PROFESSIONAL ACCOUNTING STANDARDS SETTING PROCESSES IN THE UK

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PROFESSIONAL ACCOUNTING STANDARDS SETTING PROCESSES IN THE UK

PART IV EVIDENCE FROM THE EMPIRICAL STUDY OF UK DATA

CHAPTER 16 INTRODUCTION TO THE EMPIRICAL STUDY OF UK DATA

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16.1 INTRODUCTION

In the preceding Part III "Review of literature from disciplines other than accounting and economics" it was shown that there are several different frameworks from which it is possible to investigate the UK professional accounting standards setting processes. Further, the literature does not present any rational basis by which any one such framework may be selected in preference to any other. In concluding Part III, an integration of these frameworks was proposed within which future research studies might usefully be conducted.

The empirical part of the present study now focusses narrowly on a single element within that framework. The opening discussions in Part I "Introduction" and Part II "Review of previous research in accounting and economics" drew attention to the increasing recognition being given to the political dimension in research studies addressing professional accounting standards setting processes. This study contributes to the trend of increasing recognition being given to the political dimension by developing a formal model of the professional accounting standards setting processes. As such, it can be viewed as a contribution to an elaboration of the Shepsle committee structure analysis. This is in the sense that the study is a description of an equilibrium outcome of a committee in operation. Alternatively, it can be viewed as an elaboration of the organisational process framework in the sense that it is a description of one of the stages of a multi-staged process.

The model presented here is based on a political choice process, namely, that of the simple majority voting system. This is used as a framework for the subsequent empirical investigation. The model follows from the adoption of a naive political framework in which the professional accounting standards setting processes are characterised by a simple majority, one-man one-vote, voting model. Within this model, hypotheses are deduced which are concerned with the relationship between the stated preferences of participants and the outcome of the professional accounting standards setting processes.

At a very elementary level, the model addresses the questions **"Are the UK professional accounting standards setting processes in any sense political?"; "Do votes count?"; and "If so, how?".**

The presentation of the model seeks to achieve a rigorous analysis and an algebraic formulation is adopted. This is supplemented by tables, graphs and verbal statements of the central points.

Two contributions of the model are the development of the concepts of "influence" and "sensitivity" each of which, necessarily, are given precise meanings within the context of this particular model.

The research approach and method sections describe how the testing of primary hypotheses developed in the naive voting model has been implemented. In particular, working definitions of the variables are presented and the criteria for the selection of data are discussed.

The underlying technique for data generation was that of content analysis. The steps used are set out in some detail.

The primary hypotheses are tested by implementing separate tests each based on a separate null hypothesis. These tests ensure an orderly and systematic approach to the subsequent data analysis.

The treatment of outliers in the data is discussed and it is seen that some of the outliers offer opportunities for further research.

A brief note is provided describing the implementation of data generation, the use of a pilot study and implementation of analysis on a large mainframe computer with an "unfriendly" operating system. The role of microcomputers in this study is described.

The results sections set out the results obtained from the application of the model described in Chapter 17 "A naive voting model" to UK data obtained from the UK professional accounting standards setting processes.

The data base is described first in terms of elementary aggregate statistics such as total numbers of data cases; of ORIGINAL and AMENDMENT proposals; of written comments on Exposure Drafts; and of votes cast. Each of these being broken down by Issue and Exposure Draft.

Also are set out in some detail the contingency tables which describe the data and which form the basis for Test 1 to Test 5. In very general terms, these tests address the questions "Do votes count?" and "If so, how?". The detailed formulation of the questions is set out in the descriptions of the tests in the research approach and method sections. The results distinguish between ORIGINAL and AMENDMENT proposals.

The contingency tables are followed by scattergraph and linear regression results, but only to the extent that the contingency tables themselves suggest the existence of a significant relationship. The regression results form the basis of Test 6 which, in very general terms, ask the question "If votes count, do they have an increasing linear influence?".

Each of the above results is presented for the data base as a complete set. A more interesting analysis follows in which the data are disaggregated across differing classes. These results form the basis of Test 7 and Test 8 which, in very general terms, ask the question "Are there any differences between classes of participant?". The results for these tests are presented conveniently in summary tables. The main disaggregation classes are

by Issue: accounting for associated companies; accounting for investment properties; accounting for foreign currency translations; group accounts; and accounting for contingencies and events occuring after the balance sheet date (IAS10); and

by Group: companies; professional firms of accountants; representative bodies of accountants; other representative bodies; and others.

CHAPTER 17 A NAIVE VOTING MODEL

CHAPTER 17 A NAIVE VOTING MODEL

17.1 INTRODUCTION

In the preceding Part III "Review of literature from disciplines other than accounting and economics" it was concluded that there are several different frameworks from which it is possible to investigate the UK professional accounting standards setting processes. It was further concluded that there is, as yet, no rational basis by which any one such framework may be selected in preference to any other. The opening discussions in Part I "Introduction" and Part II "Review of previous research in accounting and economics" drew attention to the increasing recognition being given to the political dimension in research studies addressing professional accounting standards setting processes.

This study contributes to the trend of increasing recognition being given to the political dimension by developing a formal model of the professional accounting standards setting processes. The model is based on a political choice process, in which the professional accounting standards setting processes are characterised as a simple majority, one-man one-vote, voting system. This is used as a framework for the subsequent empirical investigation. Within the model, hypotheses are deduced which are concerned with the relationship between the stated preferences of participants and the outcome of the professional accounting standards setting processes. At a very elementary level, the model addresses the questions

"Are the UK professional accounting standards setting processes in any sense political?"; "Do votes count?"; and "If so, how?"

The presentation of the model seeks to achieve a rigorous analysis and an algebraic formulation is adopted. This is supplemented by tables, graphs and verbal statements of the central points.

17.2 A NAIVE VOTING MODEL

17.2.1 A voting model characterisation of the professional accounting standards setting processes

In the following paragraphs it is argued that it is possible to model the relationship between

1 stated preferences for or against a proposal for a change in accounting practice; and
2 the outcome of the professional accounting standards setting processes for that proposal.

The construction of such a model is of no small interest. In particular it offers one, but only one, basis for exploring possible causal relationships, or determinants, of the professional accounting standards setting processes.

The elements of the model are based on the simple majority voting procedure often known as "first past the post". Under this procedure a candidate wins if he has a simple majority over his nearest opponent. To apply this model to the professional accounting standards setting processes the following characterisations are made:

1 a proposal is characterised as a candidate;
2 a statement of preference is characterised as a vote cast; and
3 acceptance or rejection of a proposal is characterised as a win or lose.

The following explanations help to clarify the concepts in the context of the professional accounting standards setting processes.

1 **A proposal is any identifiable statement of accounting definition or requirement.**

In a general sense, a proposal may be a single clause, a sentence, a paragraph or an entire Exposure Draft. For the purposes of developing the model in the abstract it does not matter which. An example can be found in ED27 "Accounting for foreign currency translations" as follows:

"Any movement on the reserve account arising from translation differences should be disclosed separately in the financial statements" [ED27, para. 60].

2 A statement of preference is any identifiable statement <u>about</u> a proposed accounting definition or requirement, which indicates whether the individual making the statement is in favour of or rejects the proposal.

In a general sense, a statement of preference may be oral or written. It may be made by an individual in any context. Examples of such contexts include:

in a formal committee (such as in the ASC);
in a public discussion (such as in a television or radio debate);
in a research article (such as Hope & Briggs [1982]);
in a Parliamentry debate (such as in the House of Commons); or
in a submission to an accounting regulator (such as to the ASC).

An example can be found in the submissions to the ASC on ED27 "Accounting for foreign currency translations" as follows:

"We are in agreement with the case of the closing rate method for translating foreign currency financial statements." (B.A.T. Industries Ltd.)

3 Acceptance or rejection, of a proposal, is the occurrence or non-occurrence of that proposal in the final accounting standard.

In a strict sense, a proposal can be said to be accepted by the professional accounting standards setting processes if it occurs in the final accounting standard. The converse is self-evident.

The occurrence of acceptance or rejection is, of itself, only of passing interest. Of greater interest is a concept of **CHANGE** between an original proposal and its outcome. For example, a proposal may be accepted; but there is greater information content in knowing whether or not that proposal was originally in the agenda for discussion (such as being put forward in an Exposure Draft) an "original agenda" proposal or whether it appeared from some other source external to the agenda setting (Exposure Draft writing) process a new or "amendment" proposal. Such a concept of change is of even greater interest if an

explicit assumption of conservatism is made. Given that the agenda-setters might also control the remainder of the professional accounting standards setting processes, then such an assumption would imply that the original agenda of proposals would be more likely to be accepted and occur in the outcome than would any new, or amendment proposals. This would be consistent with an assumption of self-interest on the part of the agenda-setters themselves as the source of such conservatism.

The formal development of the model which follows utilises the concept of **CHANGE** more rigorously as the dependent variable in a simple relationship. In particular, the model helps us address the question of conservatism (or self-interest) by exploring the relationship between stated preferences and **CHANGE**. The model also develops the distinction between ORIGINAL proposals and AMENDMENT proposals described above.

17.2.2 Stage one: A deterministic model

In a simple voting model, in which there are only two candidates, the outcome can be characterised in terms of the result, win, draw or lose, for any one candidate. This result is defined algebraically by:

EQUATION 1:

$$\text{RESULT} = \frac{\text{AMV}}{\text{abs(AMV)}}, \qquad \text{subject to RESULT} = 0 \text{ when AMV} = 0$$

from which

RESULT takes on the values +1, 0, or -1;
meaning WIN, DRAW or LOSE respectively

and where

abs(AMV) = absolute value of AMV; that is, ignoring the sign

AMV is the "absolute majority vote" defined by

$$\text{AMV} = \sum_{i=1}^{N} V_i, \quad \text{where } V_i = \text{vote by voter } i, \quad N = \text{total number of voters}$$

Measures of vote V_i being assigned as follows:

+1 = vote in favour
 0 = no vote (indifference, or "free riders")
-1 = vote against

To illustrate the operation of this model consider two candidates, A and B, who each collect 8 and 3 votes respectively. The voting can be characterised in terms of the result for candidate A. A received 8 votes in favour and 3 votes against, from which the absolute majority vote (AMV) = 8-3 = +5, and RESULT = +5/5 = +1. This means that A wins (and correspondingly, B loses). Had we chosen to characterise the voting in terms of the result for B, then the steps would have been: B received 3 votes in favour and 8 votes against from which the absolute majority vote (AMV) = 3-8 = -5, and RESULT = -5/5 = -1. This means that B loses (and correspondingly, A wins).

The above simple voting model can be adapted to describe the professional accounting standards setting processes by using the characterisations set out in the above Section 17.2.1. In particular, the change between the initial position and the outcome for any one proposal can be defined algebraically as follows:

EQUATION 2:

$$\text{CHANGE} = \frac{\text{AMV}}{\text{abs(AMV)}}, \qquad \text{subject to CHANGE} = 0 \text{ when AMV} = 0$$

from which

CHANGE takes on the values +1, 0, or -1;
the meanings of which are discussed in the following paragraphs

and where

abs(AMV) = absolute value of AMV; that is, ignoring the sign

AMV is the "absolute majority vote" defined by

$$AMV = \sum_{i=1}^{N} V_i$$, where V_i = vote by voter i
N = total number of voters

Measures of vote V_i being assigned as follows:

+1 = vote in favour
0 = no vote (indifference, or "free riders")
-1 = vote against

Let us now explore a little more closely the distinction between "original agenda" proposals and new or "amendment" proposals. This distinction was drawn above in Section 17.2.1 "A voting model characterisation of the professional accounting standards setting processes" in the context of the conservatism assumption. There it was speculated that such an assumption might be consistent with a self-interest assumption on the part of the agenda-setters (Exposure Draft writers) given that they might also control the remainder of the professional accounting standards setting processes. Clearly, alternative explanations for conservatism could exist, most notably that the original proposals were based on some conceptual framework, deviation from which would not be consistent with the mainstream of accounting thought embedded in that conceptual framework.

Given that a distinction between original and amendment proposals can be made, then it would be useful to adapt the model to reflect this. There are additional reasons why such a distinction could be important to this model. Original proposals are systematicaly presented in the proposal agenda document (the Exposure Draft). This document is publicly available and widely distributed, so the proposals are public knowledge and everybody has the opportunity for participation in a vote on those specific proposals. In contrast, amendment proposals are not presented systematically in one document. Amendment proposals are not

necessarily public knowledge and so not everybody has the opportunity for participation in a vote on those specific proposals.

In summmary, there are three important dimensions on which original proposals and amendment proposals differ. These are conservatism; systematic presentation; and public information. The possible effects of these are set out below in Figure 17.1 "Effects of characteristics which distinguish between original and amendment proposals".

The aggregate effects of these three distinguishing characteristics on the outcome for any given proposal is indeterminate. However, by preserving the distinction between the two classes of proposal, the model can offer the opportunity of bringing empirical evidence to bear to reduce the indeterminacy.

There is one further way in which original proposals and amendment proposals differ. They differ in the meanings which can be attached to the different values of the dependent variable, CHANGE. This is explored in the following paragraphs and is illustrated below in Figure 17.2 "Meanings attached to possible values of CHANGE".

FIGURE 17.1 EFFECTS OF CHARACTERISTICS WHICH DISTINGUISH BETWEEN ORIGINAL AND AMENDMENT PROPOSALS

CLASS OF PROPOSAL	Effect of conservatism assumption	Effect of systematic presentation	Effect of public information
ORIGINAL PROPOSAL (in Exposure Draft)	Bias in favour of ORIGINAL proposals	Bias in favour of ORIGINAL proposals	Indeterminate
AMENDMENT PROPOSAL (in participants' written comments)	Bias in favour of ORIGINAL proposals	Bias in favour of ORIGINAL proposals	Indeterminate

FIGURE 17.2 MEANINGS ATTACHED TO POSSIBLE VALUES OF CHANGE

CLASS OF PROPOSAL	POSSIBLE VALUES OF CHANGE -1	0	+1
ORIGINAL PROPOSAL (in Exposure Draft)	CHANGE (Proposal rejected)	NO CHANGE (Proposal accepted)	NO CHANGE (Proposal accepted)
AMENDMENT PROPOSAL (in participants' written comments)	NO CHANGE (Proposal rejected)	NO CHANGE (Proposal rejected)	CHANGE (Proposal accepted)

Now the table of meanings attached to possible values of CHANGE set out above is problematic in the following sense. In the case of each class of proposal, two possible values of CHANGE are assigned to one underlying meaning. Examination of Figure 17.2 suggests that a more meaningful measure of CHANGE can be constructed by restricting the range of possible values to the following:

ORIGINAL PROPOSAL CHANGE = -1; NO CHANGE = 0
AMENDMENT PROPOSAL CHANGE = +1; NO CHANGE = 0

This then gives a modified expression of the algebraic relationship presented earlier. This becomes:

EQUATION 3:

For ORIGINAL proposals:

$$\text{CHANGE} = \frac{\text{AMV}}{\text{abs(AMV)}}, \text{ for all AMV} < 0$$

$$= 0 \quad \text{for AMV} = 0 \text{ and all AMV} > 0$$

For AMENDMENT proposals:

$$\text{CHANGE} = \frac{\text{AMV}}{\text{abs(AMV)}}, \text{ for all AMV} > 0$$

$$= 0 \quad \text{for AMV} = 0 \text{ and all AMV} < 0$$

It is possible to express the above relationships fairly simply in words, as follows:

an original proposal will be rejected if, and only if, there is a majority vote against it; and an amendment proposal will be accepted if, and only if, there is a majority vote in favour of it.

Such a revised measure of CHANGE is presented below in Figure 17.3 "Revised meanings attached to possible values of CHANGE".

FIGURE 17.3 REVISED MEANINGS ATTACHED TO POSSIBLE VALUES OF CHANGE

CLASS OF PROPOSAL	POSSIBLE VALUES OF CHANGE: -1	0	+1
ORIGINAL PROPOSAL (in Exposure Draft)	CHANGE (Proposal rejected)	NO CHANGE (Proposal accepted)	
AMENDMENT PROPOSAL (in participants' written comments)		NO CHANGE (Proposal rejected)	CHANGE (Proposal accepted)

For each of the two proposal classes, ORIGINAL proposal and AMENDMENT proposal, the above simple majority voting model predicts the contingency tables set out below in Figure 17.4 "Contingency tables of the relationship between CHANGE and AMV". The values in the cells of each table indicate the expected probability of occurrence of proposals, where blanks indicate logical impossibilities. In particular, if we assume that amendment proposals are not known to other participants, then both AMV = 0 and AMV < 0 are logically impossible for all amendment proposals. Note that this is a somewhat stronger assumption than suggested in the earlier discussion.

FIGURE 17.4 CONTINGENCY TABLES OF THE RELATIONSHIP BETWEEN CHANGE AND AMV

ORIGINAL PROPOSALS

	VALUES OF CHANGE		
VALUES OF ABSOLUTE MAJORITY VOTE, AMV	-1 CHANGE	0 NO CHANGE	+1
AMV < 0	1	0	
AMV = 0	0	1	
AMV > 0	0	1	

AMENDMENT PROPOSALS

	VALUES OF CHANGE		
VALUES OF ABSOLUTE MAJORITY VOTE, AMV	-1	0 NO CHANGE	+1 CHANGE
AMV < 0			
AMV = 0			
AMV > 0		0	1

17.2.3 Stage two: A probabilistic model of influence

Now the model developed so far is limited for two reasons.

Firstly, the indeterminate effect of the fundamental difference between the two classes of proposal is not yet reflected in the model.

Secondly, we live in what is generally agreed to be a probabilistic world and it would be desirable to express the model in a probabilistic rather than deterministic sense.

Given these criticisms, the model can be adapted by using a probabilistic measure of CHANGE. Equation 3 can then be changed to the following:

EQUATION 4:

For ORIGINAL proposals:

P{CHANGE≠0}	= f	for all AMV < 0
	= 0	for AMV = 0 and all AMV > 0

For AMENDMENT proposals:

P{CHANGE≠0}	= g	for all AMV > 0
	= 0	for AMV = 0 and all AMV < 0
where	0 < f,g < 1	and f ≠ g

As earlier, it is possible to express the above relationships in words, as follows:

the probability that an original proposal will be rejected, given a majority vote against, is equal to f; and the probability that an amendment proposal will be accepted, given a majority vote in favour, is equal to g.

In a sense, both f and g represent measures of the "influence" of participants over the professional accounting standards setting processes. The higher the value of each, the greater is the "influence". This then, represents a technical definition of the term "influence" and its subsequent use in the present study will conform to this definition.

This can be expressed more clearly in terms of a primary hypothesis

H_1 there exists a relationship between the probability of a CHANGE and the <u>direction</u> of the absolute majority vote (AMV) on any particular proposal

where f or g, that is the simple proportion, is the parameter of that relationship.

Figure 17.5 "Probabilistic contingency tables of the relationship between CHANGE and AMV" can now be presented as an adaptation of the previous contingency tables presented above in Figure 17.4 "Contingency tables of the relationship between CHANGE and AMV".

FIGURE 17.5 PROBABILISTIC CONTINGENCY TABLES OF THE RELATIONSHIP BETWEEN CHANGE AND AMV

ORIGINAL PROPOSALS

	VALUES OF CHANGE		
VALUES OF ABSOLUTE MAJORITY VOTE, AMV	-1 CHANGE	0 NO CHANGE	+1
AMV < 0	f	1-f	
AMV = 0	0	1	
AMV > 0	0	1	

AMENDMENT PROPOSALS

	VALUES OF CHANGE		
VALUES OF ABSOLUTE MAJORITY VOTE, AMV	-1	0 NO CHANGE	+1 CHANGE
AMV < 0			
AMV = 0			
AMV > 0		1-g	g

17.2.4 Stage three: A sensitivity extension of the probabilistic model of influence

The preceding naive model does not admit the possibility of a variable influence, that is probability of change, related to differing measures of absolute voting majority. Such variable influence might arise, for example, if the professional accounting standards setting processes attach increasing importance to increasing size of absolute majority. That is, the more participants who vote for (against) an amendment (original) proposal the more likely it might be that the proposal will be adopted (rejected). In other words, the greater the majority vote then the greater is the influence. We can call this new concept "sensitivity". Influence and sensitivity are thus distinguished by the dependence of the latter on the size of the majority vote. Such a sensitivity relationship is plausible and, as such, warrants modelling and investigating.

The model can be extended to two levels to explore this possibility.

Firstly, the data in the row of the ORIGINAL contingency table for which AMV < 0, and data in the row of the AMENDMENT contingency table for which AMV > 0 can be examined across increasing values of AMV. These disaggregated data can be modelled in two new contingency tables as set out below in Figure 17.6 "Tables of the sensitivity of the professional accounting standards setting processes to participants' preferences.

FIGURE 17.6 TABLES OF THE SENSITIVITY OF THE PROFESSIONAL ACCOUNTING STANDARDS SETTING PROCESSES TO PARTICIPANTS' PREFERENCES

ORIGINAL PROPOSALS

	VALUES OF CHANGE		
VALUES OF AMV < 0	-1	0	+1
AMV = -i	f_i	$1-f_i$	
AMV = -j	f_j	$1-f_j$	
AMV = -k	f_k	$1-f_k$	

AMENDMENT PROPOSALS

	VALUES OF CHANGE		
VALUES OF AMV > 0	-1	0	+1
AMV = i		$1-g_i$	g_i
AMV = j		$1-g_j$	g_j
AMV = k		$1-g_k$	g_k

Secondly, substituting a linear relationship in place of the constant probability of Figure 17.5 we get:

EQUATION 5:

For ORIGINAL proposals:

$P\{CHANGE \neq 0\} = f = a_o + b_o(AMV)$, for all $AMV < 0$

$= 0$ for $AMV = 0$ and all $AMV > 0$

For AMENDMENT proposals:

$P\{CHANGE \neq 0\} = g = a_a + b_a(AMV)$, for all $AMV > 0$

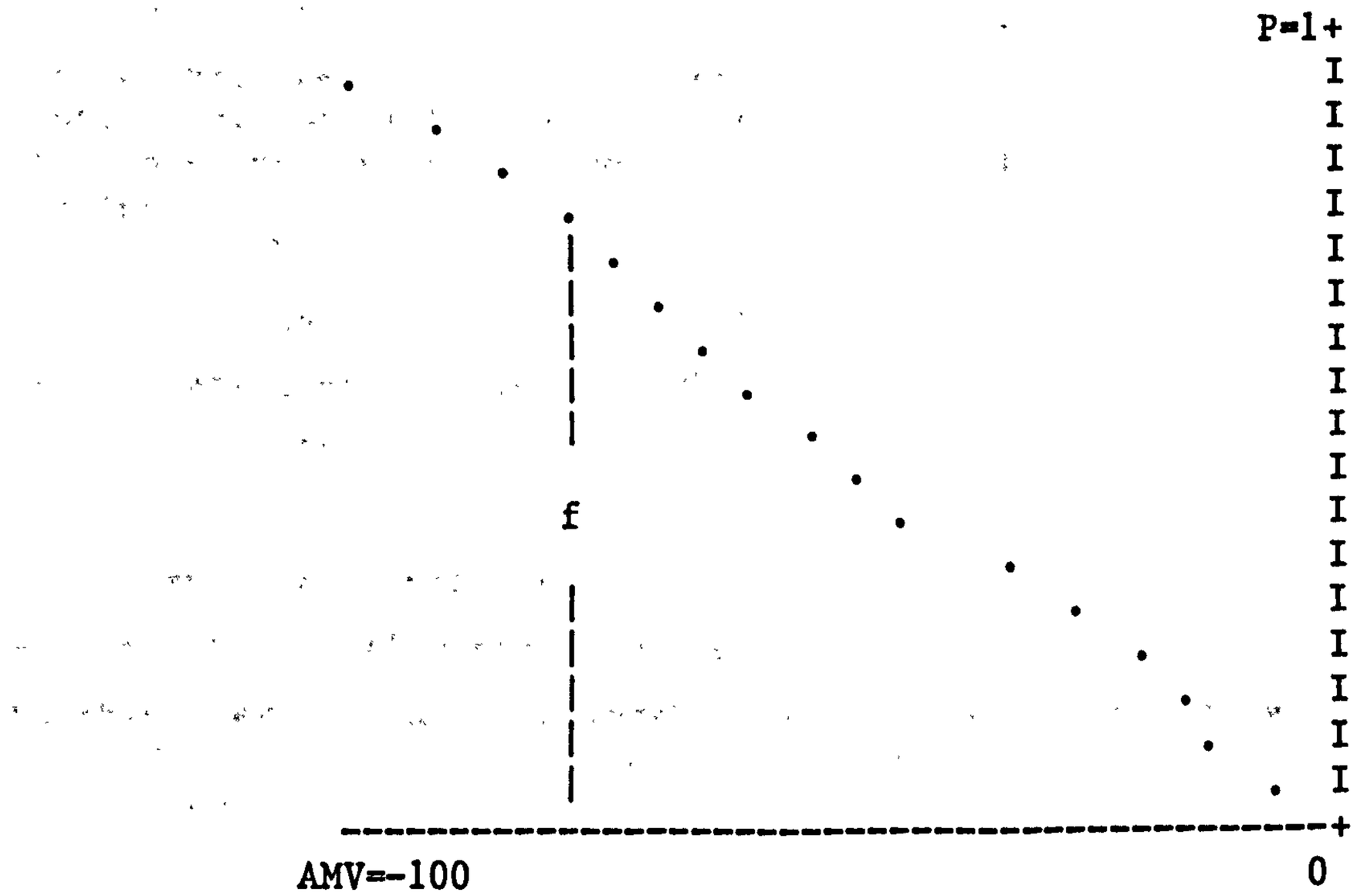
$= 0$ for $AMV = 0$ and all $AMV < 0$

where $0 < f,g < 1$ and $f \neq g$

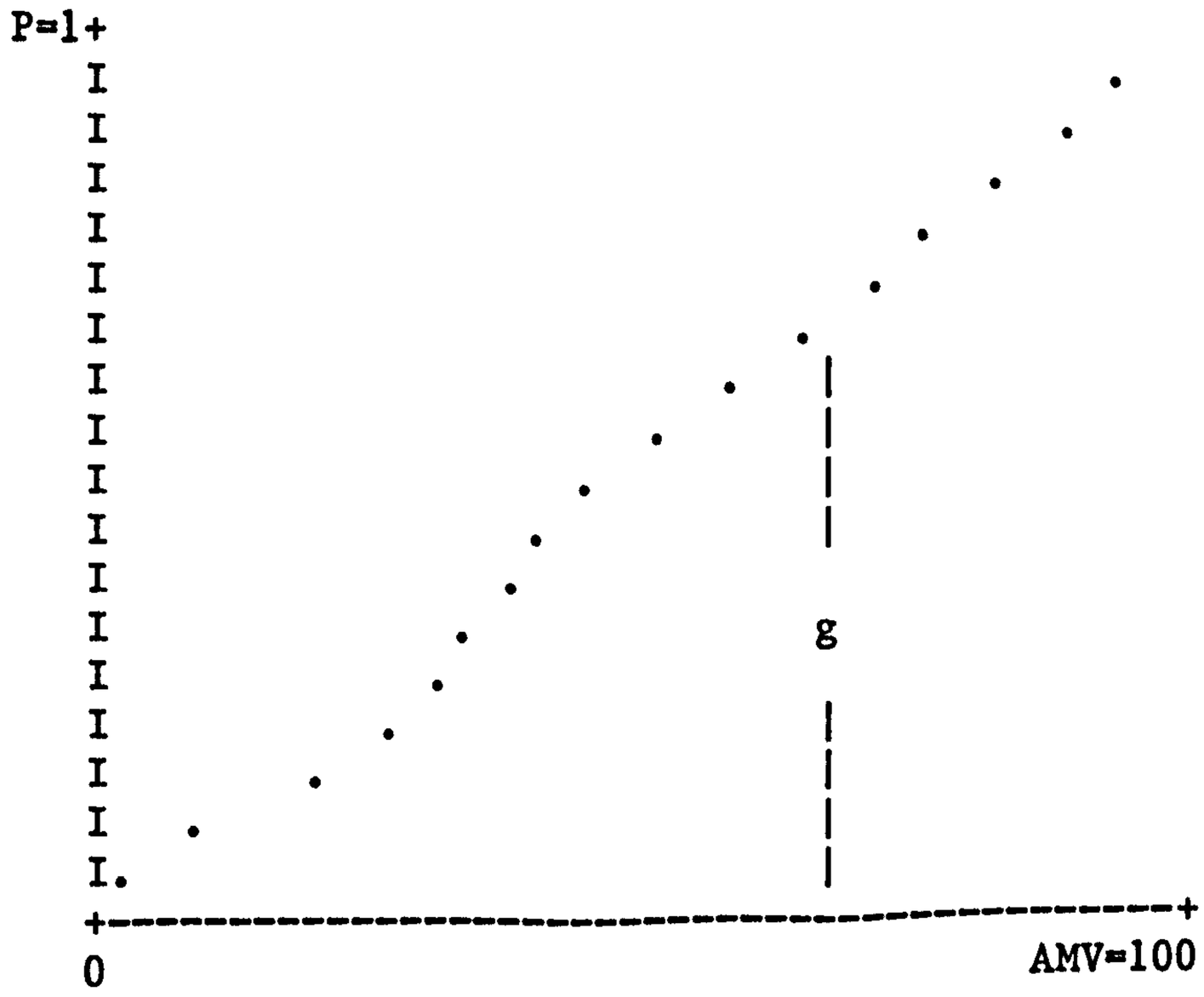
The relationship between the probability of CHANGE and AMV (Absolute majority vote) can be illustrated further by examining the new proposal probability functions in Figure 17.7 "Graphs of the sensitivity of the professional accounting standards setting processes to participants' preferences".

FIGURE 17.7 GRAPHS OF THE SENSITIVITY OF THE PROFESSIONAL ACCOUNTING STANDARDS SETTING PROCESSES TO PARTICIPANTS' PREFERENCES (DOWN = PROBABILITY OF CHANGE, P; ACROSS = AMV)

ORIGINAL PROPOSALS — CHANGE = -1; AMV < 0



AMENDMENT PROPOSALS — CHANGE = +1; AMV > 0



More specifically, the slopes of the lines in the figure represent the sensitivity of the professional accounting standards setting processes to the preferences of participants. In this new figure, the vertical axis represents influence, that is, the probability that a given proposal will be accepted or rejected and result in a change.

In words, sensitivity represents the marginal increase in the influence, or probability of a change, for a unit increase in the absolute majority vote. It is the rate of change of influence.

As with influence, this represents a technical definition of the term "sensitivity" and its subsequent use in the present study will conform to this definition.

The empirical part of the present study explores this sensitivity relationship by using the second primary hypothesis

H_2 there exists a relationship between the probability of a CHANGE and the <u>size</u> of the absolute majority vote (AMV) on any particular proposal

where the relationship is assumed to be approximately linear and the slope parameter is the measure of "sensitivity".

17.2.5 Stage four: Disaggregation of the model

Considering the model yet further, a natural question of interest would be whether or not the professional accounting standards setting processes demonstrate any variable influence, or variable sensitivity, to the preferences of different classes of participants. Participants can be classified according to any number of criteria, but two particular criteria are of interest.

Firstly, in the UK the ASC makes its own classification across the following groups:

> **companies; professional firms of accountants; representative bodies of accountants; other representative bodies; and individuals & others.**

Secondly, there is a natural classification according to the issue, or exposure draft, on which the participant was commenting.

This can be expressed in terms of a third primary hypothesis

> **H_3 there is a relationship between the class to which a participant belongs and the response of the UK professional accounting standards setting processes to that participant's preferences**

where the response can be measured in terms of the preceding definitions of influence and sensitivity.

So then, disaggregation of the influence measure can provide evidence of whether or not the preferences of one class are accepted more than those of another class. Similarly, disaggregation of the sensitivity measure can provide evidence of whether or not the marginal preferences of one class are weighted more than those of another class.

17.3 FUTURE EXTENSIONS OF THE NAIVE VOTING MODEL

The naive voting model is naive in the sense that at no stage of its development has the substantive nature of each proposal been addressed. Clearly, such questions relate to the technical nature of professional accounting standards and this study seeks to explore the political nature. It follows that the study makes no underlying assumptions about which proposals are, in some sense, important and which are not important. Such an assumption would be problematic in the sense that the importance criterion would be selected arbitrarily or, at least, subjectively. For example, three possible criteria are

1 the impact on the numbers disclosed in financial statements (a measurement criterion);
2 the impact on an individual's wealth (an economic consequences criterion); or
3 the number of other proposals which are dependent on the proposal being considered (an interdependancy criterion).

By adopting an "equal importance" assumption, the present study develops a research method by which the relative importance imputed by the professional accounting standards setting processes can be determined. Arguably, this is a much more interesting approach.

In a sense, the disaggregation of the model across issue and across participant grouping is but a first, but most important, step to exploring new independent variables of the political kind. Future researchers could explore further the model offered here by developing their own measures of independent variables, technical or political.

17.4 LIMITATIONS

The UK professional accounting standards setting processes, described briefly above in Chapter 3 "The Accounting Standards Committee", comprise several stages. The model presented above represents a characterisation of only one stage, namely that of soliciting public comment. By this stage many important decisions have already been made, such as

1 the issue is identified as a problem;
2 the issue is selected as one on which the ASC is prepared to commence the lengthy and public standardisation process;
3 interested parties have already started to make their preferences known, in some cases at the invitation of the ASC;
4 the network of the accountancy profession's technical committees have reviewed earlier drafts and their preferences have been heard and perhaps adopted; and
5 the issue has been to a large extent defined, in terms of the allowable alternatives.

Clearly then, whatever the merits of the naive voting model and the results based thereon, a substantial amount of information is not being captured by the model and further research studies will need to address the problem of its development to increase this information capture.

To some extent, this limitation is mitigated by the nature of the public comment stage. That stage can be viewed as the stage at which all participants will wish to place their preferences on record in order that they will not be overlooked at the subsequent "vote counting" stage. Such a mitigation is attractive in the sense that it ensures capture of preferences expressed at other, earlier stages. It does have two of its own limitations.

Firstly, some participants may be able to ensure that their preferences will be counted regardless of them being placed on public record. This would apply to participants who control some causal relationship not modelled in the present study; control of one of the ASC's governing bodies would be an example.

Secondly, one of the important points which came from the review of previous research above in Chapter 6 "Information economics" is that accounting information is in the nature of a public good. It is well known that individuals have incentives to misrepresent their preferences for public goods. In the case of an accounting proposal, individuals who would find the implementation of the proposal particularly costly or rewarding have an incentive to overstate their preferences in an attempt to have the proposal removed or adopted as the case may be. For example, although not statistically significant in the context of the tests conducted in this empirical study, there was clear evidence of an orchestrated letter writing campaign by members of the British Property Federation in support of the proposals in ED26 "Accounting for investment properties".

The present study is not meant to generate, of itself, a predictive model of the UK professional accounting standards setting processes. The model represents only an early stage of a process of theory construction and so the results of the data analysis based on the model should be regarded as descriptive of the sample and no more. For the same reasons this model is not intended to be used normatively. Should continued development of the model be successful, then these two limitations would not apply to those developments.

The model represents the first stage of a process [Christenson 1983, pp.8-9] of theory construction. As such there is a subtle mix of inductive and deductive method. The inductive element describes the manner in which the observations of conventional political voting procedure have been used to generate an algebraic expression of the voting characterisation of the professional accounting standards setting processes. The deductive element describes the manner in which that voting characterisation has been developed to formulate a measure of the sensitivity of the professional accounting standards setting processes to participants' preferences.

In the context of the present study, the model will be used as a framework for describing the data generated from the UK professional accounting standards setting processes. Concerning possible characterisations of the model itself by such dichotomous classifications as positive-normative, predictive-descriptive or instrumentalist-realist, it is perhaps better to suggest what the model is not intended to be. As already noted, it is not intended to be normative or predictive or realist. However, a model is an artifact and, although this artifact has been produced with a specific purpose in mind, this is not to suggest that other, more creative, minds might not find other uses for the model.

Further, nothing has been said about a causal relationship in this naive model. It is only argued that certain variables are associated with each other. In particular, the associations are not being modelled as an example of a power relationship [Hope & Gray 1982]. The discussion above in Section 12.4 "Power" suggested that, at such an early stage of theory construction, the use of the power concept is unsuitable because of the lack of insight into causal relationships. So it is not yet possible to make the statement "votes <u>cause</u> changes to be made". Much more research needs to be conducted on the intermediate stage, described briefly above in Chapter 3 "The Accounting Standards

Committee", in which the ASC converts the written comments into an accounting standard. It could be that the ASC completely ignores the letters of comment in its deliberations but that the professionalisation, elaborated above in Chapter 14 "Professionalisation processes", common to its members and to other participants render high levels of association inevitable. Alternative causal mechanisms could be speculated or modelled, but that is not the central purpose of this study. Briefly, some main alternatives are

1 a power structure based on membership of the ASC or its governing bodies (the "power" model);
2 a common professionalisation process (the "professionalisation" model);
3 a common conceptual framework (the "technical" model);
4 a private market in which proposals are traded (the "market for information" model).

Related to the above is the naive model's implied "equal importance" assumption for each proposal. The model does not set out to explain the professional accounting standards setting processes on the basis of any one criterion of importance, such as an economic consequences criterion. Rather, it provides the basis for determining the relative importance assigned to proposals by the professional accounting standards setting processes themselves.

17.5 SUMMARY

The naive voting model of professional accounting standards setting processes is based on the "first past the post" simple majority voting procedure. Under this procedure a candidate wins if he has a simple majority over his nearest opponent. To apply this model to the professional accounting standards setting processes the following characterisations are made

1 a proposal is characterised as a candidate;
2 a statement of preference is characterised as a vote cast; and
3 acceptance or rejection of a proposal is characterised as a win or lose;

where
1 a proposal is any identifiable statement <u>of</u> accounting definition or requirement;
2 a statement of preference is any identifiable statement <u>about</u> a proposal, which indicates whether or not the individual making the statement is in favour of or against the proposal;
3 acceptance or rejection of a proposal is the occurrence or non-occurence of that proposal in the final accounting standard.

The formal development of the model utilises the concept of CHANGE, that is, the difference between an ORIGINAL set of proposals contained in an Exposure Draft and the final set of identifiable statements <u>of</u> accounting definition or requirement contained in an accounting standard. The final set can be made up of one or more of the ORIGINAL proposals and/or one or more AMENDMENT proposals put forward by participants in their statements of preference. CHANGE is measured on a proposal-by-proposal basis and reflects the acceptance or rejection of that proposal. The prediction of a CHANGE for a given proposal will be uncertain and so is measured in probabilistic terms. This is called the "influence" of the participants, where influence has a strict technical definition. As a result of ORIGINAL and AMENDMENT proposals being distinguished from each other on the basis of their source, it is predicted that the influence, that is, the probability of a CHANGE, for an ORIGINAL proposal would be different to that for an AMENDMENT proposal.

The influence of participants is predicted to be dependent on the size of the majority vote in favour of or against any given proposal. Assuming that the relationship can be modelled as a straight line, the slope of that line provides a measure of the rate of change of influence with respect to the size of the majority vote. This is called the "sensitivity" of the professional accounting standards setting processes to the preferences of participants; and again sensitivity has a strict technical definition. Both influence and sensitivity provide measures by which differences between classes of participant can be detected.

Hypotheses are deduced which are concerned with the relationship between the stated preferences of participants and the outcome of the professional accounting standards setting processes. In summary these are

H_1 there exists a relationship between the probability of a CHANGE and the <u>direction</u> of the absolute majority vote (AMV) on any particular proposal; and

H_2 there exists a relationship between the probability of a CHANGE and the <u>size</u> of the absolute majority vote (AMV) on any particular proposal; and

H_3 there exists a relationship between the class to which a participant belongs and the response of the professional accounting standards setting processes to that participant's preferences.

At a very elementary level, the model addresses the questions

"Are the UK professional accounting standards setting processes in any sense political?"; "Do votes count?"; and "If so, how?".

The naive voting model is naive in the sense that at no stage of its development has the substantive nature of each proposal been addressed. The latter would be to address the **technical** nature of an issue whereas the model is strictly only concerned with the **political** nature. The model itself is meant to represent the first stage of a process of theory construction and, as such, is used in the present study as a framework for describing data generated from the UK professional accounting standards setting processes. No normative uses are intended. Neither is the model

attempting to describe any causal relationships; such would be the case if statements were to be made about any power structure.

17.6 CONCLUSIONS

It has been demonstrated that the political dimension of professional accounting standards setting processes can be modelled in an abstract formulation by hypothesising a relationship between the preferences of participants and the outcomes of the processes. By starting out with this approach, elementary algebraic expressions can be constructed which generate testable hypotheses. Nowhere in the accounting literature is there yet to be found such an abstract formulation of the political dimension of professional accounting standards setting processes.

Clearly, the assertion that the hypotheses are testable itself needs testing. The method by which this can be implemented is set out in the following Chapter 18 "Research approach and method".

CHAPTER 18 RESEARCH APPROACH AND METHOD

CHAPTER 18 RESEARCH APPROACH AND METHOD

18.1 INTRODUCTION

The following sections describe how the testing of the hypotheses developed above in Chapter 17 "A naive voting model" has been implemented. In particular, working definitions of the variables are presented and the criteria for the selection of data are discussed.

The underlying technique for data generation was that of content analysis. The steps used are set out in some detail.

The primary hypotheses from the preceding chapter, are

H_1 there exists a relationship between the probability of a CHANGE and the direction of the absolute majority vote (AMV) on any particular proposal; and

H_2 there exists a relationship between the probability of a CHANGE and the size of the absolute majority vote (AMV) on any particular proposal; and

H_3 there exists a relationship between the class to which a participant belongs and the response of the professional accounting standards setting processes to that participants' preferences

These hypotheses are tested by implementing a series of tests, each based on a separate null hypothesis. These tests ensure an orderly and systematic approach to the subsequent data analysis.

The treatment of outliers in the data is discussed and it is seen that some of the outliers offer opportunities for further research.

Finally, a brief note is provided describing the implementation of data generation; the use of a pilot study; and implementation of analysis on a large mainframe computer with an "unfriendly" operating system. The role of microcomputers in this study is described.

18.2 DEFINITION OF VARIABLES

The two primary variables for analysis developed above in Chapter 17 "A naive voting model" are **CHANGE** and **Absolute majority vote (AMV)**, each being defined on an individual **proposal** within an **issue**. These terms are defined below.

18.2.1 Issue

An issue is defined as a process which starts with an Exposure Draft, or other document, on which the ASC has asked for public comment; and terminates with the publication of a Statement of Standard Accounting Practice.

This study does not address the question of whether or not an issue is inherently problematic. Clearly, the UK accounting profession devotes resources to the resolution of issues and so there is a presumption that they are problematic. The determinants of the underlying source of the problem are beyond the scope of the empirical part of this study. That is not to say that future developments of the presentation above in Chapter 17 "A naive voting model" will not seek to encompass those determinants. Such a development would seem to be a natural progression for this naive voting model. It is already the main feature of the models, reviewed above in Part II "Review of previous research", which are based on the economic consequences and agency theory arguments.

Some issues are "simple issues" in the sense that one Exposure Draft is published and this generates a Statement of Standard Accounting Practice (SSAP) after which the issue is completely resolved. By contrast, some issues are "compound issues" in the sense that more than one document is published before the SSAP which resolves the issue. An example of a simple issue is the "Group accounts" issue which commenced with ED20 published in July 1977 and terminated with SSAP14 published in September 1978. Both documents bore the same title.

An example of a compound issue is "Accounting for foreign currencies" which commenced with ED16 "Supplement to extraordinary items and prior year adjustments" published in September 1973, continued with ED21 "Accounting for foreign currency transactions" published in September 1977, continued further with ED27 "Accounting for foreign currency translations" published in October 1980 and terminated with SSAP20 "Accounting for foreign currency translations" published in April 1983. A second example of a compound issue is the UK version of the International Accounting Standard IAS10 "Contingencies and events occurring after the balance sheet date". This issue was split into two exposure drafts, ED22 "Accounting for post balance sheet events" published in February 1978 and ED23 "Accounting for contingencies" published in November 1978. The issue terminated with two accounting standards, SSAP17 "Accounting for post balance sheet events" and SSAP18 "Accounting for contingencies", both published in August 1980.

18.2.2 Proposal

A proposal is defined as an identifiable and irreducible statement of definition or requirement contained in either an Exposure Draft (an ORIGINAL proposal) or a letter of comment (an AMENDMENT proposal).

Definition of a proposal deserves careful consideration. Other researchers investigating the UK issues (for example, Tweedie & Whittington [forthcoming], Hope & Gray [1982], Westwick [1981] and Sutton [1980]) have tended to define a proposal as an entire exposure draft, or a coarse disaggregation thereof. In addition, the subjectivity of proposal identification is discussed below in Section 18.4 "Content analysis".

For example, Tweedie & Whittington were interested in the entire exposure draft and classified preferences into five categories: outright support; qualified support; neutral; qualified opposition; and outright opposition. Allocation of any one participant's preferences under such an scaling scheme is necessarily highly subjective, particularly when distinguishing between preferences which could be classified as belonging to one of qualified support or qualified opposition.

Further, Sutton commented [1980, pp 152ff] that one possible reason his results were inconclusive was that classification of preferences based on his coarse level of disaggregation was problematic. This was because many proposals were found to be conditional on other proposals. Without knowing the outcome of these preconditioning proposals, classification of the dependent proposals is indeterminate.

The above definition avoids these problems of subjectivity and indeterminacy by identifying the smallest possible, or irreducible, element of each document. As such, a major contribution of this present study is to develop and use this distinguishing definition of a proposal. For such a proposal, each participant's preference can be classified as a simple vote either in favour or against. The detailed classification procedure is set out below in Appendix 18.1 "Coding procedure for content analysis".

Two classes of proposal are defined.

Original proposals are restricted to those statements of definition or requirement which are contained in the "Definitions" or "Standards accounting practice" sections of the Exposure Draft or other input document.

Amendment proposals are restricted to those statements of definition or requirement, not contained in an Exposure Draft or other input document, which are proposed in a letter of written comment on that Exposure Draft or other input document. The letters of written comment are filed on public record in the Library of the Institute of Chartered Accountants in England and Wales.

An example of an original proposal taken from the analysis of the "Accounting for foreign currencies" issue is the following:

> **"Exchange differences arising from the retranslation of the opening net investment in a subsidiary or an associated company at the closing rate should be recorded as a movement on reserves."** (ED27, para. 52).

An example of an amendment proposal taken from the same issue is the following:

> **"Para 52: We think that this should be amended so that translation losses may only be written off to reserves provided that there have been previous surpluses credited to the reserve."** (Allied Breweries Limited).

18.2.3 <u>AMV</u>

Absolute majority vote (AMV) is defined as the simple majority of all votes taken on a specifed proposal.

This is calculated following Equation 2 above of Section 17.2.2 "Stage one: A deterministic model".

18.2.4 <u>Change</u>

CHANGE is defined as a variable taking the values -1, 0 or +1. In the case of an ORIGINAL proposal, 0 represents no change and -1 represents rejection; in the case of an AMENDMENT proposal, 0 represents no change and +1 represents acceptance.

This is defined following Equation 3 above of Section 17.2.2 "Stage one: A deterministic model".

The detailed procedure for the classification of CHANGE is set out below in Appendix 18.1 "Coding procedure for content analysis". In brief terms, if an original proposal is repeated in the output document then there has been no change, that is CHANGE = 0, whereas if it is not repeated in the output document then there has been a change, that is CHANGE = -1. In the case of an amendment proposal, if it appears in the output document then there has been a change, that is CHANGE = +1, whereas if it does not appear in the output document then there has been no change, that is CHANGE = 0.

18.3 SELECTION OF ISSUES

To make selection tractable, the set of UK Exposure Drafts published by the ASC (tabulated above in Appendix 3.4 "Exposure Drafts published") was taken to represent the set of issues addressed by the professional accounting standards setting processes. This has the advantage that the UK Exposure Drafts represent a highly visible stage of the UK professional accounting standards setting processes so reducing the element of researcher subjectivity in issue definition.

Selection from amongst issues was made according to the following four criteria:

1 **issues resulted in a visible outcome, that is, either a Statement of Standard Accounting Practice or a new Exposure Draft.**

The objective of this "visibility" criterion was to ensure that the three underlying subjects of the data analysis were each visible. As such, the study can be regarded as an investigation of visible relationships as distinguished from any potential invisible relationships. Should the visible relationships be insufficient to adquately explain the data then a further research study could explore the invisible relationships by some other more appropriate research method, such as personal interview of key individuals (the "leverage points" of Bauer's analysis [Bauer 1968, p.21]). However, within the present study, the inclusion of invisibles would have effectively meant the adoption of a different, as yet unspecified, framework.

2 the inflation accounting issue was omitted.

The objective of this "no inflation accounting" criterion was to ensure that there would be no unnecessary duplication of research effort. Sutton [1980] (reviewed in Section 7.3 "Agency theory" above) has investigated aspects of the issue based on ED18 "Current cost accounting"; while the present study was in progress Tweedie & Whittington [forthcoming] (not reviewed in the present study) was investigating the history of the inflation accounting issue in the UK which included an empirical analysis of that issue; and Westwick [1981] was also concerned with the UK inflation accounting issue. The scarce resources available to the present study seemed to be better allocated elsewhere.

3 issues were based on all UK Exposure Drafts published since mid-1977.

This had the effect of including in the sample base all the published Exposure Drafts from ED20 "Group accounts" (July 1977) to ED27 "Accounting for foreign currency translations" (October 1980) with the single exception of ED24 "Current cost accounting (April 1978).

4 compound issues were traced back to their commencement.

Several of the Exposure Drafts published after mid-1977 were themselves components of compound issues in the sense defined in Section 18.2.1 "Issue" above. For example, the "Accounting for foreign currency translations" issue commenced with ED16 "Supplement to extraordinary items and prior year adjustments".

The additional documents brought into the analysis on this compound issues basis were:

ED1 "Accounting for the results of associated companies" (June 1970);

ED16 "Supplement to extraordinary items and prior year adjustments" (September 1973); and

SSAP1 "Accounting for the results of associated companies" (January 1971).

The issues selected for analysis on the basis of the above criteria are set out in Figures 18.1 and 18.2 below.

FIGURE 18.1 ISSUES SELECTED FOR ANALYSIS

Issue	Initial Exposure Draft	Final accounting standard
1 Associated companies	ED1 "Accounting for the results of associated companies"	SSAP1 "Accounting for associated companies" (April 1982)
2 Investment properties	ED16 "Supplement to extraordinary items and prior year adjustments" (September 1973)	SSAP19 "Accounting for investment properties" (September 1980)
3 Foreign currencies	ED16 "Supplement to extraordinary items and prior year adjustments" (September 1973)	SSAP20 "Accounting for foreign currency translations" (April 1983)
4 Group accounts	ED20 "Group accounts" (July 1977)	SSAP14 "Group accounts" (September 1978)
5 IAS 10 "Contingencies and events occurring after the balance sheet date"	ED22 "Accounting for post balance sheet events" (February 1978); and ED23 "Accounting for contingencies" (November 1978)	SSAP17 "Accounting for post balance sheet events" (August 1980); and SSAP18 "Accounting for contingencies" (August 1980)

FIGURE 18.2 UK EXPOSURE DRAFTS SELECTED FOR ANALYSIS

Input document	Output document
ED20 "Group accounts" (July 1979)	SSAP 14 "Group accounts" (September 1978)
ED21 "Accounting for foreign currency transactions" (September 1977)	ED27 "Accounting for foreign currency translations" (October 1980)
ED22 "Accounting for post balance sheet events (February 1978)	SSAP 17 "Accounting for post balance sheet events" (August 1980)
ED23 "Accounting for contingencies" (November 1978)	SSAP 18 "Accounting for contingencies" (August 1980)
ED25 "Accounting for the results of associated companies" (October 1979)	SSAP 1 "Accounting for associated companies" (April 1982)
ED26 "Accounting for investment properties" (September 1980)	SSAP 19 "Accounting for investment properties" (November 1981)
ED27 "Accounting for foreign currency translations" (October 1980)	SSAP 20 "Accounting for foreign currency translations" (April 1983)

In addition, the following were analysed as components of compound issues:

Input document	Output document
ED1 "Accounting for the results of associated companies" (June 1970)	SSAP 1 "Accounting for the results of associated companies" (January 1971)
SSAP1 "Accounting for the results of associated companies" (January 1978)	ED25 "Accounting for the results of associated companies" (October 1979)
ED16 "Supplement to extraordinary items and prior year adjustments" (September 1973)	Both: ED21 "Accounting for foreign currency transactions" (September 1977); and ED26 "Accounting for investment properties" (September 1980).

18.4 CONTENT ANALYSIS

Content analysis was the principal method by which the data for the study was generated. It lends itself particularly to the generation of quantitative data which can be subsequently manipulated and analysed by statistical methods. Additionally, content analysis was used effectively in several of the studies reviewed above in Chapter 8 "Empirical studies of the political dimension in professional accounting standards setting processes". In particular, Klein [1978] studied a single issue from the US professional accounting standards setting processes; a study which was reviewed in that chapter. Klein tabulated the steps involved and they are reproduced above in Figure 8.3 "Klein's stages in content analysis".

Content analysis has been defined by Holsti as a

> **"technique for making inferences by systematically and objectively identifying specified characteristics of messages"** [1969, p.601].

Content analysis is well documented, see for example, Holsti [1969 & 1968], North et al [1963], Selltiz et al [1962], Berelson [1954 & 1952] and Laswell et al [1952]. Importantly, for the present study, both Porter [1979] and Klein [1978] have used the technique for the analysis of written submissions to the US FASB commenting on Exposure Drafts on "Debt restructuring" and "Segmented reporting" issues respectively. Content analysis is well suited to the purpose of the present study because it offers a systematic method of identifying the proposals and statements of preference contained in the documents with which the study is concerned. The Klein [1978] application is better documented than Porter [1979] and so it is used as the basis for its application to the present study.

As regards the objectivity claimed by the Holsti definition, then perhaps this is overstated for the context of the present study. For example, Klein attempted to test "intercoder reliability" (that is, subjectivity) having identified this as a potential limitation to his study. However, Klein's test was inconclusive because his selected panel of judges was unable to cope with the task presented to them. The test was abandoned. Klein supplemented this first test with a second test in which he repeated part of his content analysis to explore his own variability over time (recall that Klein was only analysing one Exposure Draft). He found an increase, in the number of items he was looking for, on his second run.

Clearly then, subjectivity is problematic in the context of the present study. As such, it has already been partially addressed in Section 18.2.2 "Proposal" above. In that section was set out the definition of "proposal" used in the present study and emphasis was placed on the irreducibility of a proposal. Two points arise.

Firstly, by defining a proposal as an irreducible statement the degree of subjectivity is minimised in the sense that by the rules of grammatical construction of sentences it is possible to determine an irreducible statement. This is not the case when a larger unit is to be characterised on a single dimension such as "in favour" or "against". Clearly, subjectivity is not eliminated because the statements need to be related to the issue at hand and decisions need to be made about whether or not a statement does constitute a proposal or an irrelevance. The incidence of irrelevancies from participants is not insignificant.

Secondly, there is a rather subtle point concerning the nature of theory construction in environments such as accounting. The debate can be characterised as producing two arguments. On the one hand, it can be argued that by collecting data at a very disaggregated level, such as in the present study, much of the richness and subtlety of the phenomena being observed is lost. On the other hand, it can be argued that by collecting data at a very aggregated level far too many independent variables are being collapsed down into intermediate dependent variables and the underlying pattern of relationships is constantly being obscured by "vague generality". For an example of this debate see Crocker [1983].

This study cannot make any substantial contribution to that debate. However, the disaggregated data route has been clearly followed by the "irreducibility" built into the definition of a proposal with the aim of minimising subjectivity. The clear implication is that the choice is open to the criticism that "richness and subtlety" are lost. That is as it may be. Crocker does point out that a counter argument is that the richness and subtlety can be re-created by aggregating disaggregated data; and that conversely the disaggregation can never be re-created from aggregate data. That seems to be a persuasive argument and it will be seen later that the present study takes advantage of such an approach by analysing the data at different levels of aggregation.

As for the detailed procedures by which the content analysis was implemented in the present study, these are set out below in Appendix 18.1 "Coding procedure for content analysis". These procedures are based on the stages set out in both the following Figure 18.3 "The stages in content analysis of written comments to measure Absolute Majority Vote" and Figure 18.4 "The stages in content analysis of output documents to measure CHANGE". For the content analysis in the present study, these figures set out the stages equivalent to, and based on, those of Klein [1978].

For the purposes of coding and subsequent analysis, each issue was broken down into natural stages based on an input document and an immediately following output document. In only one case was the input document not an Exposure Draft; SSAP1 "Accounting for the results of associated companies" was the input document for the issue in which ED25 "Accounting for the results of associated companies" was the output document. In all cases the output document was either a revised Exposure Draft or a Statement of Standard Accounting Practice.

FIGURE 18.3 THE STAGES IN CONTENT ANALYSIS OF WRITTEN COMMENTS TO MEASURE ABSOLUTE MAJORITY VOTE

Stage	Operational procedure
1 Choose messages	Use written responses, to Exposure Drafts or other published documents (input documents), for the selected issues.
2 Choose characteristics to be detected in message	A statement of preference on a point of definition or requirement. Either (a) a point contained in the input document (ORIGINAL proposal); or (b) a new point suggested in a written comment (AMENDMENT proposal). The statements were identified by an exhaustive search of the written comments.
3 Define context units and recording units	Use sentence or paragraph for context unit and phrase or sentence for recording unit.
4 Construct a dictionary	Each proposal was paraphrased in a dictionary.
5 Develop a coding scheme	Each proposal was assigned a unique number. The coding scheme was structured, on the basis of a pilot study, to make it easy to recover the proposal from its code. Each statement of preference for or against a proposal was coded 1 or 0 respectively.
6 Select judges	The researcher was the only judge in the present study.
7 Code the responses	Read the responses and code them.

Source: Adapted from Klein [1978] reproduced above as Figure 8.3 "Klein's stages in content analysis"

FIGURE 18.4 THE STAGES IN CONTENT ANALYSIS OF INPUT AND OUTPUT DOCUMENTS TO MEASURE CHANGE

Stage	Operational procedure
1 Choose messages	Use Statements of Standard Accounting Practice or revised Exposure Drafts (**output** documents) for the selected issues.
2 Choose characteristics to be detected in message	A statement of definition or requirement. Either (a) repeated from the input document (ORIGINAL proposal); or (b) a new proposal suggested in a written comment (AMENDMENT proposal); or (c) a new proposal appearing for the first time in the output document (AMENDMENT proposal). The statements were identified by a detailed comparison of the input and output documents.
3 Define context units and recording units	The context units are the sections of the input documents headed "Definition of terms" and "Standard accounting practice". The recording units are the phrases or sentences specifying the definition or requirement.
4 Construct a dictionary	The same dictionary of proposals was used as for the content analysis of the written comments.
5 Develop a coding scheme	The same coding scheme was used as for the content analysis of the written comments, except that each proposal was coded 1 or 0 for acceptance or rejection respectively.
6 Select judges	The researcher was the only judge in the present study.
7 Code the responses	Read the documents and code them.

Source: Adapted from Klein [1978] reproduced above as Figure 8.3 "Klein's stages in content analysis"

18.5 GENERATION OF HYPOTHESES FOR TESTING

The data generated from the content analysis was used to test the naive voting model developed in Chapter 17 "A naive voting model" above. Primary hypotheses were identified in that chapter as follows:

H_1 there exists a relationship between the probability of a CHANGE and the <u>direction</u> of the absolute majority vote (AMV) on any particular proposal; and

H_2 there exists a relationship between the probability of a CHANGE and the <u>size</u> of the absolute majority vote (AMV) on any particular proposal; and

H_3 there exists a relationship between the class to which a participant belongs and the response of the professional accounting standards setting processes to that participant's preferences.

The data analysis and the results of the tests are presented below in Chapter 19 "The data and their analysis". The tests have used an accept/reject criterion of significance at the 5% level. That is, where the observed results are only likely to be consistent with the null hypothesis with a probability of 0.05 then the null hypothesis is rejected. If the observed significance level is less than 5% then this is reported.

In addition to the primary hypotheses, there are a number of stages of the development of the model which can be used to generate secondary hypotheses in testable, null-hypothesis, form. These are identified and discussed below.

The first concerns the underlying probabilistic model developed above in Section 17.2.3 "Stage two: A probabilistic model of influence". In that section the model was presented in three forms: as Equation 4; in words; and as a contingency table in Figure 17.5 "Probabilistic contingency tables of the relationship between CHANGE and AMV". It is the latter which is of most interest because data presented in the form of a contingency table can be used in the chi-square test of significance [Nie <u>et al</u> 1980, pp.243-245, Hamburg 1977, 312-335, Siegel 1956]. Additionally, such data are presented at an ordinal level of

measurement [Stevens 1946, pp.678-679] in the present study and so the possible use of additional statistical measures is open [Siegel 1956, pp.202-239]. This is developed later under Test 5. In order to structure the analysis which is conducted on these data, the tests are numbered and presented systematically below. They are summarised in Figure 18.5 "The tests summarised".

Test 1

The contingency tables presented above in Figure 17.5 "Probabilistic contingency tables of the relationship between CHANGE and AMV" constitute the basis for the first (secondary) testable hypothesis.

Test 1 addresses the question "Do votes count?". It involves the presentation of the data in a contingency table format identical to that of Figure 17.5 and the use of the chi-square test [Nie et al 1980, p.243; Hamburg 1977, pp.312-335] of a non-random distribution suggesting the existence of an underlying relationship. This is a weak test of the question addressed because it uses only a coarse disaggregation of majority votes into FOR, AGAINST and NO VOTE. A stronger test is generated as Test 5 below.

Stated in its null-hypothesis form, Test 1 is a test of

H_{01} **there is no relationship between the direction of the majority vote on a particular proposal and the outcome for that proposal.**

In this test, the chi-square statistic is used in its function as a test of the existence of an unspecified relationship between the two variables of the contingency table. In the special case of a 2x2 table, Yates' correction is applied to the chi-square statistic. Further, in the case of a 2x2 table with sample size of 20 or less, then Fisher's exact test is substituted in place of chi-square [Nie et al 1980]. The significance level is the probability that the frequencies in the table cells are randomly distributed within fixed marginals. It is not possible to use chi-square as a test of "goodness-of-fit" because the predicted cell frequencies are indeterminate. This arises from the model's inability to predict, on a priori grounds, the values of f and g, the probability of CHANGE.

Test 2

Test 2 addresses the question "What is the influence of votes?", where influence is defined as the probability of CHANGE.

Stated in its null-hypothesis form, Test 2 is a test of

H_{02} the probability of CHANGE is zero.

In this test, the constant probabilities, f and g, incorporated in the model presented above in Section 17.2.3 "Stage two: A probabilistic model of influence", are evaluated as a measure of the influence of participants over the UK professional accounting standards setting processes. The significance of the proportions, f and g, is also evaluated using the normal approximation for the binomial distribution. It is a test that the proportion is significantly different from zero. The normal distribution is assumed to be a good approximation if both $pn > 5$ and $(1-p)n > 5$; where p is the sample proportion and n is the sample size [Lapin 1973, p.238]. Samples that meet these criteria are, in fact, significant at the 5% level.

Test 3

Test 3 is another test which can be conducted on these same contingency tables. Test 3 addresses the question "Is there any difference between the influence of votes for ORIGINAL and for AMENDMENT proposals?". It is a test of the underlying argument, elaborated above in Section 17.2.2 "Stage one: A deterministic model", that ORIGINAL proposals and AMENDMENT proposals are fundamentally different and separate analyses should be conducted on each.

Stated in its null-hypothesis form, Test 3 is a test of

H_{03} **there is no difference between the probability of CHANGE for ORIGINAL proposals and for AMENDMENT proposals.**

In this test, the two measures of influence, that is the two probabilities of CHANGE, f and g, for ORIGINAL and for AMENDMENT proposals respectively, are compared. The test of the difference between two proportions is used to determine whether or not the difference is significant. The pooled proportion is evaluated and the two separate proportions are classified as different if, and only if, their difference lies outside the 95% confidence interval for a zero difference [Hamburg 1977, pp.290-294; Lapin 1973, pp.323-325].

Test 4

A further test is possible using these same contingency tables. Test 4 addresses the question "Are there any data wholly unexplained by the model?". A visual inspection of the tables can identify the occurrence or otherwise of data falling in the cells for which the naive voting model predicts zero occurrence. Such cells are (a) those for which the expected frequency is predicted to be zero; and (b) those cells for which the occurrence of data is logically impossible.

The meaning of such occurrences will differ dependent upon the specific table cell into which such an occurrence falls. By way of example, should data occur in the ORIGINAL proposals cell CHANGE = -1, AMV > 0, then this would mean that the professional accounting standards setting processes had rejected an original agenda proposal even though an absolute majority of participants were in favour of its acceptance. Such an occurrence is arguably difficult to explain under any framework.

The occurrence of data in these cells constitutes a "residual" or "outlier" event and is currently beyond the explanatory power of the naive voting model. Any such occurrences will be separately noted and recorded as subjects for a further study aimed at developing the model further.

Test 4 is effectively a test of the null-hypothesis that
H_{04} there are no occurrences of logically impossible data.

There is no statistic associated with this test. A visual inspection of the table indicates whether or not such data occur.

Test 5

Test 5 addresses the question "Is the influence of votes constant with respect to the size of AMV?". It was suggested above that Test 1, chi-square based on the contingency tables of Figure 17.5, constitutes only a weak test of the question "Do votes count?". Test 5 is a stronger test, based on a subset of the data used to construct those contingency tables and constitutes a test of whether or not the probabilities, f and g, are constant. In effect, it develops the question "Do votes count?" by asking "If so, how?". In Test 5 the data in the row of the ORIGINAL proposals contingency table for which AMV < 0 and the data in the row of the AMENDMENT proposals contingency table for which AMV > 0, are taken as the data for a new table and disaggregated across AMV.

Stated in its null-hypothesis form, Test 5 is a test of

H_{05} **there is no relationship between the <u>size</u> of the majority vote on a particular proposal and the outcome for that proposal.**

In this test, chi-square can be used to test for the existence of a relation between AMV and CHANGE from the new contingency tables constructed with the disaggregated data. As in Test 1 above, the Yates' correction for 2x2 tables and the Fisher exact test for 2x2 tables with small samples are adopted in place of chi-square where applicable. Again, the significance test gives the probability that the cell frequencies are randomly distributed within fixed marginals.

Given that the chi-square test suggests the existence of a relationship between the size of AMV and CHANGE there are additional non-parametric statistics which might help explore the relationship. At the nominal measurement level, such statistics as the contingency coefficient, C, [Siegel 1956, pp.196-202] and Cramer's V [Nie <u>et al</u> 1980, p.247], offer tests of association based on chi-square. The main limitation of these chi-square

based statistics, in the context of Test 5, is that their values are not absolute indicators of the degree of association. As a result these measures of association add no more information to that already available from the significance test of chi-square.

It is possible to consider taking advantage of the additional information contained in the ordinal measurement level properties [Stevens 1946] of the data in the present study to apply additional statistical tests. Statistics such as Spearman's rank correlation coefficient r [Siegel 1956, pp.202-213], Kendall's rank correlation coefficient tau [Siegel 1956, pp.213-223 and Nie et al 1980 pp.249-250], Goodman and Kruskal's gamma and Somers' d [Nie et al 1980 p.250] are all available. However, all except the gamma statistic have severe limitations when many pairs of data are tied (in the sense that the rankings are the same on one or both of the variables). In the contingency tables of Chapter 19 "The data and their analysis", substantial numbers of data are tied and so the values of those statistics offer no meaningful interpretation. Gamma does have a meaningful interpretation, namely that it indicates the **"probability that a random pair of observations is concordant minus the probability that the pair is discordant, assuming the absence of ties"** [Nie et al 1980, p.250]. Additionally, gamma offers a t-test that the value is significantly different from zero and, as such, offers support for the significance of the chi-square test.

To summarise Test 5, the objective is to test whether or not the probability of change, or influence, given by f and g for ORIGINAL and AMENDMENT proposals respectively, is constant over all values of AMV. A suitable nominal level of measurement test is the significance of chi-square. Taking advantage of the ordinal level of measurement properties of the data is possible using the t-test of the significance of Goodman & Kruskal's gamma.

Test 6

Assuming that Test 5 demonstrates that there is a significant, unspecified, relationship between CHANGE and AMV then the corollary is that influence, that is the probability f or g, is not constant over AMV. This leads us into the extension of the model developed above in Section 17.2.4 "Stage three: A sensitivity extension of the probabilistic model of influence". Stage three models the relationship between CHANGE and AMV as linear. Test 6, then, addresses the question "What is the sensitivity to votes?".

Test 6 explores the empirical relationship by using ordinary least squares regression techniques. In particular, it evaluates the regression coefficient of the UK professional accounting standards setting processes to participants' preferences.

The corresponding null-hypothesis for Test 6 is

H_{06} **the correlation coefficient and the regression coefficient of the regression line are both equal to zero.**

There are four steps to Test 6.

Firstly, the ordinal level measurement data used in Test 5 is transformed into interval level measurement data [Stevens 1946]. This is a simple transformation involving the calculation of a proportion. In particular, the proportion calculated is that for which **for each value of AMV, the number of proposals for which the outcome was a value of CHANGE $\neq 0$ is expressed as a proportion of the total number of proposals associated with that value of AMV.** The proportions are computed separately for ORIGINAL and AMENDMENT proposals. In terms of the disaggregated contingency tables used in Test 5 above, the proportion is simply the row by row frequency of data in the CHANGE $\neq 0$ column divided by the row total. The present study is not attempting to estimate the true proportion in a population, so the binomial distribution test [Hamburg 1975, pp.249-252] for a minimum sample

size for a given accuracy is not used.

Secondly, all proportions equal 0 or 1 are rejected as outliers. The rationale for this is discussed below in Section 18.6 "Treatment of outliers".

Thirdly, the new data were plotted on a scattergraph for a visual inspection of the reasonableness of the linear model.

Fourthly, the parameters of the regression line were determined. In particular, the square of the Pearson product-moment correlation coefficient, R^2, and the ordinary least squares estimate of the slope parameter (the regression coefficient) are evaluated. The t-test that these parameters are significantly different from zero is common to both. This significance test is a one-tailed test in the sense that the model above in Section 17.2.4 "Stage three: A sensitivity extension of the probabilistic model of influence" has given <u>a priori</u> expectations for the direction of correlation. The regression coefficient is a measure of the sensitivity of the UK professional accounting standards setting processes to the preferences of participants.

Test 7

The objective of Test 7 is to observe any differential influence of classes of participant over the UK professional accounting standards setting processes. As such, it addresses the question "Is influence constant with respect to disaggregations of participants?". Test 7 is essentially a replication of Test 2 in which influence, that is the probability of CHANGE, was evaluated. The replication uses disaggregations of participants across the Issues and Groups discussed above in Section 17.2.5 "Stage four: Disaggregation of the model". In effect, this test can provide evidence of whether or not the preferences of one class are accepted more than those of another class. Three different classification schemes are used

1 the ASC classification into companies, professional firms of accountants, representative bodies of accountants, other representative bodies and others;
2 Issues, as set out above in Figure 18.1 "Issues selected for analysis"; and
3 Exposure Drafts, as set out above in Figure 18.2 "UK Exposure Drafts selected for analysis".

The corresponding null-hypothesis for Test 7 is

H_{07} there is no relationship between the class to which a participant belongs and the influence of that participant's preferences over the outcome of the UK professional accounting standards setting processes.

Test 7 uses the test of differences between proportions to test the homogeneity of the separate sample proportions. In this test, the pooled proportion is evaluated and the separate proportions classified as heterogeneous if, and only if, the difference between the largest and smallest proportion lies outside the 95% confidence interval for a zero difference [Hamburg 1977, pp.290-294; Lapin 1973, pp.323-325]. This is a two-tailed test using the z-statistic.

Test 8

The objective of Test 8 is to observe any differential sensitivity of the UK professional accounting standards setting processes to classes of participant. As such, it addresses the question "Is sensitivity constant with respect to disaggregations of participants?". Test 8 is essentially a replication of Test 5 and Test 6 but using disaggregations of participants across Issues and Groups; the same classification schemes are used as in the preceding test. In effect, the test can provide evidence of whether or not the marginal preferences of one class are weighted more than those of another class.

The corresponding null-hypothesis for Test 8 is

H_{08} **there is no relationship between the class to which a participant belongs and the sensitivity of the outcome of the UK professional accounting standards setting processes to that participant's preferences.**

There are three steps to Test 8.

In the first step, the ordinal level of measurement data used in Test 5 are disaggregated across the relevant classifications. The chi-square based Cramer's V (or phi in the case of a 2x2 table) and it's significance are statistics which enable comparisons to be made because they are standardised across the range 0 to 1 [Nie et al 1980]. Additionally, the t-statistic significance test of Goodman & Kruskal's gamma is used as an ordinal level of measurement test to support the significance results obtained at the nominal level and at the second stage discussed next. It would appear that if there are substantial differences in the numbers of tied pairs between different contingency tables then the value of gamma is of no assistance in comparing tables. No confirmation of this doubt could be found in the literature, but the argument seems sufficiently strong to justify not using the value of gamma for comparative purposes. No statistical test of these comparisons is made. They provide the basis for deciding for which disaggregations the remaining steps of Test 8 can be

conducted.

In the second step, for those series of contingency tables with significant chi-square based statistics, the transformation and subsequent ordinary least squares parametric tests described above in Test 6 are conducted.

In the third step, the regression coefficients from the above step are tested for homogeneity using the F-statistic [Edwards 1976, pp.109-112]. The regression coefficient represents the sensitivity measure described above in Section 17.2.4 "Stage three: A sensitivity extension of the probabilistic model of influence". In this test the pooled regression coefficient is evaluated and the separate coefficients classified as heterogeneous if, and only if, the F-statistic is significant at the 5% level. The computation requires the sample size and the residual sum of squares (RSS). The former is read directly from the SCSS output of the scattergraphs. The latter is computed from the standard error of the estimate (SEE) which is also read directly from the SCSS output [Nie et al 1980, p.327].

FIGURE 18.5 THE TESTS SUMMARISED

Question being addressed	Naive voting model	Null hypothesis being tested	Statistical test utilised
Test 1: Do votes count?	Contingency tables in Figure 17.5	There is no relationship between the direction of the majority vote on a particular proposal and the outcome for that proposal	Significance of chi-square. Yates' correction for 2x2 tables. Fisher's exact test for small sample 2x2 tables
Test 2: What is the influence of votes?	Contingency tables in Figure 17.5	The probability of CHANGE is zero	Significance of a proportion
Test 3: Is there any difference between the influence of votes for ORIGINAL and AMENDMENT proposals?	Contingency tables in Figure 17.5	There is no difference between the probability of CHANGE for ORIGINAL proposals and for AMENDMENT proposals	Significance of difference between proportions
Test 4: Are there any data wholly unexplained by the model?	Contingency tables in Figure 17.5	There are no logically impossible occurrences	Visual inspection of cell contents
Test 5: Is influence constant with respect to the size of AMV?	Contingency tables in Figure 17.6	There is no relationship between the size of the majority vote on a particular proposal and the outcome for that proposal	Significance of chi-square. t-test of significance of Goodman & Kruskal's gamma
Test 6: What is the sensitivity to votes?	Scattergraphs in Figure 17.7	The correlation coefficient and the regression coefficient of the regression line are both equal to zero	Visual inspection. t-test of significance of ordinary least squares correlation and regression coefficients
Test 7: Is influence constant with respect to disaggregations of participants?	Contingency tables in Figure 17.5	There is no relationship between the class to which a participant belongs and the influence of that participant's preferences	Significance of difference between proportions
Test 8: Is sensitivity constant with respect to disaggregations of participants?	Contingency tables in Figure 17.6 and Scattergraphs in Figure 17.7	There is no relationship between the class to which a participant belongs and the sensitivity to that participant's preferences	Significance of Cramer's V (or phi). Significance of OLS coefficients. F-test for equality of regression coefficients

18.6 TREATMENT OF OUTLIERS

An outlier is **"an observation which deviates so much from other observations as to arouse suspicions that it was generated by a different mechanism"** [Hawkins 1980, p.1]. Hawkins notes that **"any applied statistician who has analysed a number of sets of real data is likely to have come across 'outliers' ".** The present study is no outlier in this respect, they arise at both the ordinal and the interval levels of measurement.

18.6.1 Outliers in ordinal level data

At the ordinal level of measurement, outliers are identified in Test 4 by comparison of the a priori contingency tables set out above in Figure 17.5 "Probabilistic contingency tables of the relationship between CHANGE and AMV" against the actual contingency tables. In particular, a datum would be classified as an outlier if it occurred in cells for which the expected frequency is zero.

The mechanism by which these data are generated is different from that being modelled in Chapter 17 "A naive voting model" and, as such, offers an opportunity for further research in the area of modelling the underlying political process. These data are more in the nature of residuals rather than outliers.

18.6.2 Outliers in interval level data

At the interval level of measurement, outliers are generated by a quite different mechanism. The transformation of the data from the ordinal level into the interval level measures in Test 6 and Test 8 involves computing simple ratios. In the cases of small samples of data for each value of AMV, there is a much higher probability of the occurrence of the ratios 0 and 1. For example, in the following two sequences of ratios

0/1 1/1; and
0/1 1/1 0/2 1/2 2/2
the probability of a 0 or a 1 is equal to 1.0 and 0.8 respectively.

Clearly, in small samples the occurrence of the ratios 0 and 1 is being generated by a mechanism quite different from that being modelled in Chapter 17 "A naive voting model" and for this reason they are excluded from Test 6 and Test 8. Hawkins cites Anscombe [1960] as a formal elaboration of the idea of using this "rejection of outliers" technique as a method of producing robust estimates of population parameters. In addition, failure to reject these outliers would result in misleading conclusions being drawn about the mechanism being modelled. The mechanism by which these data are generated is purely a property of the ratios of small numbers and, as such, they do not offer any opportunities for further research in the area of modelling the underlying political dimension of the professional accounting standards setting processes.

18.7 A NOTE ON DATA GENERATION, THE USE OF A PILOT STUDY AND IMPLEMENTING ANALYSIS ON A LARGE MAINFRAME COMPUTER

In Section 18.4 "Content analysis" above, the use of content analysis was discussed as the means by which data were generated in the present study for subsequent transformation and analysis. The implementation of the objectives of the present study was initially developed by the use of a pilot study. For this pilot study, one issue was selected, that based on ED20 "Group accounts" set out above in Figure 18.1 "Issues selected for analysis". Using the pilot study based on that issue, the entire content analysis, computer data entry and data analysis was developed. These were found to be no easy tasks.

Firstly, the work of Porter [1979] and Klein [1978] was found to be of limited assistance to the specific task of content analysis because of the novel definition set out above in Section 18.2.2 "Proposal" and the separate distinction of ORIGINAL and AMENDMENT proposals. Both the initial definition of a proposal and the coding scheme proved to be successful in the pilot study and so the method and the pilot data were used in the main study without change. In the interests of experimental replication, the coding scheme is set out in detail in Appendix 2 "The proposals defined" at the end of the present study. Coding proved to be an exceedingly time consuming task.

Secondly, data entry into the form of a computer data base was a separate task in itself. Conventionally, researchers often hand-write the data on to pre-printed forms for the use of a data preparation resource available with a centralised computing resource. The advent of microcomputers has offered the alternative of data entry direct into a microcomputer followed by transfer of the data base to the mainframe computer. In this way, the microcomputer is being used as an intelligent terminal for the mainframe computer. That alternative was adopted for the implementation of the present study with two major advantages:

1 the task of the content analysis was not accompanied by the that of data transcription. Rather it was accompanied by the more challenging task of writing a programme specifically designed to generate a data base in SPSS format. SPSS [Nie et al 1970] and SCSS [Nie et al 1980] were the computer software tools used for the subsequent analysis. The aggregate productivity of this approach is believed to be higher than would have otherwise been; and
2 the microcomputer software is now available to other researchers to increase their own productivity in the data base generation stage. The software is reproduced at the end of the present study in Appendix 10 "SPSSGEN: A programme written in BASIC to simplify creation of SPSS raw data files".

The same microcomputers were used for text preparation in writing the present study, for generating the data base and for managing the bibliography presented below in Part VI "Bibliography". Microcomputers offer a very flexible environment in which to conduct such tasks.

Thirdly, implementation of the fairly simple sequence of tests, set out in Figure 18.5 "The tests summarised" above, proved to be a major task on the mainframe computer. The structure of the data base for the present study was based on the usual case concept underlying the SPSS software [Nie et al 1970]. However, the present study was unlike a research study utilising, say, a questionnaire in which a data case can be defined as the questionnaire with the number of variables equal to the number of questions. In the case of the present study, a data case is defined simply as the statement of preference on a single proposal. Such a data case can be characterised as a voting slip. On the voting slip is written the specific proposal, the vote cast and some data identifying the voter. In the present study some 18,336 such data cases were generated, each with only 12 variables defined. This gave a total of 220,000 separate data, equivalent to (say) 1000 questionnaires of 220 questions.

Analysis of these data involved several stages of aggregation of the cases. In terms of the "voting slips" characterisation, the votes were counted on a proposal-by-proposal basis. Additionally, the CHANGE in position between the ORIGINAL Exposure Draft (characterised as an input document) and the subsequent SSAP or ED (characterised as an output document) was determined by an analogous vote-counting procedure. Consequently, much transformation of the data was involved before any statistical tests were undertaken. The SPSS control statements, which were used to implement these transformations, are set out at the end of the present study in Appendix 9 "SPSS/SCSS case definition and control commands". The computer implementation was that on an ICL 2976 with a decidedly "unfriendly" operating system known as "VME/B", another ICL product.

The analysis routines set out in Appendix 9 were developed using the pilot study data of the ED20 "Group accounts" issue. The accuracy of these transformations was verified by a comprehensive manual check. For the entire pilot study, the transformations used in generating the tests set out above in Figure 18.5 "The tests summarised" were calculated manually to verify their proper operation. This manual check also operated as a check on the accuracy of the data entry process. Of 1088 pilot study cases, five were found to be incorrect. Of these, only three were of a nature that could have been repeated elsewhere in the main study. No subsequent checks were considered necessary on the main study data.

18.8 LIMITATIONS

The limitations of both archival data sources and of content analysis flow through into the empirical study.

In the case of archival sources, selectivity of archiving is a problem of importance for this study [Buckley, Buckley & Chiang 1976, p.40]. Firstly, it was noted above that some participants do not need to state their preferences in this stage because they have control over some other stage. Secondly, the ASC offers confidentiality to its commentators should they request it; this is made clear in each and every exposure draft. It appears, from comparison of the numbers of written comments available and the numbers that ASC aknowledge having received, that these confidential comments are negligible and not statistically significant.

In the case of content analysis, subjectivity of interpretation is the main limitation for this study. This was discussed above in Chapter 18 "Research approach and method". There it was noted that the present study makes a significant contribution by its use of a novel definition of a proposal as an "irreducible statement of definition or requirement". An Exposure Draft typically contains 20-50 such proposals. The purpose of such a definition being to minimise the degree of subjectivity involved in identifying proposals in the written comments. This is achieved by virtue of the fact that the conventional grammatical rules of sentence construction determine unambiguously the "irreducible statement". Nevertheless, subjectivity cannot be eliminated. Decisions have to be made about the technical relationship between the amendment proposals found in the written comments and the original proposals on which they are based. Decisions also have to be made about the irrelevancies that are not an insignificant feature of the letters of comment.

18.9 SUMMARY

To implement the testing of the hypotheses generated above in Chapter 17 "A naive voting model", two primary variables are used, namely **CHANGE** and **Absolute majority vote (AMV)**, each being defined on an individual **proposal** within an **issue**.

An **issue** is defined as a process which starts with an Exposure Draft, or other input document, on which the ASC has asked for public comment; and terminates with the publication of a Statement of Standard Accounting Practice.

A **proposal** is defined as an identifiable and irreducible statement of definition or requirement contained in either an Exposure Draft (an ORIGINAL proposal) or a letter of comment (an AMENDMENT proposal).

Absolute majority vote (AMV) is defined as the simple majority of all votes taken on a specified proposal.

CHANGE is defined as a variable taking the values -1, 0 or +1. For an ORIGINAL proposal, 0 represents no change, and -1 represents rejection; for an AMENDMENT proposal, 0 represents no change and +1 represents acceptance.

Issues were selected according to four criteria.

1 issues resulted in a visible outcome, that is, either a Statement of Standard Accounting Practice or a new Exposure Draft;
2 the inflation accounting issue was omitted;
3 issues were based on all UK Exposure Drafts published since mid-1977; and
4 compound issues were traced back to their commencement.

Five issues were selected, namely associated companies, investment properties; foreign currencies; group accounts; and IAS10 "Contingencies and events occuring after the balance sheet date".

Content analysis was the principal method by which the data for the study were generated. This method had been used by studies addressing the US professional accounting standards setting processes reviewed above in Chapter 8 "Empirical studies of the political dimension in professional accounting standards setting processes". Subjectivity is problematic in the context of these studies and has been minimised in the present study. This has been achieved by the use of the novel definition above of a proposal as an "irreducible statement". The rules of grammatical construction of sentences determine unambiguously what constitutes an irreducible statement. Subjectivity is not entirely eliminated because the statements need to be related to the issue at hand and decisions need to be made about whether or not a statement constitutes an irrelevance. The detailed coding procedure is set out in Appendix 18.1 "Coding procedure for content analysis".

The primary hypotheses of Chapter 17 "A naive voting model" are

H_1 **there exists a relationship between the probabiltiy of a CHANGE and the <u>direction</u> of the absolute majority vote (AMV) on any particular proposal; and**

H_2 **there exists a relationship between the probabiltiy of a CHANGE and the <u>size</u> of the absolute majority vote (AMV) on any particular proposal; and**

H_3 **there exists a relationship between the class to which a participant belongs and the response of the professional accounting standards setting processes to that participants' preferences**

These hypotheses are tested by using a series of detailed tests. The tests, and their corresponding null-hypotheses, are as follows.

H_{01} **there is no relationship between the <u>direction</u> of the majority vote on a particular proposal and the outcome for that proposal.**

This test uses chi-square as a test of the existence of an unspecified relationship.

H_{02} the probability of CHANGE is zero.

This test uses the test of the significance of a proportion as a test of the proportion of proposals changed.

H_{03} there is no difference between the probability of CHANGE for ORIGINAL proosals and for AMENDMENT proposals.

This test uses the test of the difference between two proportions.

H_{04} there are no occurrences of logically impossible data.

There is no statistic associated with this test. A visual inspection of the table is sufficient.

H_{05} there is no relationship between the <u>size</u> of the majority vote on a particular proposal and the outcome for that proposal.

This test uses chi-square again as a test of the existence of an unspecified relationship.

H_{06} the correlation coefficient and the regression coefficient of the regression line are both equal to zero.

This test uses a transformation of the data from preceding tests as the basis for the ordinary least squares test of a linear model of the relationship which was unspecified in that previous test.

H_{07} there is no relationship between the class to which a participant belongs and the influence of that participant's preferences over the outcome of the UK professional accounting standards setting processes.

This test uses the test of the difference between two proportions after disaggregating the data across different classes of participant.

H_{08} there is no relationship between the class to which a participant belongs and the sensitivity of the outcome of the UK professional accounting standards setting processes to that participant's preferences.

This test uses the F-test of the homogeneity of several regression coefficients, each of which is determined from a transformation of the data of the preceding test.

Outliers in this study occur at two levels. Test 4 identifies outliers which suggest an area for further research because they represent changes not predicted by the naive voting model. The transformations of Test 6 and of Test 8 generate outliers as an unwanted property of the transformation itself. These latter outliers do not suggest an area for further research.

Implementation of the above tests was developed using a pilot study. The content analytic coding scheme required no modification in the light of the experience gained. Substantial use of microcomputers was made in generating the data for computer analysis, in text preparation and bibliography management. The statistical analysis was implemented using the SPSS and SCSS software packages and a microcomputer programme was written to enable the content analysis data to be loaded into an SPSS format data file without the need for any hand written data sheets.

18.10 CONCLUSIONS

The model presented above in Chapter 17 "A naive voting model" has been shown to be capable of expression in the form of a structured series of testable hypotheses. These testable hypotheses are based on definitions of variables which are matched to the particular source of data to hand and the content analytic research method to be used.

All that remains is to implement the analysis. The results of that implementation are presented below in Chapter 19 "The data and their analysis".

APPENDIX 18.1 CODING PROCEDURE FOR CONTENT ANALYSIS

1 First, code Exposure Draft (or other input document) as follows:

Treat each paragraph, sub-paragraph, sentence or clause in the Exposure Draft as an ORIGINAL PROPOSAL assigning to each a unique number. Use only the "Definition of terms" and "Proposed standard accounting practice" sections. Code each as a VOTE in favour (Vote = 1).

2 Second, code participants' written comments as follows:

1 Assign a unique number to each new AMENDMENT PROPOSAL and paraphrase them in a code-book

2 A VOTE in favour (VOTE = 1) or against (VOTE = 0) is recorded where explicit.

3 An explicit general approval implies a VOTE in favour (VOTE = 1) of all ORIGINAL PROPOSALS taken individually, except to the extent that individual ORIGINAL PROPOSALS are explicitly voted against. An explicit general approval must be positively expressed and is distinguished from a general statement of indifference. An explicit general approval is not coded until the whole comment has been reviewed and the extent of any votes against determined.

4 An explicit general disapproval implies a VOTE against (VOTE = 0) all ORIGINAL PROPOSALS taken individually. An explicit disapproval is not a general disapproval if it simply suggests an exemption from the requirements on the basis of some specified circumstances. This is treated as an AMENDMENT PROPOSAL with no implied vote against.

5 A new proposal is an AMENDMENT PROPOSAL, based on an ORIGINAL PROPOSAL, and is coded as a VOTE in favour (VOTE = 1). AMENDMENT PROPOSALS are never coded as VOTES against (VOTE = 0). There is no implied vote on the original proposal, but there may be an explicit vote.

6 A conditional proposal of the form "if A then B" is treated as two separate proposals. A conditional proposal of the form "A only if B" is treated as an implied vote against A (VOTE = 0) and a vote in favour of an AMENDMENT proposal of the form "A and B".

7 Amendments proposing editorial, typographic or pure clarification changes are IGNORED. Comments which do no more than ask QUESTIONS are also IGNORED except where an AMENDMENT PROPOSAL is clearly implied. Amendments proposing an auditing requirement, distinguished from an accounting requirement, are IGNORED.

8 ABSTENTIONS apply to all cases of unclassifiable comment, to all proposals for which there is no mention and to clear statements of INDIFFERENCE. No vote is recorded for an ABSTENTION.

3 Finally, code Statement of Standard Accounting Practice (or other output document) as follows:

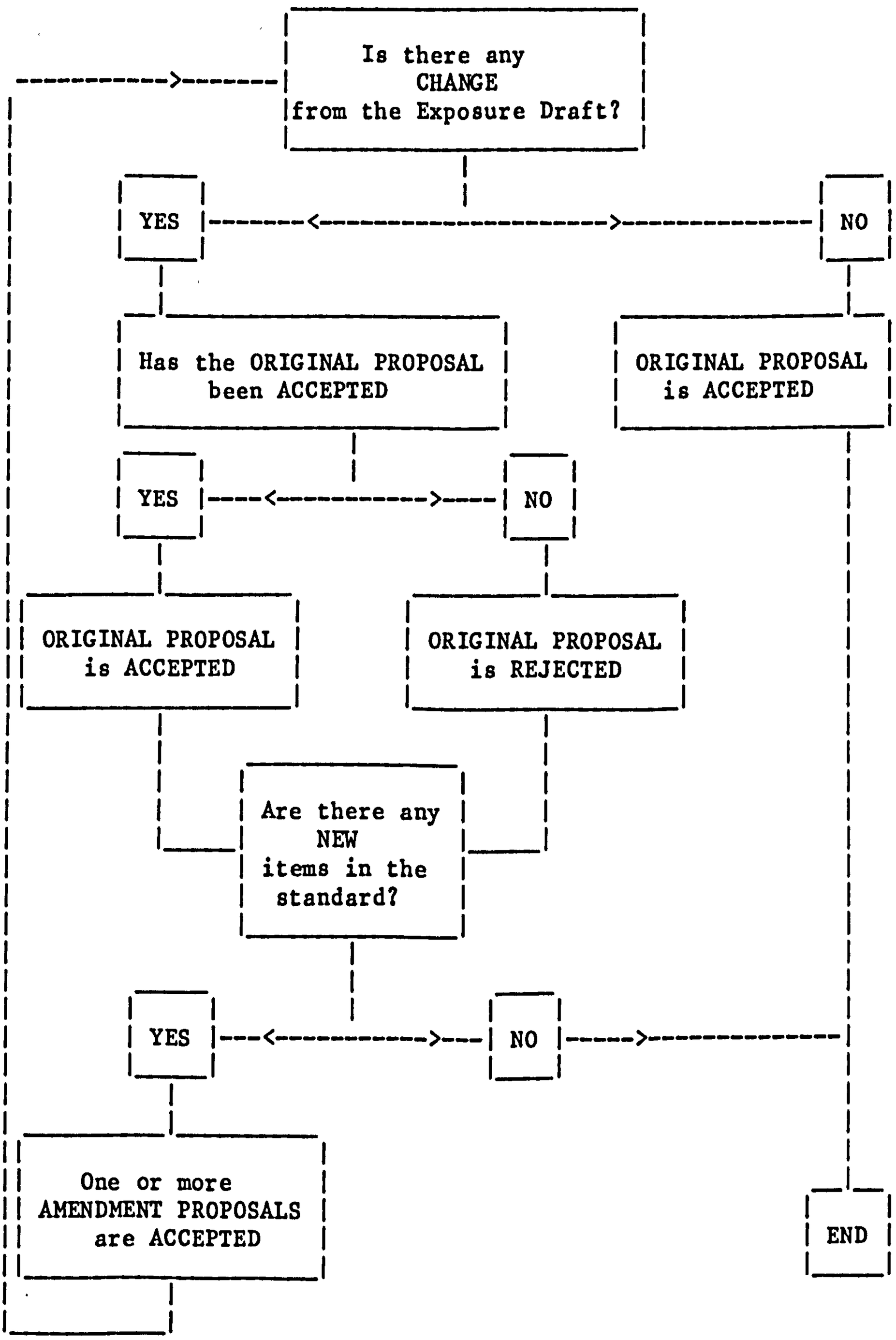
Treat each paragraph, sub-paragraph, sentence or clause as a PROPOSAL, either ORIGINAL or AMENDMENT, according to the substance of the text. Use only proposals in the "Definition of terms" and "Standard accounting practice" sections.

These proposals are coded as ACCEPTED PROPOSALS (VOTE = 1) or REJECTED PROPOSALS (VOTE = 0). All ORIGINAL PROPOSALS are coded. AMENDMENT PROPOSALS are only coded where they are ACCEPTED.

Where the OUTPUT document has been substantially rewritten when compared with the INPUT document, then a PROPOSAL is ACCEPTED if it is captured by the equivalent text of the OUTPUT document.

A flow-chart setting out the coding steps for Statements of Standard Accounting Practice (or other output documents) is set out in Figure 18.1A "Steps for coding Statements of Standard Accounting Practice".

FIGURE 18.1A STEPS FOR CODING STATEMENTS OF STANDARD ACCOUNTING PRACTICE



CHAPTER 19 THE DATA AND THEIR ANALYSIS

CHAPTER 19 THE DATA AND THEIR ANALYSIS

19.1 INTRODUCTION

The following sections set out the results obtained from the application of the model described above in Chapter 17 "A naive voting model" to UK data obtained from the UK professional accounting standards setting processes. The methods used to generate the data and implement the analysis of the model are set out above in Chapter 18 "Research approach and method".

The data base is described first in terms of elementary aggregate statistics such as total numbers of data cases; of ORIGINAL and AMENDMENT proposals; of written comments on Exposure Drafts; and ot votes cast. Each of these being broken down by Issue and Exposure Draft.

Next are set out in some detail the contingency tables which describe the data and which form the basis for Test 1 to Test 5. In very general terms, these tests address the questions "Do votes count?" and "If so, how?". The detailed formulation of the questions is set out in the descriptions of the tests above in Chapter 18 "Research approach and method". The results distinguish between ORIGINAL and AMENDMENT proposals.

The contingency tables are followed by scattergraph and linear regression results, but only to the extent that the contingency tables themselves suggest the existence of a significant relationship. The regression results form the basis of Test 6 which, in very general terms, ask the question "If votes count, do they have an increasing linear influence?". Again, the detailed formulation of Test 6 is set out above in Chapter 18 "Research approach and method".

Each of the above results is presented for the data base as a complete set. A more interesting analysis follows in which the data are disaggregated across differing classes. These results form the basis of Test 7 and Test 8 which, in very general terms, ask the question "Are there any differences between classes of participant?". The results for these tests are presented conveniently in summary tables. The main disaggregation classes are

by Issue: accounting for associated companies;
accounting for investment properties;
accounting for foreign currency translations;
group accounts; and
accounting for contingencies and events occuring after the balance sheet date (IAS14); and

by Group: companies;
professional firms of accountants;
representative bodies of accountants;
other representative bodies; and
others.

19.2 THE DATA BASE

The data base generated by the methods described above in Chapter 18 "Research approach and method" was made up of 18,336 cases each of 12 variables. Cases were defined on the Exposure Drafts or other input documents set out above in Figure 18.2 "UK Exposure Drafts selected for analysis". In a sense, each case can be characterised as a voting slip On each voting slip is the following information

1 the proposal on which the vote is being cast;
2 the vote; and
3 the voter's identity.

The following Figure 19.1 "The data base summarised" describes some of the aggregate data for each issue and exposure draft.

FIGURE 19.1 THE DATA BASE SUMMARISED

	Number of proposals		Number of cases	Number of commentators (Votes cast)									
	Original	Amendment		Companies		Firms of accountants		Bodies of accountants		Other bodies		Others		Total	
Associated companies													
ED1	34	211	3492	48	(1268)	20	(497)	14	(374)	10	(278)	52	(981)	144	(3398)
SSAP1	37	162	1009	18	(375)	18	(196)	10	(141)	10	(118)	6	(67)	62	(897)
ED25	61	177	4327	31	(1162)	24	(1289)	29	(1222)	17	(427)	8	(79)	109	(4179)
	132	550	8828	76	(2805)	36	(1982)	35	(1737)	23	(823)	64	(1127)	231	(8474)
Investment properties															
ED16	7	42	247	19	(67)	15	(65)	18	(50)	7	(23)	6	(15)	65	(220)
ED26	18	126	1454	44	(698)	21	(352)	9	(116)	16	(92)	17	(146)	107	(1404)
	25	168	1701	60	(765)	28	(417)	23	(166)	20	(115)	23	(161)	154	(1624)
Foreign currencies															
ED16	6	52	247	25	(91)	16	(64)	15	(38)	6	(29)	1	(1)	63	(223)
ED21	32	183	1901	45	(675)	23	(493)	26	(428)	7	(100)	16	(112)	117	(1808)
ED27	36	197	2616	46	(1057)	20	(629)	12	(304)	13	(261)	16	(261)	108	(2512)
	74	432	4764	80	(1823)	34	(1186)	34	(770)	16	(390)	32	(374)	196	(4543)
Group accounts															
ED20	19	205	1088	28	(234)	18	(380)	23	(325)	10	(63)	6	(9)	85	(1011)
IAS10															
ED22	13	67	1143	29	(330)	23	(334)	19	(257)	11	(143)	8	(37)	90	(1101)
ED23	14	78	812	19	(196)	21	(214)	26	(233)	9	(71)	6	(53)	81	(767)
	27	145	1955	33	(526)	29	(548)	27	(490)	16	(214)	12	(90)	117	(1868)
TOTAL	277	1500	18,336	167	(6153)	54	(4513)	42	(3488)	43	(1605)	125	(1761)	424	(17520)

Notes:
1 The number of AMENDMENT proposals is made up of those specific to the Exposure Draft; plus a number of general proposals made in written comments on each Exposure Draft. All proposals are listed in Appendix 2 at the end of the present study.
2 The number of cases is made up of the total votes cast in written comments; plus new AMENDMENTs accepted but not proposed in any written comment; and the two cases used to determine the CHANGE on each ORIGINAL proposal.
3 The aggregate numbers of commentators are net of those who commented on more than a single issue and net of those classified inconsistently by the ASC.

19.3 CONTINGENCY TABLES

19.3.1 Introduction

At this level of analysis, each datum represents a proposal as defined in Chapter 18 "Research approach and method". Briefly, an ORIGINAL proposal is the smallest identifiable statement of definition or requirement contained in an Exposure Draft, or other input document, and an AMENDMENT proposal is the smallest identifiable statement of definition or requirement contained in a letter of comment on that Exposure Draft.

The two primary contingency tables, 19.3.2A and 19.3.3A, exhibit the data corresponding to the a priori tables contained in Figure 17.5 "Contingency tables of the relationship between CHANGE and AMV" As such, the individual values of AMV are collapsed down to -1, 0 and 1 to indicate only the negative, nil and positive values, that is the direction, of AMV corresponding to Figure 17.5. There are no cases for which AMV = 0 on ORIGINAL proposals or for which AMV < 0 on AMENDMENT proposals.

These two tables form the basis of Test 1 to Test 4 set out above in Chapter 18 "Research approach and method".

Two secondary tables, 19.3.2B and 19.3.3B, follow these primary tables. The behaviour of the data against values of AMV for which the hypotheses of Chapter 17 "A naive voting model" predict a change, that is CHANGE $\neq$ 0, is explored in the secondary tables by disaggregating the non-zero values of AMV. In the case of ORIGINAL proposals, this applies to AMV < 0 and in the case of AMENDMENT proposals, this applies to AMV > 0 In this sense, the focus of attention is moved to the relationship between CHANGE and the size of AMV. The results are presented in the tables 19.3.2B and 19.3.3B and they correspond to the a priori tables contained in Figure 17.6 "Tables of the sensitivity of the professional accounting standards setting processes to

participants' preferences".

These two secondary tables form the basis of Test 5 set out above in Chapter 18 "Research approach and method".

In some of the contingency tables, one or more of the cells have expected frequencies of less than five and as a result the computed chi-square statistics and their significances will be overstated. Where possible, the cells have been collapsed to minimise this effect. It has been assumed that cell frequencies as low as one do not result in a substantial overstatement of the significance of chi-square provided that no more than 20% of all cells have expected frequencies less than five [Siegel 1956, p.201]. SCSS indicates those tables where this is a problem, and the expected frequencies have also been indicated In the special case of a 2x2 table with sample size of 20 or less, Fisher's exact test is substituted in place of chi-square. For other 2x2 tables, Yates' correction is adopted.

The tables are taken directly as output from the SCSS conversational statistical package. The SCSS manual [Nie et al 1980] explains the output, but briefly, the three values in each cell are, from the top, actual frequency, expected frequency and row percentage. The columns represent the values of CHANGE and the rows the values of AMV. The corresponding total frequency of each is also shown.

19.3.2 ORIGINAL PROPOSALS

Commentary on Contingency Table 19.3.2A: Relationship between CHANGE and AMV for ORIGINAL proposals

Contingency Table 19.3.2A reflects the *a priori* table for ORIGINAL proposals contained in Figure 17.5 "Contingency tables of the relationship between CHANGE and AMV". In particular, there are no ORIGINAL proposals for which AMV=0. That is, every proposal was voted on by at least one participant. This is unsurprising. During coding it was noticed that it was quite common for participants to express a general approval or disapproval on all ORIGINAL proposals in an Exposure Draft.

This contingency table provides the basis for the tests, Test 1, Test 2 and Test 4, and, in conjunction with Contingency Table 19.3.3A below, Test 3, all set out above in Figure 18.5 "The tests summarised" and applied to ORIGINAL proposals.

Test 1 is a test of the null hypothesis for ORIGINAL proposals

H_{01} there is no relationship between the *direction* of the majority vote on a particular proposal and the outcome for that proposal.

The test uses the significance of the chi-square statistic after applying Yates' correction for a 2x2 table.

The resultant chi-square statistic is significant at the 5% level (and at better than the 0.1% level). This is inconsistent with the maintained null hypothesis, H_{01}, for ORIGINAL proposals.

The null hypothesis, then, is rejected and we conclude that there is a relationship between the direction of the majority vote on a particular ORIGINAL proposal and the outcome for that proposal. Although the precise nature of the relationship is as yet unexplained, this conclusion leads immediately to positive responses to the elementary questions posed above in Section 17.1 "Introduction" of Chapter 17 "A naive voting model". These are "Are the UK professional accounting standards setting processes in any sense political?" and "Do votes count?". It is clear that we can now make such statements as "Votes count" and "The UK professional accounting standards setting processes are political".

Test 2 is a test of the null hypothesis for ORIGINAL proposals

H_{02} the probability of CHANGE is zero.

The test uses the significance of a proportion.

The resultant visual inspection of the cell AMV=-1,CHANGE=-1 shows the influence, or probability of CHANGE, to be 0.57. That is, in those cases where the majority vote was against an ORIGINAL proposal, 57% were then removed from the accounting standard or other output document.

The resultant probability of CHANGE is significant at the 5% level (and at better than the 0.1% level). This is inconsistent with the maintained null hypothesis, H_{02}, for ORIGINAL proposals.

The null hypothesis, then, is rejected and we conclude that there is a non-zero level of influence for ORIGINAL proposals.

Test 3 is not conducted in this section. It is conducted below in Section 19.3.3 "Amendment proposals".

Test 4 is a test of the null hypothesis for ORIGINAL proposals **H_{04} there are no occurrences of logically impossible data.**

There is no statistic associated with this test. A visual inspection of the table indicates whether or not such data occur.

The resultant visual inspection demonstrates that there are 40 outliers in the cell AMV=1,CHANGE=-1. These outliers represent ORIGINAL proposals for which there was an absolute majority vote in favour, which were nevertheless rejected by the UK professional accounting standards setting processes. This is the exact opposite of the model's prediction. Brief descriptive data relating to these outliers are listed in Appendix 8 "Outliers" at the end of the present study. These outliers have not been explained in terms of the present study and so provide an opportunity for a further research study. Such a study would use a different research method such as questionnaire and interview.

A natural question arising from Contingency Table 19.3.2A is argued above, in Section 17.2.4 "Stage three: A sensitivity extension of the probabilistic model of influence", to be whether or not negative values of AMV, when disaggregated, characteristically distinguish between ORIGINAL proposals which have been rejected and those which have not. This is explored in the second following Table 19.3.2B.

CONTINGENCY TABLE 19.3.2A: RELATIONSHIP BETWEEN CHANGE AND AMV FOR ORIGINAL PROPOSALS

1/4 (25.0%) OF THE VALID CELLS
HAVE EXPECTED CELL FREQUENCY LESS THAN 5.0.
MINIMUM EXPECTED CELL FREQUENCY = 2.426

	CHI-SQ = 16.316	SIG. = .000	DF = 1
CORR.	CHI-SQ = 13.520	SIG. = .000	

ACROSS - CHANGE
DOWN - AMV

N,E;R%	-1.	0.	TOTAL
-1.	8	6	14
	2.4	11.6	
	57.1	42.9	
1.	40	223	263
	45.6	217.4	
	15.2	84.8	
TOTAL	48	229	277 There are 277 original proposals
	17.3	82.7	

Note:

The commentary for this table is on the preceding pages and the description of the presentation is above in Section 19.3.1 "Introduction". The cells each contain the number of occurences; the expected frequency; and the row percentages. Each datum represents an ORIGINAL proposal. Each row represents a different set of values of Absolute Majority Vote (AMV), where -1 represents majority votes against; and 1 represents majority votes in favour. Each column represents a different value of CHANGE, where -1 represents rejection and 0 represents no change. Yates' correction for a 2x2 table is adopted in computing the chi-square value.

The table shows that most (83%) of the proposals were accepted. Of those that were rejected, 40 represent outliers for the present study and so require further research; they are outliers in the sense that they were rejected even though AMV was in favour. Of those for which AMV was against, 51% were rejected; this is the measure of "influence" for this table.

Both the measure of influence and chi-square are significantly different from zero. Further tests are conducted on these data in the following table.

Commentary on Contingency Table 19.3.2B: Relationship between CHANGE and negative values of AMV for ORIGINAL proposals

Contingency Table 19.3.2B disaggregates the negative values of AMV to explore the question of whether AMV characteristically distinguishes between ORIGINAL proposals which have been rejected and those which have not.

This contingency table provides the basis for Test 5 set out above in Figure 18.5 "The tests summmarised" and applied to ORIGINAL proposals.

Test 5 is a test of the null hypothesis for ORIGINAL proposals

H_{05} there is no relationship between the size of the majority vote on a particular proposal and the outcome for that proposal.

The test uses the one-tailed significance both of Fisher's exact test for a 2x2 table with small sample; and of the t-statistic based on Goodman & Kruskal's gamma. Cramer's V (phi in the case of this 2x2 table) is provided for comparative purposes when used below in Section 19.5 "Tabulation of summary results".

Neither resultant statistic is significant at the 5% level. The t-statistic is only significant at the 30% level This is not inconsistent with the maintained null hypothesis, H_{05}, for ORIGINAL proposals.

The null hypothesis, then, is not rejected and we conclude that it cannot be said that there is a relationship between the size of the majority vote on a particular ORIGINAL proposal and the outcome for that proposal. It is interesting to speculate whether or not the same result would have held had the set of data been larger.

Clearly, for the current data set the size of AMV does not characteristically distinguish between ORIGINAL proposals which have been rejected and those which have not. This result does not justify transformation of these data into interval measures based on the probability of change. Test 6 cannot be conducted for these data.

CONTINGENCY TABLE 19.3.2B: RELATIONSHIP BETWEEN CHANGE AND NEGATIVE VALUES OF AMV FOR ORIGINAL PROPOSALS

4/4 (100.0%) OF THE VALID CELLS
HAVE EXPECTED CELL FREQUENCY LESS THAN 5.0.
MINIMUM EXPECTED CELL FREQUENCY = 3.000

FISHER EXACT = .296 (1-TAILED) = .592 (2-TAILED)
CORR. CHI-SQ = .292 SIG. = .589 DF = 1
PHI = .289
GAMMA = .538 TVAL = 1.128

ACROSS - CHANGE
DOWN - AMV

N,E;R%	-1.	0.	TOTAL
-19 to -3	5	2	7
	4.0	3.0	
	71.4	28.6	
-2 to -1	3	4	7
	4.0	3.0	
	42.9	57.1	
TOTAL	8	6	14
	57.1	42.9	

Note

The commentary for this table is on the preceding pages and the description of the presentation is above in Section 19.3.1 "Introduction". The cells each contain the number of occurences; the expected frequency; and the row percentages. Each datum represents an ORIGINAL proposal. Each row represents a range of values of Absolute Majority Vote (AMV). Each column represents a different value of CHANGE, where -1 represents rejection and 0 represents no change. The Fisher exact statistic is adopted in place of chi-square because this is a small sample. The significance of the gamma statistic takes advantage of the ordinal properties of the data and phi is provided for inclusion in summary tables below.

None of these statistics are significant. No further tests on these data are conducted.

19.3.3 AMENDMENT PROPOSALS

Commentary on Contingency Table 19.3.3A: Relationship between CHANGE and AMV for AMENDMENT proposals

Contingency Table 19.3.3A reflects the a priori table for AMENDMENT proposals contained in Figure 17.5 "Contingency tables of the relationship between CHANGE and AMV". In particular, there are no AMENDMENT proposals for which AMV < 0. This is expected because the coding scheme assumes that AMENDMENT proposals were not public knowledge and so were not to be voted against. This result is not a test of that assumption; rather it is an outcome of the assumption itself.

This contingency table provides the basis for the tests, Test 1, Test 2 and Test 4, and, in conjunction with Contingency Table 19.3.2A above, Test 3, all set out above in Figure 18.5 "The tests summarised" and applied to AMENDMENT proposals.

Test 1 is a test of the null hypothesis for AMENDMENT proposals

H_{01} **there is no relationship between the direction of the majority vote on a particular proposal and the outcome for that proposal.**

The test uses the significance of the chi-square statistic after applying Yates' correction for a 2x2 table.

The resultant chi-square statistic is significant at the 5% level (and at better than the 0.1% level). This is inconsistent with the maintained null hypothesis, H_{01}, for AMENDMENT proposals.

The null hypothesis, then, is rejected and we conclude that there is a relationship between the vote on a particular AMENDMENT proposal and the outcome for that proposal. As for ORIGINAL proposals, although the precise nature of the relationship is as yet unexplained, this conclusion leads again to such statements as "Votes count" and "The UK professional accounting standards setting processes are political".

Test 2 is a test of the null hypothesis for AMENDMENT proposals

H_{02} the probability of a CHANGE is zero.

The test uses the significance of a proportion.

The resultant visual inspection of the cell AMV=1,CHANGE=1 shows the probability of CHANGE, or influence, to be 0.14 That is, in those cases where the majority vote was in favour of an AMENDMENT proposal, 14% were then adopted in the accounting standard or other output document.

The resultant probability of CHANGE is significant at the 5% level (and at better than the 0.1% level). This is inconsistent with the maintained null hypothesis, H_{02}, for AMENDMENT proposals.

The null hypothesis, then, is rejected and we conclude that there is a non-zero level of influence for AMENDMENT proposals.

Test 3 is a test of the null hypothesis

H_{03} there is no difference between the probability of CHANGE for ORIGINAL proposals and for AMENDMENT proposals.

The test uses the significance of the difference between two proportions.

The resultant Z-statistic for the difference between the two probabilities of CHANGE is Z = 4.56. This is significant at the 5% level and at better than the 0.1% level. This is inconsistent

with the maintained null hypothesis, H_{03}.

The null hypothesis, then, is rejected and we conclude that there is a difference between the probability of CHANGE for ORIGINAL proposals and for AMENDMENT proposals. Separate analyses should be conducted on each.

Test 4 is a test of the null hypothesis for AMENDMENT proposals **H_{04} there are no occurrences of logically impossible data.**

There is no statistic associated with this test. A visual inspection of the table indicates whether or not such data occur.

The resultant visual inspection demonstrates that there are 77 outliers in the cell AMV=0,CHANGE=1. These outliers represent AMENDMENT proposals for which there was no absolute majority vote in either direction, which were nevertheless adopted by the UK professional accounting standards setting processes and embodied in the final outcome. Brief descriptive data relating to these outliers are listed in Appendix 8 "Outliers" at the end of the present study. These outliers have not been explained in terms of the present study and so provide an opportunity for a further research study using a different research method such as questionnaire and interview.

A natural question arising from Contingency Table 19.3.3A is argued above in Section 17.2.4 "Stage three: A sensitivity extension of the probabilistic model of influence" to be whether or not positive values of AMV, when disaggregated, characteristically distinguish between AMENDMENT proposals which have been accepted and those which have not. This is explored in the second following Table 19.3.3B.

CONTINGENCY TABLE 19.3.3A: RELATIONSHIP BETWEEN CHANGE AND AMV FOR AMENDMENT PROPOSALS

CHI-SQ = 369.759 SIG. = .000 DF = 1
CORR. CHI-SQ = 363.926 SIG. = .000

ACROSS - CHANGE
DOWN - AMV

N,E;R%	0.	1.	TOTAL
0.	0	77	77
	63.1	13.9	
	.0	100.0	
1.	1230	193	1423
	1166.9	256.1	
	86.4	13.6	
TOTAL	1230	270	1500 There are 1500 amendment proposals
	82.0	18.0	

Note

The commentary for this table is on the preceding pages and the description of the presentation is above in Section 19.3.1 "Introduction". The cells each contian the number of occurrences; the expected frequency; and the row percentages. Each datum represents an AMENDMENT proposal. Each row represents a different set of values of Absolute Majority Vote (AMV), where 0 represents no majority (in fact, no votes cast); and 1 represents majority votes in favour. Each column represents a different value of CHANGE, where 0 represents no change and 1 represents acceptance. Yates' correction for a 2x2 table is adopted in computing the chi-square value.

The table shows that, of those proposals that were accepted, 77 represent outliers for the present study and so require further research; they are outliers in the sense that they were accepted even though AMV was equal to zero. Of these for which AMV was in favour, 14% were accepted; this is the measure of "influence" for this table.

Both the measure of influence and chi-square are significantly different from zero. Further tests are conducted in these data in the following table.

Commentary on Contingency Table 19.3.2B: Relationship between CHANGE and positive values of AMV for AMENDMENT proposals

Contingency Table 19.3.3B disaggregates the positive values of AMV to explore the question of whether AMV characteristically distinguishes between AMENDMENT proposals which have been accepted and those which have not.

This contingency table provides the basis for Test 5 set out above in Figure 18.5 "The tests summmarised" and applied to AMENDMENT proposals.

Test 5 is a test of the null hypothesis for AMENDMENT proposals

H_{05} **there is no relationship between the size of the majority vote on a particular proposal and the outcome for that proposal.**

The test uses the significance both of chi-square; and of the t-statistic (one-tailed) based on Goodman & Kruskal's gamma. Cramer's V is provided for comparative purposes when used below in Section 19.5 "Tabulation of summary results".

The resultant statistics are significant at the 5% level (and at better than the 0.1% level). This is inconsistent with the maintained null hypothesis, H_{05}, for AMENDMENT proposals. In fact, the pattern of row percentages in the CHANGE = 1 column is quite dramatic, increasing from 9% through 14%, 14%, 16%, 22%, 35% to 42%.

The null hypothesis, then, is rejected and we conclude that there is a relationship between the size of the majority vote on a particular AMENDMENT proposal and the outcome for that proposal.

Clearly, when disaggregated, the size of AMV does characteristically distinguish between AMENDMENT proposals which have been accepted and those which have not. This result justifies transformation of these data into interval measures based on the probability of change to explore the nature of this relationship. Test 6 can be conducted on these data.

CONTINGENCY TABLE 19.3.3B: RELATIONSHIP BETWEEN CHANGE AND POSITIVE VALUES OF AMV FOR AMENDMENT PROPOSALS

CHI-SQ = 79.746	SIG. = .000	DF = 6	
CRAMER'S V = .237			
GAMMA = .404	TVAL = 6.296		

ACROSS - CHANGE
DOWN - AMV

N,E;R%	0.	1.	TOTAL	N,E;R%	0.	1.	TOTAL
1.	754	75	829	5.	29	8	37
	716.6	112.4			32.0	5.0	
	91.0	9.0			78.4	21.6	
2.	206	34	240	6-10.	50	27	77
	207.4	32.6			66.6	10.4	
	85.8	14.2			64.9	35.1	
3.	95	16	111	11-32.	28	20	48
	95.9	15.1			41.5	6.5	
	85.6	14.4			58.3	41.7	
					.....	.....	.....
4.	68	13	81	TOTAL	1230	193	1423
	70.0	11.0			86.4	13.6	
	84.0	16.0					

Note

The commentary for this table is on the preceding pages and the description of the presentation is above in Section 19.3.1 "Introduction". The cells each contain the number of occurences; the expected frequency; and the row percentages. Each datum represents an AMENDMENT proposal. Each row represents a range of values of Absolute Majority Vote (AMV). Each column represents a different value of CHANGE, where 0 represents no change and 1 represents acceptance. The significance of the gamma statistic takes advantage of the ordinal properties of the data and Cramer's V is provided for inclusion in summary tables below.

The table shows that there is a relationship between CHANGE and increasing positive values of AMV. In fact the relationship is quite dramatic, with the pattern of row percentages in the CHANGE = 1 column increasing from 9%, through 14%, 16%, 22%, 35% to 42%.

The chi-square and gamma statistics are significantly different from zero. This justifies transformation of these data and Test 6 can be conducted.

19.4 SCATTERGRAPHS AND LINEAR REGRESSIONS

19.4.1 Introduction

At this level of analysis, each datum represents the proportion, P, of proposals which were changed, associated with each value of the absolute majority vote, AMV, on those proposals.

As for the contingency tables above, the material is taken as direct output from the SCSS package. The SCSS manual explains the output, but briefly, the informatiom underneath each scattergraph gives summary statistics for the data. In particular:

SIGF represents the two-tailed probability that the population variables have zero correlation coefficient and zero regression coefficient. In the present study the one-tailed significance test is used because we have a priori expectations for the directions of the slopes of the regression lines. The SIGF number is to be divided by two.

SEE represents the "standard error of the estimate", that is, the standard deviation of the residuals.

+03 represents the exponent, +n, of the tenth power used for small and large numbers. For example, 2.+03 represents 2,000 and 2.-03 represents 0.002.

In addition:

RP represents the end-points of the line of P regressed on the other variable. SCSS generates both regression lines, one of which is redundant in the present study.

One scattergraph is presented, based on AMENDMENT proposals. Within this class of proposal, the scattergraph plots the proportion, P, of proposals on which the UK professional accounting standards setting process changed its position, against the size of the absolute majority vote, AMV, which is associated with that change in position.

The small sample of proposals from which the proportion, P, is computed results in a high probability for the occurrence of points for which P=0 or P=1. The scattergraphs exclude these points as outliers as discussed in Chapter 18 "Research approach and method" To illustrate the effect of removing these outliers, the raw scattergraph, that is with the outliers included, is reproduced in Appendix 8 "Outliers" at the end of the present study. Outlier rejection results in a significant improvement in the "fit" of the linear model. In particular, for AMENDMENT proposals, outlier rejection has the effect of both increasing the square of the correlation coefficient, R^2, from 0.000 to 0.469 and reducing the one-tailed significance level from 0.471 to better than 0.001. This illustration must, however, be qualified. The argument presented above in Section 18.6.2 "Outliers in interval level data" suggested that inclusion of these outlying data would be misleading because they are being generated by a mechanism quite different from that being investigated in the present study. The quoted improvement is illusory; the raw statistics are not meaningful.

19.4.2 ORIGINAL PROPOSALS

The conclusion drawn above, in the commentary to Contingency Table 19.3.2B "Relationship between CHANGE and negative values of AMV for ORIGINAL proposals", was that the result did not justify transformation of the ordinal level of measurement data for ORIGINAL proposals into interval level measures. No regression results are presented for ORIGINAL proposals.

19.4.3 AMENDMENT PROPOSALS

Commentary on Scattergraph 19.4.3: Relationship between P and AMV for AMENDMENT proposals

Scattergraph 19.4.3 shows the proportion of AMENDMENT proposals which were changed, that is accepted, against the absolute majority vote, AMV, in favour of these proposals. The analysis is based on the data in Contingency Table 19.3.3B above. The number of points, N=17, corresponds to the number of values of AMV in Contingency Table 19.3.3B (before collapsing the cells but after removing the outliers; inclusion of the outliers would bring the number of points to N=25 shown beneath the scattergraph). For each of these values of AMV, the proportion, P, of AMENDMENT proposals which were changed has been computed. For example, from Contingency Table 19.3.3B it can be seen that for AMV=4 then P=0.16.

This scattergraph provides the basis for Test 6 set out above in Figure 18.5 "The tests summarised" and applied to AMENDMENT proposals. Test 6 is a test of the following null hypothesis for AMENDMENT proposals.

H_{06} the correlation and regression coefficients of the regression line are both equal to zero.

Test 6 has two components. Firstly, the test uses a visual inspection of the scattergraph to assess the reasonableness of the fit of the linear model. Secondly, the test uses the t-statistic to determine the significance of any non-zero values of the coefficients as a basis for the quantification of that fit.

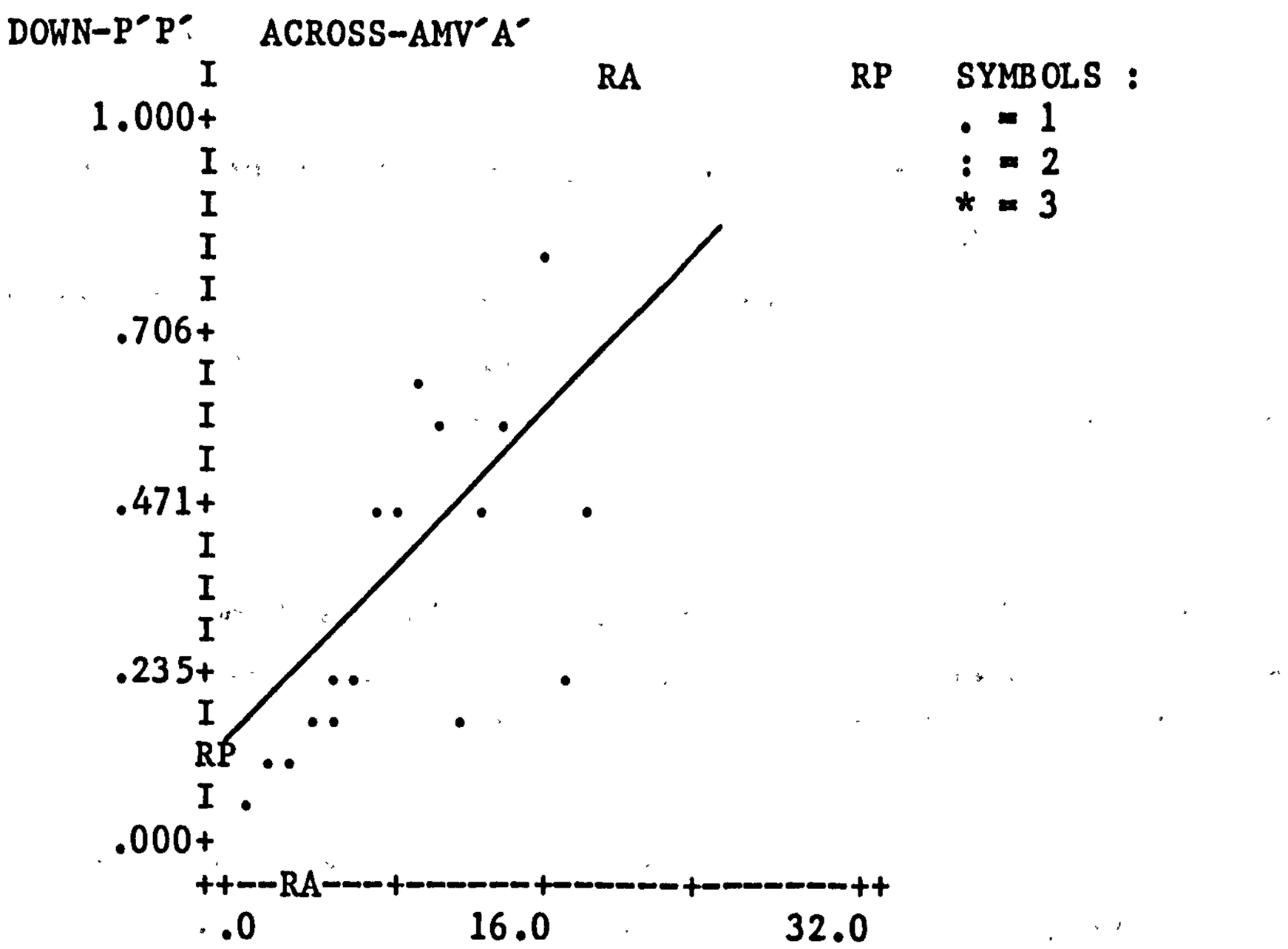
The resultant visual inspection confirms that, as predicted by Figure 17.7 "Graphs of the sensitivity of ASC to participants' preferences", the plot is approximated by a linear relationship. However, the plot may well be heteroscedastic [Koutsoyiannis 1977, pp.184-190]. This implies that the significance tests are not likely to be applicable, although the coefficeint estimates will still be unbiased. To explore this, the data were transformed by plotting each of the following
P v. log(AMV); log(P) v. log(AMV); P/AMV v. 1/AMV; and
$P/(AMV)^{0.5}$ v. $(AMV)^{0.5}$, $(AMV)^{-0.5}$

In each of the above plots of transformed data, visual inspection suggested the continued presence of heteroscedasticity. The reported significance levels improved only in the case of the log-log transformation. In that latter case, the estimate of the slope parameter for the original data is not significantly different (at the 95% level and based on the heteroscedastic significance data) from the estimate given by the untransformed data. Given this result, and the fact that the individual plots of the data when disaggregated (reproduced in Appendices 3 to 5 at the end of the present study) do not suggest they are heteroscedastic, no further consideration is given to this point.

The resultant correlation coefficient, R, is 0.685 and the slope parameter is 0.03. They are both significantly different from zero at the 5% level (and at better than the 0.1% level). This is inconsistent with the maintained null hypothesis, H_{06}, for AMENDMENT proposals. The significance test is one-tailed.

The null hypothesis, then, is rejected and we conclude that both the correlation coefficient and the regression coefficient are significantly different from zero. In particular, the linear model is a fairly good fit. With only one independent variable, AMV, the model is able to explain some 47% (R^2 = 0.469) of the total variance in P, the probability of CHANGE. The sensitivity measure is 0.03, that is, a marginal increase in AMV of one vote is associated with an increase in the probability of CHANGE of 0.03.

SCATTERGRAPH 19.4.3: RELATIONSHIP BETWEEN P AND AMV FOR AMENDMENT PROPOSALS



	MEAN	SD	R	RSQ	SIGF	SLOPE	INTCP	SEE	N
P	.36	.22	.685	.469	.001	3.-02	.10	.17	17
AMV	9.18	5.32				16.38	3.20	4.00	17
AMV	14.24	9.21							25

Note

The commentary for this graph is on the preceding pages and the description of the presentation is above in Section 19.4.1 "Introduction". The graph indicates the proportion of AMENDMENT proposals accepted (on the vertical axis) for each value of AMV (on the horizontal axis). For some values of AMV there was only one proposal and its acceptance or rejection results in a value of P = 1 or P = 0. These values have been excluded as outliers (see Section 18.6 "Treatment of outliers").

The graph shows that there is an approximately linear relationship between P and AMV. The linear model captures 47% of the variance in P (R^2 = 0.469) and the measure of sensitivity is 0.03 (Slope = 3×10^{-2}). Both are significantly different from zero at the 0.1% level (SIGF = .001). The apparent heteroscedasticity is discussed in the commentary.

19.5 TABULATION OF SUMMARY RESULTS

19.5.1 Introduction

In addition to the results presented above, the data were disaggregated across three classifications, each operating somewhat in the nature of independent variables. They are not formally modelled as such in the present study because they use only nominal level measurement scales The classification schemes adopted are as follows.

By **ASC's own Group classification**, noted above in Chapter 17 as

> **companies; professional firms of accountants; representative bodies of accountants; other representative bodies; and individuals & others.**

By **Issue**, defined above in Chapter 18 as

> **a process which starts with an Exposure Draft, or other document, on which the ASC has asked for public comment and terminates with the final publication of a Statement of Standard Accounting Practice.**

The Issues are listed above in Figure 18.1 "Issues selected for analysis".

By **Exposure Draft**, as listed above in Figure 18.2 "UK Exposure Drafts selected for analysis".

Such a disaggregation produces voluminous quantities of results. This is particularly so when the disaggregation is performed on two independent variables simultaneously rather than separately.

To make the task of reviewing these results tractible, they are summarised in the following tables.

Summary Table 19.5.1 Results for the contingency tables: Original proposals by Issue and Group;
Summary Table 19.5.2 Results for the contingency tables: Amendment proposals by Issue and Group;
Summary Table 19.5.3 Results for the contingency tables: Amendment proposals by Exposure Draft and Group;
Summary Table 19.5.4 Results for the linear regressions: Amendment proposals by Issue and Group;
Summary Table 19.5.5 Results for the linear regressions: Amendment proposals by Exposure Draft and Group.

The raw disaggregation results are reproduced in Appendices 3 to 7 at the end of the study.

19.5.2 Summary contingency results

The first three summary tables present the contingency table results. Each cell of the table represents a separate contingency table and contains four elements (or lines). Where the probability of CHANGE is significant at or better than the 5% level, then this has been highlighted by using a **bold** typeface for the first element Where the chi-square (or Fisher's exact in the case of a 2x2 table with small sample) statistic is significant at or better than the 5% level, this has been highlighted by using a **bold** typeface for the remaining three elements. Where there are insufficient data for any statistic to be computed for a given contingency table, this has been indicated by using an asterisk.

The summary tables have been constructed as follows. For each table, the main body contains the results for the contingency tables after disaggregation by both independent variables simultaneously. The end-row and end-column of the table each contain the results for the contingency tables after disaggregation by the single independent variable indicated for that row or column. The intersection of the end-row and end-column contains the results for the single contingency table for the entire data set prior to disaggregation. These last results correspond to those presented above in the Contingency Tables 19.3.2B and 19.3.3B.

The four elements of each cell are

1 the probability of CHANGE and, after the "/", its significance.
The probability of CHANGE is the measure of influence described above in Section 17.2.3 "Stage two: A probabilistic model of influence" and used as part of Test 1 and Test 7. Its significance is the probability that the influence is equal to zero.

2 the value of Cramer's V statistic (or phi for a 2x2 table).
This is the standardised version of chi-square which can be used for visual comparisons between tables in Test 8.

3 the significance level for the chi-square and Cramer's V (or phi) statistics.
This is the probability that the data are randomly distributed in a table with fixed marginals and is used as a test for the existence of a sensitivity relationship in Test 5 and Test 8.

4 the one-tailed significance level of the t-statistic for the gamma statistic.
This is the probability that the gamma statistic (a measure of the concordance of pairs of data) is equal to zero and is used as a supporting indication of the existence of a sensitivity relationship in Test 5 and Test 8.

Commentary on Summary Table 19.5.1: Results for the contingency tables: Original proposals by Issue and Group

Summary Table 19.5.1 shows the contingency table results for ORIGINAL proposals disaggregated by Issue in the rows and by Group in the columns. Each cell of the table presents the contingency results for a sub-set of the data on which Contingency Table 19.3.2B is based.

This summary table provides the basis for Test 7 and the first step of Test 8, both set out above in Figure 18.5 "The tests summarised" and both applied to ORIGINAL proposals.

Test 7 is a test of the null hypothesis for ORIGINAL proposals

H_{07} **there is no relationship between the class to which a participant belongs and the influence of that participant's preferences over the outcome of the UK professional accounting standards setting processes.**

Test 7 uses the test of differences between proportions to test the homogeneity of the separate proportions In the first element of each cell are presented both the proportion of ORIGINAL proposals CHANGEd and, after the "/", its significance.

In most cells there are insufficient data for statistics to be generated. Few of such statistics as are generated are significant at the 5% level. Test 7 is not conducted on these data.

Test 8 is a test of the null hypothesis for ORIGINAL proposals

H_{08} **there is no relationship between the class to which a participant belongs and the sensitivity of the outcome of the UK professional accounting standards setting processes to that participant's preferences.**

The first step of Test 8 uses Cramer's V (or phi in the case of a 2x2 table); its associated significance test (the chi-square significance test); and the significance of the t-statistic associated with Goodman & Kruskal's gamma. These summary statistics are presented as the next three elements respectively of each cell.

In most cells there are insufficient data for statistics to be generated. Such statistics as are generated are not significant at the 5% level (based on the chi-square significance test) This result does not justify transformation of these data into interval level measures based on the probability of CHANGE. Test 8 is not conducted on these data.

SUMMARY TABLE 19.5.1: RESULTS FOR THE CONTINGENCY TABLES: ORIGINAL PROPOSALS BY ISSUE AND GROUP

Issue	Companies	Firms of Acc'tnts	Bodies of Acc'tnts	Other Bodies	Others	Aggreg
1 Assoc coys	*	.14/ * 1.000 .143 .25	.18/.01 .413 .393 .25	*	*	*
2 Inv props	*	*	*	*	*	*
3 For'n curr	.46/.00 .141 .563 .40	*	.29/ * .300 .524 .40	*	.6// * .632 .119 .15	.50/.00 .200 .500 .30
4 Group accs	*	*	*	*	*	*
5 IAS10	*	*	*	*	*	*
Aggreg	.50/.00 .000 .715 1.00	.36/ * .624 .109 .20	.24/.01 .411 .060 .20	*	.69/ * .386 .217 .20	.57/.00 .289 .296 .30

Note:

The commentary for this summary table is on the preceding pages and the description of the presentation is above in Section 19.5.2 "Summary contingency results". The table presents the results of separate analyses of the data, on which Contingency Table 19.3.2B is based, disaggregated across Issue and Group. The raw disaggregation results are reproduced in Appendices 3 to 7 at the end of the study.

Each cell contains four elements
1 the measure of "influence" and its significance;
2 the value of Cramer's V (or phi it the underlying table is 2x2);
3 the significance of Cramer's V (or phi) (= significance of chi-square); and
4 the significance of gamma

In most cells there are insufficient data for statistics to be generated and few of such statistics as are generated are significant at the 5% level. This lack of results is consistent with Contingency Table 19.3.2B "Relationship between CHANGE and negative values AMV for ORIGINAL proposals". The summary table is presented here to demonstrate that consistency for ORIGINAL proposals.

Commentary on Summary Table 19.5.2: Results for the contingency tables: Amendment proposals by Issue and Group

Summary Table 19.5.2 shows the contingency table results for AMENDMENT proposals disaggregated by Issue in the rows and by Group in the columns. Each cell of the table presents the contingency results for a sub-set of the data on which Contingency Table 19.3.3B is based.

This summary table provides the basis for Test 7 and the first step of Test 8 both set out above in Figure 18.5 "The tests summarised" and both applied to AMENDMENT proposals.

Test 7 is a test of the null hypothesis for AMENDMENT proposals

H_{07} **there is no relationship between the class to which a participant belongs and the influence of that participant's preferences over the outcome of the UK professional accounting standards setting processes.**

Test 7 uses the test of differences between proportions to test the homogeneity of the separate proportions In the first element of each cell are presented both the proportion of AMENDMENT proposals CHANGEd and, after the "/", its significance.

In the resultant test, none of the disaggregations are significantly heterogeneous at the 5% level. For the disaggregation by Issue Z = 1.74, which is significant at the 8% level; and by Group Z = 1.80, which is significant at the 7% level. For the disaggregation by both Issue and Group simultaneously Z = 0.72, which is only significant at the 47% level. This is not inconsistent with the maintained null hypothesis, H_{07}, for AMENDMENT proposals.

The null hypothesis, then, is not rejected and we conclude that it cannot be said that there is a relationship between the class to which a participant belongs and the influence of that participant's preferences over the UK professional accounting standards setting processes. Howver, the significance of the two single disaggregations by Issue and by Group are sufficiently close to the 5% accept/reject criterion to suggest the existence of a partial relationship which warrants further investigation.

Test 8 is a test of the null hypothesis for AMENDMENT proposals

H_{08} **there is no relationship between the class to which a participant belongs and the sensitivity of the outcome of the UK professional accounting standards setting processes to that participant's preferences.**

The first step of Test 8 uses Cramer's V (or phi in the case of a 2x2 table); its associated significance test (the chi-square significance test); and the significance of the t-statistic associated with Goodman & Kruskal's gamma. These summary statistics are presented as the next three elements respectively of each cell.

In the end-column and end-row cells, representing disaggregation by either Issue or Group, the resultant individual Cramer's V statistics are all significant at the 5% level (and the majority at better than the 0.1% level, based on the chi-square significance test). This result suggests transformation of these data into interval level measures based on the probability of CHANGE disaggregated by Issue and Group independently. Test 8 is conducted for these data.

In the other cells, representing disaggregation by both Issue and Group simultaneously, most of the resultant individual Cramer's V statistics are not significant at the 5% level (based on the chi-square significance test). This result does not suggest transformation of these data into interval level measures based on the probability of CHANGE disaggregated by both Issue and Group simultaneously. Test 8 is not conducted for these data.

SUMMARY TABLE 19.5.2: RESULTS FOR THE CONTINGENCY TABLES: AMENDMENT PROPOSALS BY ISSUE AND GROUP

Issue	Companies	Firms of Acc'tnts	Bodies of Acc'tnts	Other Bodies	Others	Aggreg
1 Assoc coys	.15/.00 .079 .458 .40	.15/.00 .058 .444 .30	.13/.00 .119 .260 .25	.19/.00 .167 .218 .25	.13/.00 .258 .012 .15	.12/.00 .185 .000 .05
2 Inv props	.21/.00 .351 .074 .15	.13/.00 .003 1.000 *	.21/.00 .116 .715 .40	.30/.00 .336 .158 .20	.12/ * .038 1.000 .50	.13/.00 .204 .037 .15
3 For'n curr	.17/.00 .275 .000 .10	.19/.00 .148 .068 .20	.18/.00 .299 .003 .15	.23/.00 .367 .019 .15	.14/.00 .272 .070 .20	.13/.00 .267 .000 .05
4 Group accs	.12/.01 .004 1.000 *	.18/.00 .167 .136 .20	.20/.00 .131 .338 .25	.24/.00 .200 .967 .40	*	.14/.00 .199 .021 .10
5 IAS10	.18/.01 .184 .500 .25	.26/.00 .400 .001 .10	.27/.00 .224 .085 .15	.19/ * .108 1.000 .30	.26/ * .141 .737 .25	.21/.00 .376 .000 .05
Aggreg	.16/.00 .202 .000 .05	.17/.00 .162 .000 .05	.19/.00 .226 .000 .05	.22/.00 .226 .050 .10	.14/.00 .218 .050 .10	.14/.00 .237 .000 .00

Note

The commentary for this summary table is on the preceding pages and the description of the presentation is above in Section 19.5.2 "Summary contingency results". The table presents the results of separate analyses of the data, on which Contingency Table 19.3.3B is based, disaggregated across Issue and Group. The raw disaggregation results are reproduced in Appendices 3 to 7 at the end of the study.

Each cell contains four elements
1 the measure of "influence" and its significance;
2 the value of Cramer's V (or phi if the underlying table is 2x2);
3 the significance of Cramer's V (or phi) (= significance of chi-square); and
4 the significance of gamma

The summary table shows that in virtually all cells the measure of "influence" is significant. They are not significantly different from each other at the 5% level (the disaggregation by Issue is heterogeneous at the 8% level and by Group at the 7% level). The chi-square statistics are not significant for the disaggregations by both Issue and Group simultaneously and so no further tests are conducted on these. For the other cells, the regression results are generated.

Commentary on Summary Table 19.5.3: Results for the contingency tables: Amendment proposals by Exposure Draft and Group

Summary Table 19.5.3 shows the contingency table results for contingency tables for AMENDMENT proposals disaggregated by Exposure Draft in the rows and by Group in the columns. As such it is a replication of the preceding summary table with Exposure Draft substituted for Issue.

The results are substantially unchanged by this substitution and so the same conclusions follow. That is, the result of Test 7 is not inconsistent with the maintained null hypothesis, H_{07}, for AMENDMENT proposals. For the new disaggregation by Exposure Draft $Z = 1.32$, which is only significant at the 18% level. The null hypothesis, then, is not rejected and we conclude that it cannot be said that there is a relationship between the class to which a participant belongs and the influence of that participant's preferences over the UK professional accounting standards setting processes.

Further, the results justify transformation of these data into interval level measures based on the probability of CHANGE disaggregated by Issue and by Group independently. Test 8 can be conducted for these data only; this is not the case for disaggregation by both Issue and Group simultaneously.

SUMMARY TABLE 19.5.3: RESULTS FOR THE CONTINGENCY TABLES: AMENDMENT PROPOSALS BY EXPOSURE DRAFT AND GROUP

ED	Companies	Firms of Acc'tnts	Bodies of Acc'tnts	Other Bodies	Others	Aggreg
ED1	.10/.00 .038 1.000 .40	.17/.00 .056 .837 .40	.15/.00 .201 .206 .20	.14/.00 .172 .868 .40	.11/.00 .302 .019 .15	.10/.00 .186 .029 .20
SSAP1	.36/.00 .200 .580 .30	.18/.00 .233 .055 .20	.21/.00 .051 1.000 .50	.33/.00 .200 .473 .25	.18/ * .156 1.000 .40	.16/.00 .382 .000 .05
ED16	.14/.00 .181 .547 .25	.16/.00 .035 1.000 .50	.29/.00 .008 1.000 *	.22/ * .454 .222 .25	.17/ * .200 .833 .40	.16/.00 .352 .007 *
ED20	.12/.00 .004 1.000 *	.18/.00 .167 .136 .20	.20/.00 .131 .338 .25	.24/.00 .200 .967 .40	*	.14/.00 .199 .021 .10
ED21	.18/.00 .347 .004 .15	.22/.00 .195 .128 .20	.20/.00 .316 .026 .15	.32/.00 .482 .071 .20	.25/.00 .348 .160 .20	.14/.00 .388 .000 .05
ED22	.16/ * .327 .222 .25	.26/.00 .538 .003 .10	.27/.00 .244 .319 .25	*	.44/ * .316 .556 .25	.23/.00 .377 .009 .10
ED23	.20/ * .063 .624 .50	.26/.00 .281 .143 .20	.27/.00 .214 .271 .20	*	*	.20/.00 .383 .004 .06
ED25	.11/.00 .250 .251 .25	.12/.00 .039 1.000 .40	.07/ * .092 1.000 .40	.05/ * .108 1.000 .20	.19/ * .537 .408 .25	.10/.00 .065 .701 .40
ED26	.21/.00 .293 .281 .20	.11/.00 .029 1.000 .50	.15/.00 .297 .296 .25	.30/.00 .385 .156 .20	.11/ * .000 1.000 *	.11/.00 .248 .022 .10
ED27	.18/.00 .282 .015 .15	.16/.00 .122 .454 .20	.15/.00 .219 .437 .25	.21/.00 .159 .770 .40	.05/ * .219 .729 .40	.13/.00 .150 .125 .20
Aggreg	.16/.00 .202 .000 .05	.17/.00 .162 .000 .05	.19/.00 .226 .000 .05	.22/.00 .226 .050 .10	.14/.00 .218 .050 .10	.14/.00 .237 .000 .00

Note

See the note to Summary Table 19.5.2

19.5.3 Summary regression results

The fourth and fifth summary tables present the regression results for the same data but after transformation into interval level measures. Each cell ot the table represents a regression for a separate data set and presents three statistics. Where the t-statistic is significant at or better than the 5% level, this has been highlighted by using a **bold** typeface. Regression results have only been computed where the corresponding chi-square statistic was, for the preceding contingency tables, significant at the 5% level. Where there are insufficient data tor regression results to be computed for a given data set, this has been indicated by using an asterisk.

These tables have been constructed on the same basis as for the summary table of contingency table results above. As with the summary table of contingency table results above, the intersection of the end-row and end-column contains the results of the single scattergraph for the entire data set before disaggregation. These last results correspond to those presented above in Scattergraph 19.4.2B.

The three elements ot each cell are

1 the regression coefficient (the slope of the regression line).
This is the measure of sensitivity described above in Section 17.2.4 "Stage three: A sensitivity extension of the probabilistic model of influence" and evaluated as part of Test 6 and Test 8.
2 the square of the Pearson product-moment correlation coefficient (R^2).
This is a measure of the degree ot association between P and AMV and is evaluated as part of Test 6 and Test 8.
3 the one-tailed significance level of the t-statistic for the two coefficients.
This is the probability that the two coefficients are equal to zero and is used as a test for the existence of a linear sensitivity relationship in Test 6 and Test 8. It is computed as one-half of the (two-tailed) significance statistic generated by the SCSS package.

Commentary on Summary Table 19.5.4: Results for the linear regressions: Amendment proposals by Issue and Group

Summary table 19.5.4 shows the regression results for AMENDMENT proposals disaggregated by Issue in the rows and by Group in the columns. Each cell of the table represents the regression results for a sub-set of the data on which Scattergraph 19.4.3 is based.

This summary table provides the basis for Test 8 set out above in Figure 18.5 "The tests summarised" and applied to AMENDMENT proposals.

Test 8 is a test of the null hypothesis for AMENDMENT proposals

H_{08} there is no relationship between the class to which a participant belongs and the sensitivity of the outcome of the UK professional accounting standards setting processes to that participant's preferences.

Test 8 uses the F-statistic as a test of the homogeneity of the regression coefficients. The regression coefficient is presented as the first element of each cell, followed by the square of the Pearson product-moment correlation (R^2) and, in the third element, the significance level for both.

In all but two cells, the resultant individual t-statistics for the end-row and end-column disaggregations are all significant at the 5% level (and, in most cases, at better than the 0.1% level). All are significant at the 7% level.

The resultant F-statistic is significant for both disaggregations. For the disaggregation by Issue F = 3.19, df = 4/31, which is significant at the 5% level. For the disaggregation by Group F = 2.72, df = 4/20, which is significant at the 10% level; when the two Group classes that are not individually significant at the 5% level (that is, "Other bodies" and "Others") are combined, then F = 3.65, df = 3/22, which is significant at the 5% level.

The null hypothesis, then, is rejected and we conclude that there is a relationship between the class to which a participant belongs and the sensitivity of the outcome of the UK professional accounting standards setting processes to that participant's preferences.

Particularly interesting is the difference between the sensitivity measure for "Companies" (0.2) and for "Representative bodies of accountants" (0.7).

SUMMARY TABLE 19.5.4: RESULTS FOR THE LINEAR REGRESSIONS: AMENDMENT PROPOSALS BY ISSUE AND GROUP

Issue	Companies	Firms of Acc'tnts	Bodies of Acc'tnts	Other Bodies	Others	Aggreg
1 Assoc coys	*	*	*	*	*	.04 .687 .001
2 Inv props	*	*	*	*	*	.04 .981 .000
3 For'n curr	*	*	*	*	*	.02 .651 .000
4 Group accs	*	*	*	*	*	.02 .773 .003
5 IAS10	*	*	*	*	*	.04 .355 .040
Aggreg	.02 .222 .043	.06 .639 .005	.07 .943 .002	.16 .841 .065	.05 .630 .057	.03 .469 .001

Note:

The commentary for this summary table is on the preceding pages and the description of the presentation is above in Section 19.5.3 "Summary regression results". The table presents the results of separate analyses of the data, on which Scattergraph 19.4.3 is based, disaggregated across Issue and Group. The raw disaggregation results are reproduced in Appendices 3 to 7 at the end of the study.

Each cell contains three elements
1 the slope of the regression line as the measure of "sensitivity";
2 the square of the Pearson product-moment correlation coefficient (R^2); and
3 the significance of both.

The summary table shows that, in all but two cells, the resultant statistics for the disaggregations by Issue and by Group are individually significant at the 5% level (and in most cases, at better than the 0.1% level); all are significant at the 10% level. The heterogeneity of the sensitivity measures has been tested using the F-statistic and for both disaggregations is significant at the 10% level. The disaggregation by Issue is heterogeneous at the 5% level, as is that for Group if the two categories "Other representative bodies" and "Others" are combined.

Particularly interesting is the difference between the sensitivity measure for "Companies" (0.2) and for "Representative bodies of accountants" (0.7).

Commentary on Summary Table 19.5.5: Results for the linear regressions: Amendment proposals by Exposure Draft and Group

Summary Table 19.5.5 shows the regression results for AMENDMENT proposals disaggregated by Exposure Draft in the rows and by Group in the columns. As such it is a replication of the preceding summary table with Exposure Draft substituted for Issue.

The results are substantially unchanged by this substitution and so the same conclusions follow. For the new disaggregation by Exposure Draft $F = 3.69$, $df = 8/31$, which is significant at the 1% level. That is, the result of Test 8 is inconsistent with the maintained null hypothesis, H_{08}, for AMENDMENT proposals. The null hypothesis, then, is rejected and we conclude that there is a relationship between the class to which a participant belongs and the sensitivity of the UK professional accounting standards setting processes to that participant's preferences.

SUMMARY TABLE 19.5.5: RESULTS FOR THE LINEAR REGRESSIONS: AMENDMENT PROPOSALS BY EXPOSURE DRAFT AND GROUP

ED	Companies	Firms of Acc'tnts	Bodies of Acc'tnts	Other Bodies	Others	Aggreg
ED1	*	*	*	*	*	.04 .817 .004
SSAP1	*	*	*	*	*	.07 .647 .102
ED16	*	*	*	*	*	*
ED20	*	*	*	*	*	.02 .773 .003
ED21	*	*	*	*	*	.03 .670 .001
ED22	*	*	*	*	*	.07 .810 .010
ED23	*	*	*	*	*	.05 .565 .036
ED25	*	*	*	*	*	.04 .940 .008
ED26	*	*	*	*	*	.04 .950 .001
ED27	*	*	*	*	*	.03 .297 .114
Aggreg	.02 .222 .043	.06 .639 .005	.07 .943 .002	.16 .841 .065	.05 .630 .057	.03 .469 .001

Note:

See the note to Summary Table 19.5.4

19.6 LIMITATIONS

Extensive use has been made of statistical analysis in the empirical part of the study. Both non-parametric and parametric statistical tests have been employed. The former make fewer assumptions about the distribution of the data and so there is less scope for violations of these assumptions. Two important ones addressed in the study were the normal approximation of the binomial distribution used for testing the significance of a proportion, and the minimum expected frequency of cells in the chi-square test of independence. Both of these were satisfied by use of conventional "rule of thumb" criteria described above in Chapter 18 "Research approach and method". The parametric tests are somewhat less general, being based on the usual assumptions of ordinary least squares (OLS) regression concerning the behaviour of the residuals [Koutsoyiannis 1977, pp.179-197]. These assumptions include independence, normality of underlying distribution and constant variance (homoscedasticity). Only the assumption of constant variance has been addressed in the present study; heteroscedasticity was considered above in Section 19.3 "Scattergraphs and linear regressions". The remaining assumptions remain untested and so constitute a limitation of the present study. This limitation is based on the certain knowledge that the naive voting model is, as already discussed in the preceding paragraphs, an incomplete model. The present study is not designed to capture the additional data that would enable the model mis-specification to be reduced; that is the proper function of future research studies.

The naive voting model is, of course, limited by its naivety. That is, the model uses only one independent variable, Absolute Majority Vote (AMV), to capture the variance in the dependent variable. The classical statistical analyses based on ordinary least squares regressions must be treated with caution in the sense that the autocorrelation and multicollinearity problems of model mis-specification [Koutsoyiannis 1977,pp.200-256] are

likely to be present. The present study can do no other than start from the naive and then seek the sophistications in further research studies. These results represent a cautious beginning.

Some points were noticed at the content analysis stage which will have an indeterminate effect on the present study but which future studies might seek to capture.

Firstly, the number of amendment proposals put forward in the published written comments of the governing bodies of the ASC appeared to be small compared to those put forward by others. Some of these comments referred to others they had submitted at one or more of the earlier stages and which were not repeated at the stage being investigated. It is quite clear that the strength of the relationship between the preferences of these governing bodies, classified as "Representative bodies of accountants" in the disaggregations, is understated in this study. In particular, the measures of "influence" and of "sensitivity" are expected to be understated.

Secondly, some of the written comments contained expressions which were clearly repeated in other written comments. The implication is that, in a limited number of cases, individuals are able to use their multiple professional responsibilites to express their own preferences at different levels. The most common occurrence appeared to be company managers who also participate in professional committee work. In these cases the individuals' preferences could be expressed as those of the company; those of a "technical committee"; and, in the case of influential individuals, those of one of the ASC's governing bodies.

19.7 SUMMARY

The empirical part of the present study is based on a content analysis of written comments on Exposure drafts addressed to the ASC. The research method adopted in generating the data is described above in Chapter 18 "Research approach and method".

In all, some 18,336 individual cases of data were generated. Each case can be characterised as a voting slip bearing the identity of the voter, the proposal on which the vote is being cast, and the vote itself. Written comments were analysed over five issues, namely accounting for associated companies; accounting for investment properties; accounting for foreign currency translations; group accounts; and accounting for contingencies and events occurring after the balance sheet date. For these issues, written comments on ten Exposure Drafts were received by the ASC from 424 commentators. The Exposure Drafts embodied 277 separately identifiable ORIGINAL proposals, and 1500 separately identifiable AMENDMENT proposals were contained in the written comments (this includes 77 which were reflected in the accounting standard but which were not contained in written comments). The commentators were classified by the ASC as 167 companies: 54 professional firms of accountants; 42 representative bodies of accountants (including the regional groupings of members of the six main accountancy bodies); 43 other representative bodies; and 125 others (including individuals).

The results are presented as the basis for conducting a series of tests described above in Chapter 18 "Research approach and method". Separate results are presented for ORIGINAL and for AMENDMENT proposals and the significance of the distinction between the two classes of proposal is itself tested.

The first test provides evidence that, for both classes of proposal, there is some relationship between the written comments and the resultant accounting standards. At this stage of the analysis the nature of the relationship is unspecified.

The second test evaluated the influence of participants, that is the proportion of proposals which commentators wanted changed and which were actually changed in the accounting standard. In the case of proposals appearing in the exposure draft, 57% of those which commentators wanted removed were in fact removed; in the case of new proposals suggested by the commentators, 14% were in fact adopted in the accounting standard. The third test confirmed that these two proportions are significantly different from each other.

The fourth test provides evidence that there is some other, as yet unidentified, process at work in the UK professional accounting standards setting processes. For those issues examined, some 40 proposals originally appearing in Exposure Drafts were removed from the accounting standards, even though there was an absolute majority of commentators in favour of those proposals; and some 77 new proposals appeared in the accounting standards even though they had not been proposed in any written comments at all. Both of these events need further research to explain them.

In each of the subsequent tests there are insufficient data on proposals appearing in Exposure Drafts in the present study for significant results to be generated. The results are only presented for new proposals suggested by commentators.

The fifth test provides evidence that, in the case of new proposals put forward in written comments, the unspecified relationship detected in the first test is in some way related to the size of the majority vote. This result is highly significant in both the statistical sense and in the underlying meaning. In other words, the higher the absolute majority in favour of a particular amendment the higher was the probability of that amendment being adopted in the final accounting standard.

The sixth test provides evidence that, in the case of new proposals put forward in written comments, the above relationship, between the size of the majority vote and the outcome in the accounting standard, can be approximated by a straight line. In fact, the linear model is a relatively good fit. It captures some 47% of the total variability in the probability of an amendment being adopted in the final standard; that figure being significantly different from zero at better than the 0.1% level. The slope of this line is a measure of the sensitivity of the UK professional accounting standards setting processes to the preferences of participants, that is, it measures the rate of change of influence with respect to size of majority vote. In this test, the sensitivity measure is 0.03, that figure again being significantly different from zero at better than the 0.1% level. This sensitivity measure has a relatively simple interpretation, that is, for each marginal increase of the absolute majority vote on a particular amendment proposal by one vote, then the probabilitiy of that amendment proposal being adopted in the final accounting standard is increased by 0.03.

The study proceeds to consider the possible differences between sub-classifications based on both the ASC's own classification by Group (into companies; professional firms of accountants; representative bodies of accountants; other representative bodies; and others) and the natural classification by Issue.

The seventh test provides evidence that, in the case of new proposals put forward in written comments, there is no significant difference at the 5% level in the influence of participants across any of the classification schemes. However, the differences are significant at the 8% level for the disaggregation by Issue and at 7% for that by Group; these results being sufficiently close to the 5% accept/reject criterion to suggest the presence of some partial relation which needs further research to investigate.

The eighth test generates a more significant result. This test provides evidence that, in the case of new proposals put forward in written comments, there is significant heterogeneity at the 5% level across the sensitivities of the UK professional accounting standards setting processes to the different classes of participant. In particular, the sensitivity measures for professional firms of accountants and for representative bodies of accountants are some three times greater than that for companies.

19.8 CONCLUSIONS

It has been shown that the model of the professional accounting standards setting processes developed above in Chapter 17 "A naive voting model" has explanatory power for the UK professional accounting standards setting processes. In particular, it has been shown that the UK professional accounting standards setting processes are political in the sense that votes count. That is, votes are significantly related to the changes between exposure draft and the accounting standard which follows it. Further, there is a significant difference between the influence of participants over the fate of original proposals in Exposure Drafts compared with that of amendment proposals put forward in letters of comment. These two types of proposal are fundamentally different in their nature and should be analysed separately. The results showed that 57% of the original proposals which participants wanted to be removed were in fact removed, whereas only 14% of the amendment proposals which participants wanted to be added were in fact added.

The model cannot explain all the changes between the exposure draft and the accounting standard. The results showed that 40 original proposals were removed even though a majority of voters were in favour of them; and 77 amendment proposals appeared as if from nowhere in the accounting standard. Further research needs to be conducted to identify new variables associated with these events; such a study would probably use a questionnaire and interview research methods.

More detailed statements can be made about the way in which votes count. Firstly, there are significant results which suggest a near linear relationship between the size of the absolute majority vote and the probability of an exposure draft being changed before being translated into an accounting standard. This result was significant in the case of amendment proposals but insufficient data prohibits similar statements being made

about original proposals. For these amendment proposals, the slope of the line provides a measure of the sensitivity of the UK professional accounting standards setting processes to the preferences of participants. Over all participants and all issues aggregated together this sensitivity measure was 0.03, that is, for each additional increase of the absolute majority vote by one vote, the probability of the amendment being adopted increased by 0.03.

Perhaps a more interesting question addressed by the study is whether or not the results differed between different classes of participant.

In the case of the measure of influence, there were no significant differences at the 5% level. That is, the probability of a change, given that a majority of votes were in favour of an amendment proposal, was not significantly different between the different classes of participant. Such differences as were found were in fact present at the 8% level and so this suggests that there may be an underlying relationship. Further research needs to be conducted to clarify the position. As before, insufficient data relating to original proposals prohibit any conclusions being drawn in their respect.

In contrast, the case of the sensitivity measure, that is, the rate of change of influence, is different. In the case of amendment proposals, the UK professional accounting standards setting processes demonstrate significant differences between different classes of participant. In particular, the sensitivity to professional firms of accountants and to the representative bodies of accountants was some three and a half times greater than that for companies. Significant differences also existed between some of the issues in their measures of sensitivity on amendment proposals. For example, the sensitivity measures for the foreign currencies issue and the group accounts issue were one half of that for each of the remaining three issues of the

present study.

So then, in summary, the results have demonstrated that, for the selected issues tested in the present study, the underlying relationship between the preferences of participants and the changes made to the accounting standards can be partially explained by a political process model. Further, although there were no apparently significant differences between different classes of participant for the influence of each, that is, the proportion of changes they wanted which were successful, there were, in fact, significant differences for the sensitivity of the professional accounting standards setting processes to each class. In particular, the sensitivity to the marginal votes of professional firms of accountants and to those of representative bodies of accountants was some three and a half times greater than the sensitivity to companies.

In Chapter 17 "A naive voting model" it was made clear that no statements have been made about causal relationships. So then, it is too early to make the statement "Votes cause changes to be made" or "The different sensitivities to votes represent differences in the power structure". Although more research needs to be conducted before these statements can be made, it is interesting to speculate on the causal mechanism underlying the considerably higher sensitivity to professional firms of accountants and to representative bodies of accountants. In the former case, many partners of professional firms of accountants are members of the ASC and/or of its governing bodies. In the latter case, the major representative bodies are in fact the governing bodies of the ASC and so have the ultimate constitutional power of veto over all proposals. This latter can be used to advantage by individuals who hold key positions in a governing body. These speculations clearly call for further research because the present study has produced evidence that might lead to a possible causal mechanism. The discussion above in Section 12.4 "Power" argued that use of the concept of power

is inappropriate at the current stage of theory development. Some clear causal mechanism needs to be elaborated, and unambiguous evidence from meaningful tests needs to be generated in support of those elaborations before the power concept can be invoked. The evidence of the present study is a contribution to the process of theory construction.

CHAPTER 20 CONCLUSIONS DRAWN FROM THE EMPIRICAL STUDY OF UK DATA

20.1 Conclusions

CHAPTER 20 CONCLUSIONS DRAWN FROM THE EMPIRICAL STUDY OF UK DATA

20.1 CONCLUSIONS

The political dimension of professional accounting standards setting processes can be modelled by hypothesising a relationship between the preferences of participants and the outcomes of the processes; elementary algebraic expressions can be constructed which generate testable hypotheses. Nowhere in the accounting literature is there yet to be found such a formulation of the political dimension of professional accounting standards setting processes. The model has been expressed in the form of a structured series of null-hypotheses based on definitions of variables which are matched to the particular source of data to hand and the content analytic research method used in the present study.

The naive voting model has explanatory power for the UK professional accounting standards setting processes. In particular, the UK professional accounting standards setting processes are political in the sense that votes count; that is, votes are significantly related to the changes between an Exposure Draft and the accounting standard which follows it. Further, there is a significant difference between the influence of participants over the fate of original proposals in Exposure Drafts compared with that of amendment proposals put forward in letters of comment. These two types of proposal are fundamentally different in their nature and should be analysed separately.

The naive voting model cannot explain all the changes between an Exposure Draft and the accounting standard. Some original proposals were removed even though a majority of voters were in favour of them; and some amendment proposals appeared, as if from nowhere, in the accounting standard. Further research needs to be conducted to identify new variables associated with these events.

More detailed statements can be made about the way in which votes count. Firstly, there is a near linear relationship between the size of the absolute majority vote and influence, that is the probability of an exposure draft being changed when being translated into an accounting standard. This result holds in the case of amendment proposals but insufficient data prohibits a similar statement being made about original proposals. Secondly, in the case of the measure of influence, there were some differences between classes of participant; the significance of these is marginal and further research needs to be conducted before firm conclusions can be drawn. As before, insufficient data relating to original proposals prohibit any conclusions being drawn in their respect. Thirdly, the slope of the line provides a measure of the sensitivity of the UK professional accounting standards setting processes to the marginal preferences of participants. In the case of amendment proposals, the sensitivity to professional firms of accountants and to the representative bodies of accountants was some three times greater than that for companies.

No statements have been made about causal relationships; it is too early to make the statement "Votes cause changes to be made" or "The different sensitivities to votes represent differences in the power structure". Although more research needs to be conducted before these statements can be made, we can speculate that there might be some causal mechanism underlying the considerably higher sensitivity to professional firms of accountants and to representative bodies of accountants. Many

partners of professional firms of accountants are members of the ASC and/or of its governing bodies; and the major representative bodies are in fact the governing bodies of the ASC and so have the ultimate constitutional power of veto over all proposals. These clearly call for further research to develop this evidence and clearly identify causal mechanisms.

PROFESSIONAL ACCOUNTING STANDARDS SETTING PROCESSES IN THE UK

PART V CONCLUSIONS

Chapter 21 Conclusions and suggestions for further research

CHAPTER 21 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

CHAPTER 21 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

21.1 INTRODUCTION

The purpose of the present study has been to contribute to the construction of an explanation of how UK professional accounting standards setting processes are determined. This was expressed in the form of a general question

"What factors, when viewed together, might be used to explain the processes by which UK professional accounting standards are determined?".

The study has made that contribution by focussing, in particular, on two areas left open by previous research in accounting and economics.

Firstly, previous research suggests that theoretical constructs from disciplines other than accounting and economics can offer new insights into UK professional accounting standards setting processes; but that research has not yet undertaken any broad review aimed at identifying those constructs and setting them in their own contexts to ascertain their limitations as well as their potential benefits. The present study has conducted such a review.

Secondly, previous research suggests that a study of the political dimension is important to any explanation of professional accounting standards setting processes; but that research has not yet modelled the political dimension and not yet gathered UK evidence to test that suggestion. The present study has developed such a model and deduced hypotheses which provide measures of the response of those processes to the preferences of participants. These hypotheses have been tested against evidence gathered systematically from the UK professional accounting standards setting processes in which the participants are those external to the Accounting Standards Committee (ASC).

21.2 PREVIOUS RESEARCH IN ACCOUNTING AND ECONOMICS

The investigation of the UK professional accounting standards setting processes has been clarified by the changing perspective of previous research studies. The description of the UK ASC provided above in Chapter 3 "The Accounting Standards Committee" elaborated an accounting activity of technical matters being resolved by a profession's own committee of experts; but it is an accounting activity with economic, political and professional dimensions. The US research literature has provided an important focus for the review. The economic dimension is the most strongly represented in that US literature; the political dimension less so; and the professional dimension seems not to be represented. Sutton [1980] has demonstrated that the theoretical frameworks being developed in this predominantly US literature have potential application to the UK professional accounting standards setting processes.

The understanding that there are private gains available, to those who both hold private information and can control the subsequent publication of that information, is of importance to the problem of investigating UK professional accounting standards setting processes. The economic rationale for participation in professional accounting standards setting processes is that the existence of these gains provides sufficient incentive for individuals to hold preferences in favour of some classes of accounting information as against other classes. A professional accounting standards setting programme will necessarily restrict management's freedom to realise those gains and so additional incentives exist for management to resist such a programme.

The economic rationale for participation is insufficient to explain the actual choices of professional accounting standards. Firstly, the aggregation of individual preferences is indeterminate; and secondly, there exists no unique social criterion by which it can be resolved. In one sense then, the present study can be characterised as an investigation of a social choice process in which non-economic, or political, criteria play an important part.

An important re-interpretation of the present study was found in the social choice process literature. This was that, in one sense, the study contributes to an investigation of the structure of constraints on individual preferences. Given that there is no unique solution to the problem of choice amongst alternatives for accounting information, there is a natural and clear interest in the structure of the constraints which make the existing solution possible. Johnson [1979] contributed to this interest by identifying different institutional arrangements under which professional accounting standards might be selected. The usual economic criterion of Pareto-optimality is central among the objectives of those arrangements, although non-economic alternatives are clearly possible.

Some empirical studies have provided a valuable introduction to the political dimension in professional accounting standards setting processes, but a substantial contribution to theory construction is, as yet, undeveloped. In particular, the contributions of other disciplines, from which some explanatory concepts have been adopted, have been inadequately explored. Rather, isolated concepts have been introduced with little discussion of their origins and limitations. The present study has sought to redress that defect in order to more fully appreciate the meaning and potential application of these concepts to UK professional accounting standards setting processes.

Precedents set by Porter [1979] and Klein [1978] suggest that a fruitful empirical study based on UK data can be conducted by the use of content analysis of written comments on Exposure Drafts. Preliminary work conducted by Hope & Gray [1982] and Sutton [1980] on UK data has provided strong support for the usefulness of such an analysis.

In summary, the previous research has shown that changes in professional accounting standards, such as the publication of Statements of Standard Accounting Practice by the UK professional accountancy bodies, have important wealth and welfare generation and redistribution properties. It follows that an understanding of how professional accounting standards decisions are made represents an important issue of social policy-making. The underlying economic processes are well understood; but the underlying political processes are poorly understood and little researched by accountants.

Two questions arose naturally from the previous research

1 are the theoretical constructs, from disciplines other than accounting and economics, capable of contributing to a comprehensive explanation of professional accounting standards setting processes in the UK?
2 what is the relationship between the written statements of preference and the outcome of professional accounting standards setting processes in the UK?

In order to begin to answer these questions, evidence of two types appeared to be called for

1 evidence that the theoretical constructs from disciplines other than accounting and economics are adequately supported by the literature of these disciplines and have implications which are meaningful in the context of professional accounting standards setting processes in the UK;
2 empirical evidence of professional accounting standards setting processes in the UK.

The remainder of the present study was devoted to gathering systematically those two classes of evidence through the two-fold approach of

1 reviewing analyses from the literature of disciplines other than accounting and economics. This was undertaken and documented in Part III "Review of literature from disciplines other than accounting and economics"; and
2 generating empirical evidence from professional accounting standards setting processes in operation in the UK. This was undertaken and documented in Part IV "Evidence from the empirical study of UK data".

A major contribution of the present study, then, is its elaboration of the "political dimension", firstly by exploring the complexity of the underlying models; and secondly by exploring the actual operation of the political dimension. Each of these can be interpreted, in one sense, as contributions to an investigation of the structure of constraints on individual preferences.

21.3 REVIEW OF LITERATURE FROM DISCIPLINES OTHER THAN ACCOUNTING AND ECONOMICS

If professional accounting standards setting processes are characterised as selections of accounting measurement scales, then no recourse can be had to the formal scientific processes of choice between different alternatives. This result follows from the finding that these formal processes are based on unique and determinate criteria. Such a criterion is not available to professional accounting standards setting processes. To a large extent this conclusion offers itself as a formal rationalisation for the adoption of a political dimension to the investigation of professional accounting standards setting processes. This rationalisation is founded in the characterisation of multiple criteria as preferences. The corollary is that professional accounting standards setting processes are not strictly technical; a result already found in the accounting literature [Demski 1973] and reviewed above in Part II "Review of previous research in accounting and economics".

In the political choice process literature, the Shepsle [1979] characterisation of a political institution as a committee system appears to be closely related to the UK professional accounting standards setting processes. In particular, the UK professional accounting standards setting processes are established as a **committee system** in which each working party of the ASC has its own **jurisdiction** based on a set of **proposals** contained in an Exposure Draft. Implied **amendment control rules** might exist whereby the governing bodies are constrained in the modifications they can make. Again, implied **germaneness rules** might exist whereby some alternatives are excluded completely from consideration. The Shepsle committee system framework, then, is a model of the way in which preferences are structured and constrained in order that stable equilibrium might exist. In particular

> **equilibria of social choices are determinable by majority vote if the set of preferences over all logically possible orderings of the alternatives is constrained by an institution of rules allocating jurisdictions and amendment rules to sets of decision makers.**

So then, fruitful areas of research lie in the exploration and elaboration of this Shepsle committee system model. One area would be the refinement and formalisation of the description of the UK professional accounting standards setting processes as a Shepsle committee system. Another area would be the exploration of the way in which preferences are constrained within the processes. This can be implemented by determining how majority votes are reflected in the outcomes of the process. An exploration of this latter aspect constituted the empirical part of the present study presented in Part IV "Evidence from the empirical study of UK data".

Embedded in the political choice literature is Allison's [1969] characterisation of a political choice process as an organisational choice process. There are different sorts of theories of organisational choice processes. Recent developments have moved away from theories centred on a rational comprehensive decision process, with their implied model of scientific choice process, in order to capture some of the hitherto more perplexing features of organisational behaviour. In an environment of ambiguity concerning preference structures and causal relationships, choices become opportunities for re-interpreting the past; for re-defining or re-inforcing beliefs; for experimenting; or for asserting legitimacy; or all of these things. Under such a choice process, action will not necessarily follow preferences and choices may be made without problems being solved. Such a view of the world has not yet led to a substantive consideration of how professional accounting standards are determined. Yet what is clear is that the choice opportunity of such a model could serve as a model for an accounting standards issue. Many of its features seem to match the UK professional accounting standards setting processes and

its exploration offers a potentially fruitful area of research. The professional accounting standards setting processes might well be modelled as an organisational type of decision making process.

The framework represented by the literature of professionalisation processes is undeveloped in respect of its relationship with the UK professional accounting standards setting processes. The accounting literature does not address the role of professionalisation processes in the standardisation of practices. Similarily, the professionalisation literature does not address the role of standardisation of practices, per se. In the most recent professionalisation literature evidence can be found of extensions to the framework which might predict that professions possess mechanisms by which the preferences of non-professionals are constrained. The professional accounting standards setting processes are a major example of such mechanisms.

At the very least, the professionalisation process framework offers an alternative framework by which the UK professional accounting standards setting processes can be explored. As such the framework offers much scope for future research. Additionally, the framework might perhaps be used to provide explanatory variables which can be integrated into a unified framework by which the UK professional accounting standards setting processes can be explored. By either route, the potential appears to be considerable.

In summary, then, four major disciplines of literature have been reviewed with the aim of elaborating their potential relevance to the UK professional accounting standards setting processes. The four disciplines are scientific choice; political choice; organisational choice; and professionalisation process. They have been reviewed because previous research has identified each as being of potential usefulness. Previous research has not

undertaken any comprehensive review of the disciplines with a view to exploring the limitations and potential benefits of theoretical constructs adopted. Rather, there has been a tendency to adopt isolated constructs naively. The present review sought to reduce that limitation.

The four disciplines clearly offer four quite different frameworks by which professional accounting standards setting processes can be analysed. As yet the accounting literature has generated no rational basis for choosing amongst these frameworks. Rather, individual research studies are likely to adopt one framework to the exclusion of others. Nevertheless, some contribution can be made in the present study by demonstrating the possibilities and limitations of an integration of, or selection from, the frameworks.

Firstly, it has been noted that the scientific choice framework cannot be usefully adopted in the accounting environment because of its requirement for a unique decision criterion. It is necessarily selected out.

Secondly, the political choice framework seems to suggest two major sub-frameworks. These are the committee structure framework and the organisational process framework. These almost correspond to a structuralist/process classification often found in other disciplines. Again, no rational basis for selection amongst frameworks appears to exist. Even the present study, in the empirical sections presented in Part IV "Evidence from the empirical study of UK data", can be viewed as having adopted either the structuralist or the process frameworks. In the structuralist view, the results provide evidence of the outcome of the preference constraint structure. In the process view, the results provide evidence of the outcome of just one stage of a multi-staged process.

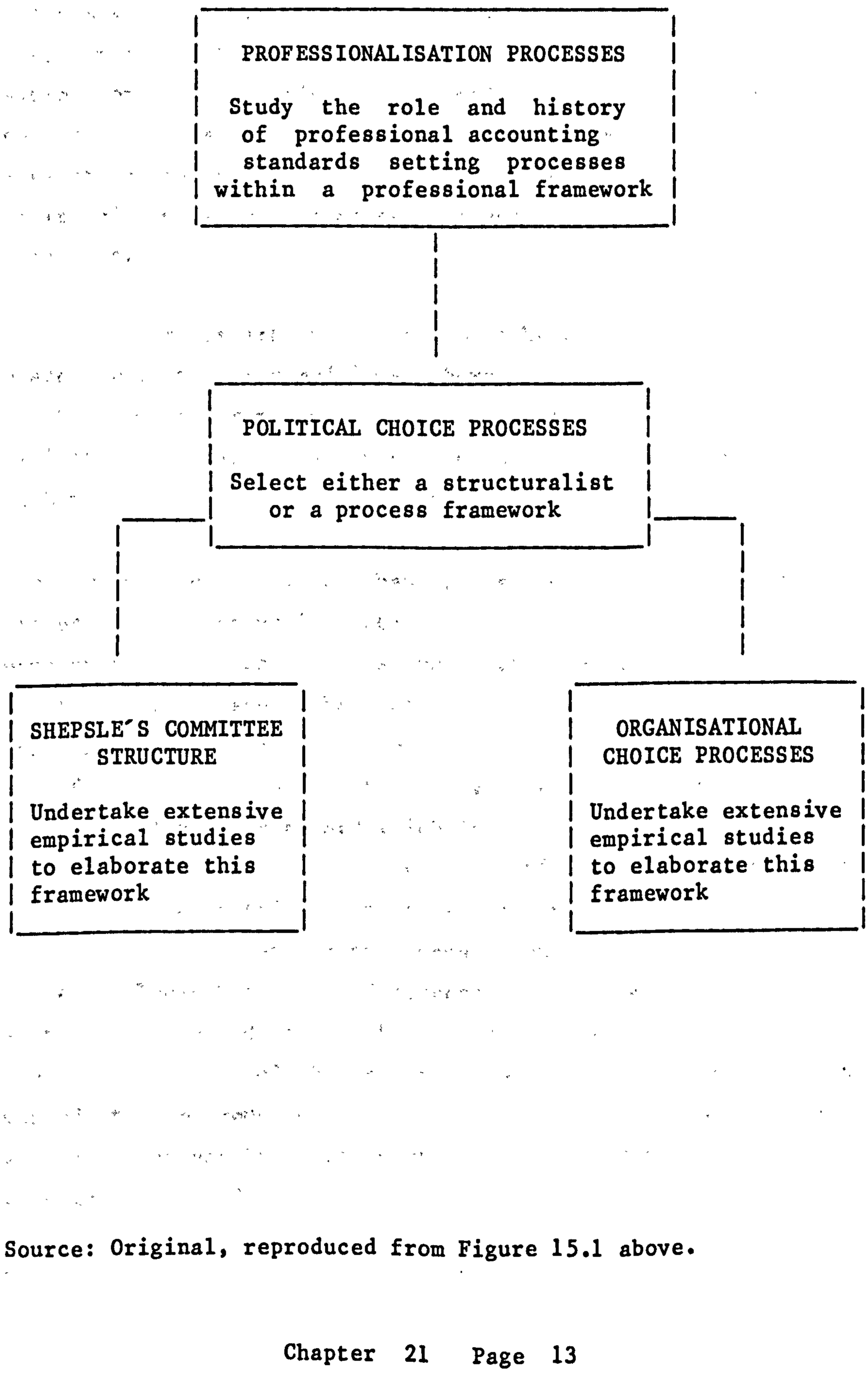
Thirdly, the organisational process framework seems to be dependent on the choice made at the political choice framework level; selection of the committee structure framework would exclude any process sub-framework or super-framework. The most fruitful role for the organisational process framework seems to be as a sub-framework of the political choice framework along the lines of the Allison [1969] suggestion. Such a combined framework would certainly hold scope for development.

Finally, there is the professionalisation process framework. The implications of the various aspects of the professionalisation process for the understanding of professional accounting standards setting processes appear to be profound. For example, the description of a complex inter-relationship of social and professional controls seems to match the UK professional accounting standards setting processes. The role of intellectual constraints seems to match some of the debate in the UK and the US about the role of a "conceptual framework".

From these observations, a promising comprehensive framework was suggested within which to conduct future studies of professional accounting standards setting processes in general and the UK processes in particular. Such a framework adopts as its primary structure the role of the accounting profession. This would provide, in particular, an history of the development of the accounting profession; so demonstrating the path which it seems most likely to be following. Within this framework of professional development, the role of a programme of professional accounting standards setting processes can be elaborated and, importantly, some objectives imputed. The structure of those objectives would most likely be complex and an interesting question would focus on the nature of any "rules of thumb" adopted by the key participants in seeking to implement those objectives; conflict minimisation was proposed in the present study and needs substantial development.

Having elaborated the role of a programme of professional accounting standards setting processes within a framework of professionalisation process, research studies could address the specific nature of these professional accounting standards setting processes. The political choice framework thus becomes a sub-framework of the professionalisation framework, with either the committee structure or the organisational process frameworks operating as sub-sub-frameworks. Such an outline would provide a suitable basis for a research programme and is set out in the following Figure 21.1 "Proposed framework for the study of professional accounting standards setting processes".

FIGURE 21.1 PROPOSED FRAMEWORK FOR THE STUDY OF PROFESSIONAL ACCOUNTING STANDARDS SETTING PROCESSES



Source: Original, reproduced from Figure 15.1 above.

21.4 EVIDENCE FROM THE EMPIRICAL STUDY OF UK DATA

The present study has demonstrated that the political dimension of professional accounting standards setting processes can be modelled in an abstract formulation by hypothesising a relationship between the outcomes and the preferences of participants. Using this approach, elementary algebraic expressions of a naive voting model were constructed which generated testable hypotheses. Nowhere else in the accounting literature is there yet to be found such a formulation of the political dimension of professional accounting standards setting processes.

Clearly, the assertion that the hypotheses are testable itself needed testing. The model was shown to be capable of expression in the form of a structured series of tests. These were based on definitions of variables matched to the particular source of data to hand and to the content analytic research method used.

The naive voting model has explanatory power for the UK professional accounting standards setting processes. In particular, it has been shown that the UK processes are political in the sense that votes count. That is, the votes of participants other than members of the ASC itself are significantly related to the changes between an Exposure Draft and the accounting standard which follows it. Further, there is a significant difference between the influence of participants over the fate of original proposals in Exposure Drafts compared with the fate of amendment proposals put forward in letters of comment. These two types of proposal are fundamentally different in their nature and need to be analysed separately. The results showed that more of the original proposals which participants wanted to be removed were in fact removed, compared with amendment proposals which participants wanted to be added and were in fact added.

The naive voting model cannot explain all the changes between the Exposure Draft and the accounting standard. The results showed that several original proposals were removed even though a majority of voters were in favour of them; and several amendment proposals appeared, as if from nowhere, in the accounting standard. Further research needs to be conducted to identify new variables associated with these events; such a study might use questionnaire and interview research methods directed at members of the ASC and at external participants.

More detailed statements can be made about the way in which votes count. Firstly, there are significant results which suggest a near linear relationship between the size of the absolute majority vote in favour of a change and "influence", that is the probability of a change. This result was significant in the case of amendment proposals but insufficient data prohibits similar statements being made about original proposals. Secondly, the slope of the line provides a measure of the "sensitivity" of the UK professional accounting standards setting processes to the marginal preferences of participants, that is sensitivity is the rate of change of influence. For amendment proposals over all participants and all issues, this sensitivity measure was 0.03, that is, for each additional increase of the absolute majority vote by one vote, the probability of the amendment being adopted increased by 0.03.

In a sense, the above analysis was preparatory to the more interesting investigation of differences between classes of participant. In particular, participants were divided into classes based on the accounting issue being addressed and on the classification used by the ASC. The results showed differences for both; but only for amendment proposals, there being insufficient data for original proposals. The measures of influence showed differences suggestive of some relationship; further research needs to be conducted to confirm this. The measures of sensitivity showed much more significant differences.

In particular, the sensitivity to professional firms of accountants and to the representative bodies of accountants was some three times greater than that for companies.

It is interesting to speculate as to the causal mechanisms underlying the considerably higher sensitivity to professional firms of accountants and to representative bodies of accountants. In the former case, many partners of professional firms of accountants are members of the ASC and/or of its governing bodies. In the latter case, the major representative bodies are in fact the governing bodies of the ASC and so have the ultimate constitutional power of veto over all proposals. This latter could be used to advantage by individuals who hold key positions in a governing body. However, much more research needs to be conducted to elaborate and substantiate these speculations.

21.5 SUGGESTIONS FOR FURTHER RESEARCH

21.5.1 Introduction

Suggestions for further research have arisen at each of the three substantive stages of the present study. That is, in the review of previous research; in the review of literature from other disciplines; and in the empirical study of UK data.

21.5.2 Review of previous research in accounting and economics

Suggestions made by Johnson [1979], which have not been pursued in the present study, are worth repeating here in the form of questions to be posed:

1 to what extent do existing professional accounting standards setting processes incorporate the Pareto-optimality criterion?
2 to what extent do existing professional accounting standards setting processes overcome incentives to misrepresent preferences?
3 to what extent do existing professional accounting standards setting processes incorporate a power dominated objective?

Each of the above questions is an important outcome of the previous research and could be addressed. There will, necessarily, be difficulties in implementing them. Firstly, the inter-personal utility comparisons involved in the Pareto-optimality criterion are difficult, if not impossible to make, and suitable surrogates will need to be devised. Secondly, the identification of misrepresented preferences will again be problematic, although one example (the orchestrated letter writing campaign) is less so. Thirdly, the discussion above in Section 12.4 "Power" suggested that "power" is a non-operational concept in the sense that it cannot be observed per se; its only function must be as a connecting concept binding together several other constructs into a coherent theory. Until such a body of operational constructs has been articulated, Johnson's third suggestion for further research must be of uncertain underlying meaning.

An important area of further research stems from the characterisation of the professional accounting standards setting processes as a policy-making, or social choice process. It was suggested above in Section 7.4.3 "Social welfare maximisation and a conflict minimisation hypothesis" and in Appendix 7.1 "A conflict minimisation hypotheses" that there might be conditions under which conflict minimisation is a meaningful surrogate for social welfare maximisation. The identification and exploration of these conditions is important because some of the criticisms, described above in Section 3.10 "Criticisms of the Accounting Standards Committee", suggest that the UK professional accounting standards setting processes might be behaving as it it had adopted a conflict minimisation criterion.

Other criticisms of the previous research are that no researcher has systematically observed several stages of the UK professional accounting standards setting processes; and no researcher has convincingly studied the roles and perceptions of participants. Both of these points need to be explored in further research.

21.5.3 Review of literature from disciplines other than accounting and economics

The most important suggestion for further research arising from the review of the literature from disciplines other than accounting and economics is embodied in the proposed framework presented in Figure 15.1 "Proposed framework for the study of professional accounting standards setting processes" of Section 15.2 "Conclusions". This framework suggests that professionalisation processes are of primary importance in understanding professional accounting standards setting processes.

An integral component of the above framework is the suggestion that Shepsle committee structure framework [Shepsle 1979] be elaborated as an alternative to the organisational process framework. The Shepsle model appears to correspond remarkably well with the description of the UK professional accounting standards setting processes set out above in Chapter 3 "The Accounting Standards Committee" and it is important that its potential be exploited.

The alternative political choice framework suggested in the present study's proposal is that of the organisational choice model. One variant of this model has already been identified by the accounting literature [Cooper, Hayes & Wolf 1981] and its elaboration in the context ot the UK professional accounting standards setting processes could also be undertaken.

21.5.4 Evidence from the empirical study of UK data

Without doubt, the empirical part of the present study has provided an important source of suggestions for further research. In particular, future research could focus on other stages of the UK professional accounting standards setting processes not covered by the present study; an example would include the decision processes of the ASC itself. The incentives for participants to misrepresent their preferences could be elaborated and explored; for example, the use of orchestrated letter writing campaigns could be investigated. Further, the present study made an "equal importance" assumption as a method of detecting the importance assigned by the ASC to different classes of proposal; future studies could weight proposals according to some selected "importance" criterion and explore the relationship between the predicted and actual outcomes.

Importantly, the present study has provided a research method by which changes over time could be investigated. Of particular interest would be the effects of the constitutional changes made in July 1982, described above in Chapter 3 "The Accounting Standards Committee", in which more non-accountants have been brought into the membership of the ASC.

In addition to the above, the following are natural extensions of the present study.

Firstly, the present study addressed only five of the issues addressed by the UK professional accounting standards setting processes. The remaining issues could also be analysed using the same research approach and method to further develop the analysis from the more substantial data base.

Secondly, some of the results of the present study are classified as outliers and listed in Appendix 8 "Outliers". These could be explored to identify new variables associated with their occurrence.

Finally, and most importantly, it was speculated that the significantly greater measures of sensitivity for professional firms of accountants and representative bodies of accountants can be attributed to specified underlying causal mechanisms.

One example of such a mechanism was suggested to be the "power" structure based on membership of the ASC or its governing bodies (the "power" model). This could be explored and illustrations provided of its implementation by key individuals. Although the use of the concept of "power" was argued to be inappropriate at the current state of theory development in UK professional accounting standards setting processes, the present study would seem to have generated evidence that would be an important contribution to the construction of a theory which may legitimately incorporate this concept.

An alternative causal mechanism was suggested to be related to the implied conceptual framework (the "technical" model). This could be explored by determining the technical characteristics of proposals and identifying those which distinguish between proposals put forward by professional firms of accountants or representative bodies of accountants and those put forward by companies or others.

The further research based on these speculations as to causal mechanisms is crucial to the process of theory construction in professional accounting standards setting processes in the UK.

21.7 SUMMARY

The political dimension is important to any explanation of the UK professional accounting standards setting processes and yet it is not well understood. The apparent complexity can be reduced by adopting an overall view based on the nature and role of the accounting profession. It is within this framework that the political dimension can be explored using models to be found in the literature of political scientists.

A naive voting model, in which the political dimension is characterised as a simple majority voting process, has significant explanatory power for the UK. Even more interesting, it has enabled differences to be detected between the voting strengths of different classes of participant. The UK professional accounting standards setting processes are three times more sensitive to the marginal preferences of professional firms of accountants and of representative bodies of accountants than they are to the marginal preferences of the companies whose financial reports are the subject of attention. Such results need further research to properly identify the underlying causal mechanisms, which may be based on the technical, economic or political characteristics of proposals. It is interesting to note, however, that in a process which has wealth and welfare generation and redistribution effects, it is the accounting profession whose preferences tend to be more often reflected in the outcomes of what would indeed seem to be "professional" accounting standards setting processes in the UK.

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