SAICA through other means (e.g. telephone conversations) but did not use this lobbying method more than other direct lobbying methods. Yet, regarding the perceived effectiveness of seeking a private audience with the accounting standard-setter, South African companies agreed with Sutton (1984) that a lobbying method that seeks a private audience with the accounting standard-setter is the most effective direct lobbying method.

The above findings regarding the preferred lobbying methods employed by South African companies, illustrated that South African companies perceive lobbying methods, outside of the formal due process of the IASB, to be effective in influencing the outcome of proposed accounting standards. Lobbying methods outside of the formal due process of the IASB are generally unobservable to the public. However, this is exactly the reason why they are considered to be so effective in influencing the outcome of proposed accounting standards. In the words of Sutton (1984:86):

“...the effectiveness of lobbying (its effect on P), is likely to vary inversely with its visibility”.

In conclusion, empirical evidence of the study supported most of Sutton's (1984) predictions, which are based on the rational choice theory. The aim of this study was not to prove the correctness of the rational choice theory, since this has already been established in other studies in the political, economic and social sciences (see section 2.2.2.3). The findings from this empirical investigation merely provided evidence in a South African context of the accuracy of Sutton's predictions regarding the timing and methods of lobbying that are based on the rational choice theory.

The general applicability of the findings is subject to the following limitations of this study:

- the sample of the empirical study was not randomly selected but deliberately chosen as the top 100 JSE primary listed companies. The results might not necessarily guarantee representativeness of all South African companies; and
- the low response rate from the questionnaire instrument might affect the general applicability of the empirical findings.

5.5 CONTRIBUTION

Apart from the limitations mentioned above, this empirical study should make a significant contribution to the accounting literature in respect of an understanding of corporate lobbying attempts by South African companies during the accounting standard-setting process of the IASB. To date there is hardly any academic literature available on the participation of South African companies in the accounting standard-setting process of the IASB. Gloeck (2003) previously attempted to investigate South Africa's participation in the accounting standard-setting process of SAICA but was obstructed in his research by the limited public evidence available on South African companies' participation in the process. This study overcame the challenge faced by Gloeck (2003) by using a questionnaire instrument to collect evidence of South African companies' participation in lobbying the accounting standard-setter. In this manner it was possible to collect evidence of corporate lobbying of the IASB and SAICA by South African companies that is not available in the public domain.

This empirical investigation also lent support to the findings and suggestions of Sutton (1984), Georgiou (2004) and Gloeck (2003) that a number of lobbyists prefer using lobbying methods for which there is inadequate public evidence.

In addition, this study was also the first study to empirically investigate the applicability of Sutton's predictions based on the rational choice theory in the South African context.

5.6 SUGGESTIONS FOR FUTURE RESEARCH

Owing to limited academic literature available on the lobbying of the IASB by South African stakeholders, further research avenues in this regard are abundant. For instance, the researcher recommends replicating this study in respect of *users* of financial statements in South Africa. Such a study could also employ Sutton's (1984) theoretical model to determine its applicability to users of financial statements in South Africa. A sample for such a study could be selected from the investment firms in South Africa. A similar study of user participation was conducted by Georgiou (2010) in the UK context, and could therefore serve as a reference and model for a similar study in South Africa.

Another interesting topic for future research would be the examination of the lobbying of the FRSC since lobbying of a national regulatory body such as the FRSC may be unlike lobbying of a private body such as SAICA and the IASB.

Appendix A – Questionnaire

PARTICIPATION OF SOUTH AFRICAN COMPANIES IN THE ACCOUNTING STANDARD-SETTING PROCESS

Good day sir/madam

The International Accounting Standards Board's (IASB's) accounting standard-setting process consists of a number of stages before a proposed accounting standard is issued as a final IFRS. Throughout this process, the IASB encourages companies to participate in its accounting standard-setting process. South African companies have the opportunity to raise their views on a proposed accounting standard or amendment directly with the IASB (e.g. by writing a comment letter to the IASB).

In addition, South African companies can also indirectly participate in the IASB's process through communicating their views on a proposed accounting standard to the South African Institute of Chartered Accountants (SAICA) (e.g. by writing a comment letter to SAICA or attending a SAICA meeting). In such cases, SAICA, in cooperation with the Accounting Practices Committee (APC), submits a comment letter to the IASB on behalf of South African companies, thereby presenting the most dominant concerns of South African companies on a proposed accounting standard or amendment. Some companies prefer to discuss their concerns on a proposed accounting standard with their auditors, who in turn communicate these concerns to SAICA or the IASB.

This survey is about your company's participation in the accounting standard-setting process of the IASB since 2005 to the current year. Please click on "Next" to proceed to the survey.

There are eight questions in this survey.

SECTION 1: BACKGROUND INFORMATION

This section relates to background information. Although we are aware of the sensitivity of the questions in this section, the information will allow us to draw comparisons in the group of respondents. Once again we assure you that your response will remain confidential.

1. Kindly indicate your gender:

Please choose only one of the following:

- Female
- Male

2. Are you a Chartered Accountant (SA)? *

Please choose only one of the following:

- Yes
- No

3. Please indicate your number of years of accounting related work experience. *

Please choose only one of the following:

- 0-5 years
- 6-10 years
- 11-20 years
- 21-30 years
- 31 years and above

4. Which one of the following most closely matches your job title? *

Please choose only one of the following:

- President or CEO
- C level executive (for instance CFO)
- Senior Vice President
- Vice President
- Director
- Senior Manager
- Manager
- Supervisor
- Associate
- Intern
- Entry Level

SECTION 2: PARTICIPATING DURING THE STAGES OF THE ACCOUNTING STANDARD-SETTING PROCESS

This section relates to the stages at which your company participates in the IASB's accounting standard-setting process. For each of the following stages of the IASB's process, please indicate:

- Whether your company participated during the accounting standard-setting stages of the IASB by clicking Yes or No; and
- Regardless of whether your company actually participated during these stages, how you rate participation at each stage in terms of effectiveness (i.e. having an effect on the final outcome of an accounting standard)

5. Please choose the appropriate response for each item:

Stages of the standard-setting process	Actual use		Effectiveness scale					
	Yes	No	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	Don't know
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 the IFRS								
Post-implementation review of the final IFRS								

SECTION 3: METHODS OF PARTICIPATION IN THE ACCOUNTING STANDARD-SETTING PROCESS

This section relates to the methods used by your company to participate in the IASB's process of accounting standard-setting. For each of the following methods of participating in the accounting standard-setting process of the IASB, please indicate the following:

- Whether your company used these methods by clicking Yes or No; and
- Regardless of whether your company actually used these methods, how you rate these methods in terms of effectiveness (i.e. having an effect on the final outcome of an accounting standard).

6. Please choose the appropriate response for each item:

Method of participation	Actual use		Effectiveness scale					
	Yes	No	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	Don't know
Submitting a comment letter to the IASB during the comment period								
Submitting a comment letter to SAICA during the comment period								
Speaking at the IASB's public meetings								
Speaking at SAICA's public meetings								

Method of participation	Actual use		Effectiveness scale					
	Yes	No	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	Don't know
Communicating your company's views to the IASB's member of staff at pre-arranged private meetings.								
Communicating your company's views to SAICA's member of staff at prearranged private meetings.								
Communicating your company's views to the IASB's members of staff through other means (e.g. telephone conversations, meeting at conferences).								
Communicating your company's views to SAICA's members of staff through other means (e.g. telephone conversations, meeting at conferences).								

Method of participation	Actual use		Effectiveness scale					
	Yes	No	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	Don't know
Commenting in the media on a proposed accounting standard								
Appealing to Financial Reporting Standards Council (FRSC) in South Africa for support of your company's views								
Appealing to your company's external auditors for support of your company's views								
Having staff of your company appointed as consultants to the IASB on particular projects								

Method of participation	Actual use		Effectiveness scale					
	Yes	No	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	Don't know
Having staff of your company appointed as consultants to SAICA on particular projects								
Sponsoring research studies on financial accounting and reporting issues								

7. Other participation methods not mentioned above (please specify)

Please write your answer here:

SECTION 4: ADDITIONAL COMMENTS

8. If you have additional comments please make use of the space provided below.

Please write your answer here:

Appendix B – Covering letter (email)

Invitation to participate

Dear sir/madam

I am undertaking a research project to determine the participation of South African companies in the accounting standard-setting process of the International Accounting Standards Board (IASB), which is responsible for the development and issue of accounting standards.

The outcome of this survey will be used in my dissertation for a Master's degree. Although your response is of the utmost importance to me, your participation is entirely voluntarily. Information provided by you remains confidential and will be reported in summary format only.

This survey consists out of four sections and should take no longer than six minutes of your time. Please click here to complete the survey: {SURVEYURL}.

Should you have any queries or comments regarding this survey, you are welcome to contact me at 012 429 3560 or at gbooyf@unisa.ac.za.

Thank you in advance for your valuable time and input.

Regards

Felicia Gaie-Booyesen CA(SA)

Senior Lecturer

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Appendix C – Georgiou’s (2004) questionnaire

The ASB standard setting process includes a number of stages through which a proposal passes before it is adopted as a financial reporting standard (e.g. an issue has to be first admitted on the ASB’s agenda). A company may participate in the process in a variety of ways (e.g. directly by communicating its views to the ASB, or indirectly by communicating its views to other parties, such as its external auditors or the Financial Reporting Council [FRC]).

Questions 1 and 2 relate to the *stages* at which, and the *methods* by which a company may participate in the ASB 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 ASB standard setting process, please indicate:

- (i) whether your company has participated at these stages over the period 1991 to 1996 inclusive; and
- (ii) regardless of whether your company 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					DK
	Yes	No	1	2	3	4	5	
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 Financial Reporting Standard								

2. For each of the following *methods of participating* in the ASB standard setting process, please indicate:

- (i) whether your company has used these methods over the period 1991 to 1996 inclusive; and
- (ii) regardless of whether your company 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					DK
	Yes	No	1	2	3	4	5	
Submitting comment letters in response to ASB's invitations to comment								
Speaking at ASB public hearings								
Communicating your company's views to ASB members in prearranged private meetings								
Communicating your company's views to ASB members through other means (e.g. telephone conversation, meeting at conferences)								
Communicating your company's views to ASB staff in prearranged private meetings								
Communicating your company's views to ASB staff through other means (e.g. telephone conversation, meeting at conferences)								
Commenting in the media								
Appealing to FRC members for support of your company's views								
Appealing to your company's external auditors for support of your company's views								
Appealing to your company's trade organization(s) for support of your company's views								
Having members of your company appointed as consultants to the ASB on particular projects								
Sponsoring research studies on financial accounting and reporting issues								
Other (please specify)								

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

Appendix D – Ethics clearance certificate



Ref #: 2013/CEMS/SAS/0005

**RESEARCH ETHICS REVIEW COMMITTEE:
SCHOOL OF ACCOUNTING SCIENCES**

Ms. F Gaie-Booyesen (student number 33330034)
Supervisor: JAC Bosman (staff number 1992856)
Joint supervisor: HC Wingard (staff number 1100017)

This is to certify that the application for ethics clearance submitted by
F Gaie-Booyesen (33330034)
for the study
Corporate lobbying of accounting standard-setting in South Africa
submitted for Ethics Clearance in the fulfillment of the
Degree of MCom (Accounting)
has been approved.

The application for ethics clearance for the abovementioned research was reviewed by the SAS Research Ethics Review Committee on 5 June 2013 in compliance with the Unisa Policy on Research Ethics. **Ethical clearance has been granted.** Please be advised that the research ethics review committee needs to be informed should any part of the research methodology as outlined in the Ethics Application (Ref. Nr.: 2013/CEMS/SAS/0005), change in any way.

The Research Ethics Review Committee wishes you all the best with this research undertaking.

Kind regards,

A handwritten signature in black ink, appearing to read "H. Wingard".

Prof HC Wingard, Chair of the SAS Research Ethics Review Committee
Department of Financial Accounting, Unisa
wingahc@unisa.ac.za

19 June 2013



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