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Motivations behind users' participation in the standard-setting process: Focus on financial analysts[☆]

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A B S T R A C T

The aim of this study is to investigate what motivates financial analysts to participate in the accounting standard-setting process. We focus on financial analysts because they are an important group of the financial statements users. The paper employs the meso-level approach used by Durocher et al. (2007) that integrates the macro domain's focus on the standard setters with the micro domain's focus on individuals and thus it links the characteristics of due process for standard setting with users' attitudes. We develop a survey for the Chartered Financial Analysts Institute (CFA), which is one of the largest associations of investment professionals in the world, and collected data through computer-assisted Web interviews. We use a structural equation model with PLS to test our hypotheses. Our main findings confirm that a combination of micro and macro domains explains the frequency of financial analysts' participation in the standard setting process. This investigation, thus, deepens our understanding of motivations behind analysts' involvement in the accounting standard-setting process and delivers both theoretical contributions and practical insights.

1. Introduction

The International Accounting Standards Setting Bodies (IASB) develops accounting principles and standards through an international consultation process – known as the due process – which involves participation by interested individuals and organizations from around the world, especially those who are concerned about the users of these standards (IFRS Foundation, 2016). In recent years, issues pertaining to the users' participation in the standard-setting process have attracted increasing attention. The users' participation has been considered an indicator of the board's legitimacy (e.g. Larson, 2007; Durocher et al., 2007; Bamber and McMeeking, 2016), which typically refers to acceptance of regulators' claim that they act in accordance with social values of the users' groups (Richardson and Eberlein, 2011). Thus, lack of users' involvement or participation in this process might lead to the

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neglect of important aspects of the standards, which will result in their lower quality. Among different constituents, financial analysts form an important group of users because they are sophisticated users of the financial statements who have a significant influence on other users through earnings forecasts and advices.

The standard-setting organizations have worked hard to avoid reduction in legitimacy and enhance transparency in the due process and, more recently, they have increasingly claimed the importance of proactive users' inputs (e.g. Bamber and McMeeking, 2016; IFRS Foundation, 2016), suggesting that users are no longer considered a rhetorical group as previous research contended (Young, 2006). Nevertheless, some scholars still find that the due process continues to be only a ritual procedure, which is limited to creating an impression of transparency (e.g. Ram and Newberry, 2013; Camfferman and Zeff, 2017). Wingard et al. (2016) document that the IASB procedures lack substantive engagement or participation because these opportunities are primarily reserved for powerful stakeholders who play an important role in the governance structure and in the national standard-setting process. Pelger and Spieb (2017) reveal that users' orientation in the consultation activities is predominantly formal in nature and confirm that the actual practice of the due process raises concerns about the fairness in procedures followed by the standard setting organizations.

The above arguments make this research very timely because it sheds light on what factors can increase users' participation and allows opening up the 'black box' on how the standard setters might enhance more participation by the users (Evans et al., 2005; Pelger, 2016).

Therefore, despite the importance of users' input, the existing studies largely provide results on users' participation by linking it to the users' positions and their effect on standard-setters' decisions, but we still know very little about users' motivation to participate in the standard-setting process (e.g. Durocher, 2009; Georgiou, 2010; Durocher and Fortin, 2011).

The research findings on the users' positions provide conflicting results (e.g. Puro, 1985; McKee et al., 1991). Some studies suggest that the standard setters are receptive to the preparers' preferences (Brown and Feroz, 1992) or users' preferences (Saemann, 1999). Other studies consider that the geographical, institutional and cultural factors play an important role and they attempt to create various tools to coordinate their use in the due process, such as white papers, comment letters, and meetings, whereas another group of studies explain the determinants of users' contributions to the due process (e.g., Georgiou, 2010; Jorissen et al., 2012; Hansen, 2011; Larson et al., 2011; Larson and Herz, 2013; Morley, 2016). Very few researchers analyse motivations affecting the users' participation or evaluate specific user categories with unique attitudes and needs (Schalow, 1995; Tandy and Wilburn, 1996; Durocher et al., 2007; Durocher and Fortin, 2011).

Durocher (2009) and Georgiou (2010) especially point out that accounting research has largely neglected particular financial statement users; thus, more work is needed to fill this gap. This study focusses on financial analysts as a specific user group for the following reasons.

Financial analysts are one of the primary users of accounting information because they are representatives of the investment community for which the reporting of corporate information is intended (e.g. Orens and Lybaert, 2010; Brown et al., 2015). They play a critical role in performing analyses and extensively use the financial statement information to provide forecasts, recommendations and target price outputs about firms (Schipper, 1991; Epstein and Palepu, 1999). Financial analysts' goal to obtain standards that provide relevant information for investment decisions implies that analysts have an interest in contributing to the due process because it represents a means of shaping the formation of accounting standards towards higher quality (Orens and Lybaert, 2010; Jorissen et al., 2012). However, the standard setters have only recently recognized the important role played by financial analysts in the due process. The Boards have intensified efforts to mobilize them because they are supposed to possess knowledge essential to meeting the information needs of users of the financial statements (IASB and FASB website). The scholars have also called for more research on these issues to support the standard-setter organizations and they have emphasized that a deeper examination of this group would be welcome because it would meet the need for inclusion of the financial statement users in the due process (e.g. Morley, 2016).

The main focus of this study is to investigate financial analysts' motivation to participate in the standard-setting process, where participation refers to the actions that interested parties adopt to influence the rule-making body (Schalow, 1995). We rely on the framework developed by Durocher et al. (2007), which has been developed to explain, more generally, users' participation in the due process, and we apply this framework to examine financial analysts' participation as a specific category of users.

The Durocher et al.'s model (2007) has the merit of integrating the macro domain's focus on the standard setters and the micro domain's focus on individuals, and thus it links the characteristics of due process for standard setting with users' attitudes (Klein et al., 1999). Other theoretical frameworks explain constituents' participation from an isolated perspective, such as the political nature of the standard-setting process and perceived legitimacy of the board. In addition, these papers devote very little attention to individual attitudes and expectations.

In contrast, the framework developed by Durocher et al. (2007) is considered particularly suitable for the current study because it allows understanding more in depth the expected factors affecting participation by employing idiosyncratic combination of approaches that link the characteristics of the due process with the personal attitudes of a group of users. These authors stressed that it is necessary to test this framework with a sample of financial statement users, which is something that has been neglected in other approaches.

We formulate our hypotheses according to the above-mentioned framework. We develop a questionnaire to obtain data for analyses. The target respondents are members of the Certified Financial Analysts (CFA) Institute, a prestigious global association of investment professionals representing investor interests in financial reporting proposed standards published by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). Data are collected through computer-assisted Web interviews, and a structural equation model using the PLS approach (SEM-PLS) is used to estimate the model and test our hypotheses. Post-survey interviews were also conducted with three randomly selected CFA analysts.

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