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# Internal lobbying at the IASB

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A B S T R A C T

This study adds to prior work on the production of accounting rules (Francis, 1987; Nobes, 1992; Brown and Feroz, 1992; Saemann, 1995; Pong and Whittington, 1996; Kwok and Sharp, 2005; Bhimani, 2008; Ramanna, 2008; Stenka and Taylor, 2010; Giner and Arce, 2012; Jorissen et al., 2012, 2013) by analysing the social psychology of standard setters. It complements work analysing the impact of psychological factors on standard setting (Hirschleifer and Teoh, 2009; Allen and Ramanna, 2013), finding that group effects (Bartel and Wiesenfeld, 2013; Haslam et al., 2006; Hogg and Abrams, 1988; Hogg et al., 1986) combined with existing project management structures at the IASB to undermine the IASB Liabilities Project. The paper uses interviews and analyses of IASB documents and board meetings to open up the black box of the standard setting organisation to reveal the existence of 'internal lobbying' *within* the standard setting organisation that rendered the project vulnerable to external lobbying activities. Such findings contribute to the existing literature on lobbying and standard setting by demonstrating the importance of understanding the connection between lobbying activities and the social processes taking place within the standard setting organisation when trying to explain regulatory outcomes. Furthermore, the study addresses the role of technical staff at the IASB in the process of standard setting through interviews with almost all the staff who worked on the project as well as several board members.

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## 1. Introduction

Scholars in accounting have acknowledged that standard setting cannot always be relied upon to produce good regulation (Waymire and Basu, 2008). Furthermore, the production of "bad rules" may result not just from political interference or lobbying but also from specific psychological biases or social processes in the lobbying, professional and user communities (Hirschleifer and Teoh, 2009). Yet little attention is paid to the people and processes that produce standards compared with normative studies that assess the conceptual and functional adequacy of the final regulatory document.[1] The focus of this study is the social psychological biases and associated social processes affecting the individuals at the heart of the regulatory machine: the board members and technical staff at accounting standard setting organisations.

While embracing the role of factors relating to individual psychology as drivers of regulatory change, this study highlights the role of *social* psychology, in particular, group effects on the outcome of a recent IASB project. This was the Liabilities Project, which was intended to revise the methods employed for reporting obligations for which estimation uncertainty existed, such as pending litigations and clean-up costs for environmental damage. It proposed new rules for recognition and measurement, which reflected a trend towards the increased emphasis on balance sheet recognition and the use of economic methods for measurement.[2] However, in 2010, the uncompleted project was withdrawn from the standard setting agenda. Interview and documentary evidence suggests that group effects exerted a considerable influence on the outcome of the Liabilities Project. This study finds that knowledge of the organisational character of the IASB is an essential part of an explanation of the outcome of the Liabilities Project. This is because the IASB is not merely a technical and monolithic entity; it is *social* entity and, as such, the actions and behaviour of its board and its staff are coordinated by their perceived social identity and group affiliations. Research that fails to take into account the social psychological effects in standard setting processes may miss important factors driving the production of accounting rules. For example, intergroup conflict and group effects, or 'internal lobbying' between subgroups on the board with competing accounting ideologies was observed. This led to non-compliance with accepted due process, which offered opportunities to external constituents to block the project.

Drawing on theories of social psychology, this study finds that group effects within the IASB board (Bartel and Wiesenfeld, 2013; Haslam et al., 2006; Hogg and Abrams, 1998; Hogg et al., 1986) led to a tendency towards the polarisation of views between an influential subgroup on the board that advocated the use of fair value accounting and the other board members. This subgroup of five board members, the 'fair value group' shared common beliefs about the appropriateness of fair value approaches to financial reporting. The term 'fair value accounting' will be used in this paper to refer to the use of measurement approaches using the board members' interpretation of financial economics. This approach to measurement was associated with an emphasis on assets and liabilities. In explaining this shift, Chakravarthy (2014) argues that the increased commitment to this new approach to accounting was associated with an increased homogenisation of the views of the FASB board members after the publication of the Conceptual Framework. The influence of financial economics is not restricted to recognition and measurement issues in financial reporting, but may apply equally to the financialisation of narrative reporting (Chahed, 2015).

Furthermore, project management structures at the IASB enabled the fair value group to push items onto the agenda and shape the development, and the outcome, of projects. Such findings not only help explain this particular standard setting case, but also contribute to the existing literature on lobbying (for example Giner and Arce, 2012; Jorissen et al., 2012; Jorissen et al., 2013) by demonstrating that, in addition to the internal lobbying by subgroups on the board, external lobbyists can respond tactically to perceived procedural errors, thereby undermining a project by invoking due process criticisms.

The paper contributes to the existing literature on standard setting in two ways. First, it opens up the 'black box' of the standard setting organisation to reveal the existence of a subgroup on the board,

[1] Although, see Allen and Ramanna (2013) and Jiang et al. (2014) who identify specific characteristics of individual board members as indicators of likely voting behaviour.

[2] The IASC, FASB and ASB had already introduced similar recognition and measurement criteria based on financial economics into the reporting of pensions and financial derivatives.

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