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**Competition Among Pressure Groups for Political Influence
over the Determination of Accounting Standards**

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ABSTRACT

This paper integrates prior studies of accounting policy choice and lobbying activities by testing the empirical implications of Becker's (1983) theory of competition among pressure groups for political influence over the determination of accounting standards. The theory is applied to explain the nature and outcome of conflict among pressure groups representing financial intermediaries (suppliers) and pension fund members (users) over the development of conflicting Australian pension accounting rules in 1991-92. Various pension fund financial characteristics and management incentives (including discretionary accounting policy choice and voluntary financial disclosures in pension plan financial reports) are posited to affect the pressure functions of each group. These functions combine to affect a political influence function that determines the rule development process. Consistent with the predicted relationships, it is found that supplier groups exert the most political pressure and secure political influence over the development of rules affecting defined benefit pension plans, whereas no group influences the development of rules affecting defined contribution pension plans.

Keywords: Competition, pressure groups, pension plans.

JEL Classification: G2, L3, M4

1. Introduction

Accounting academics have long recognised that accounting standard setting is a political process (e.g.: Zeff, 1972, 1993; Gerboth, 1973). Motivated by the need to explain the source of these pressures on accounting standard-setting, Watts and Zimmerman (1978) ('WZ') develop a positive theory of the determination of accounting standards. Their empirical work identifies the various factors that drive corporate managers to lobby for or against the introduction of supplementary general price level adjusted financial statements. WZ motivated the development of a significant literature over the next two decades which examined the determinants of managerial accounting policy choices and their lobbying of accounting standards.

However this literature does not account for the fact that accounting standard setting process has now become institutionalised to the point where accounting standard setters around the world often develop conflicting views over the same issue (arising from the possible endorsement of IASC standards by the SEC). Second, while WZ focused on factors influencing lobbying behaviour of individual corporate managers in supplying financial statements, contemporary accounting rule-making processes involve pressures from other powerful groups that try to use political influence to enhance their welfare (e.g.: Owsen, 1996). Third, prior empirical studies of lobbying behaviour assume that groups only seek to influence the accounting standard setting process via formal lobbying submissions (Robinson and Walker, 1993; Walker and Robinson, 1994). However many issues affecting the determination of accounting standards are resolved in informal settings, beyond the glare of the media and the public.[1] Finally, research stimulated by WZ does not study political influence as the primary variable of interest - instead size is included as an

explanatory variable to proxy 'political costs' affecting managers' lobbying or accounting policy choices (Watts and Zimmerman, 1990).

This study adopts an alternative view, formalised by Becker's (1983) economic theory of regulation, that competition among multiple pressure groups for political influence determines the equilibrium structure of cash flow costs and benefits that arise from the determination of accounting standards. This view recognises that political influence is not simply fixed by the political process, but is expanded by expenditures of time and money in various ways that exert political pressure, *including* managerial accounting policy choice. Becker's theory has to date received little attention from prior accounting researchers, possibly due to the lack of observable data sources, and/or the econometric difficulties involved in deriving empirical proxies for political pressure and influence functions that are assumed to be endogenously determined.[2]

This paper examines the empirical implications of Becker's (1983) theory for analysing how various interest groups seek to shape the political processes surrounding accounting standard rule-making. It is posited that political pressures and political influence functions are endogenous. Thus, analysis of marginal political pressures and political influences requires simultaneous estimation of both the pressure and political influence functions. Empirical estimation of the simultaneous equations is complicated by the fact that marginal pressure is not directly observable. Managerial discretion over accounting policy and financial disclosures, as well as economic factors affecting the performance of pension funds, are posited to affect each group's pressure functions.

Becker's (1983) theory can be tested in the setting where pressure groups develop competing Australian pension plan financial reporting rules. Australian

Accounting Standard 25 (AAS 25), issued in 1990, required the balance sheet recognition of the accrued liability for members' benefits by both defined benefit pension plans ('DBPPs') and defined contribution pension plans ('DCPPs'), thus revealing a net periodic 'surplus' or 'deficit'.[3] Differences in the level of voluntary compliance with AAS 25 between DCPPs and DBPPs are posited to significantly affect the nature of the competition among supplier (industry) and user (member) groups. Prior survey evidence finds evidence of differential voluntary accounting and disclosure practices by DBPPs and DCPPs just prior to the implementation of AAS 25 (Anderson and Sharpe, 1992; Klumpes, 1994b; Herbohn and Buchan, 1995). DBPP managers opposed AAS 25 due to its proprietary cost implications, while DCPP managers supported AAS 25 for political visibility reasons (Klumpes, 1998).

The sample comprises 54 DBPPs and 54 DCPPs voluntarily producing accounting reports in the period 1992-3. As predicted, only supplier group pressure characteristics (cost and fee structures, discretion over accounting policy choice and financial disclosure) are found to significantly affect political influence over the determination of DBPP accounting standards. Neither supplier nor user pressure function variables are found to be significantly associated with a political influence function that is assumed to determine group attitudes to equivalent DCPP accounting standards.

The rest of this paper is organised as follows. Section 2 outlines Becker's model and demonstrates why the Australian pension plan financial reporting provides an appropriate venue to empirically examine the theory. Section 3 discusses various factors that are posited to affect each group's propensity to apply pressure for political influence. Section 4 describes the sample and develops proxies. Section 5 presents the statistical procedures and primary results. Section 6 concludes the paper.

2. Theoretical and institutional background

This section provides the background required to understand the theoretical antecedents (section 2.1) and the choice of institutional setting (section 2.2).

2.1. Theoretical Background

WZ recognized that, due to the political nature of the accounting standard setting process, accounting standards are shaped by lobbying efforts of affected preparers, users and auditors. Their empirical framework has been used to examine the incentives of corporate managers to lobby for or against proposed accounting standards. A separate body of research stimulated by WZ has examined the factors affecting the choice of accounting methods in coporations (e.g.: Bowen et al., 1981; Hagerman and Zmijewski, 1979) and in municipalities (Zimmerman, 1977). Accounting is viewed by WZ as a product of rational decision makers and as a mechanism for controlling potential conflicts of interest between principals (e.g.: stockholders, voters) and agents (i.e. managers, elected officials). WZ suggest that the choice of measurement method will concern the accounting decision-maker if it affects the cash flows to the system and/or the manager's personal compensation. In analyses of corporate accounting policy choice, the effect on a firm's cash flows is asserted to occur because of debt contracts, bonus contracts and other contracts expressed in terms of accounting numbers. Hence, the effect on corporate managers' cash flows is hypothesized to occur because of direct or indirect effects of accounting numbers on management's compensation and the labour market's assessment of management's performance (Stone et al., 1987).

WZ rely on an underlying economic theory of regulation which assumes that

politicians and regulators maximise their own self-interest, and that there are nonzero information production and political costs involved in the political process. This assumption has important consequences for the subsequent development of positive accounting theory (hereinafter 'PAT') and the two decades of empirical research that it stimulated. First, it provides a theoretical basis for a firm's accounting procedures to affect its lobbying as part of the political process of determining accounting standards. Second, it enables PAT researchers to adopt a 'property rights' theory of the firm to develop theories of accounting practice (Watts and Zimmerman, 1986). However WZ (p. 112) acknowledge this assumption is limited and that there is a need for theory to more explicitly model competition among interest groups for political influence.

The economic theory of regulation upon which WZ based their analysis had been developed by an earlier generation of economists at the University of Chicago (Stigler, 1971; Pelzman, 1976). It depicts industry as essentially driving regulatory processes; politicians are assumed merely to transmit pressures of industry groups who seek regulation. By contrast, Becker (1983) reconciles both 'private interest' and 'public interest' views of regulation. He analyses how interest groups 'compete' within the context of rules that translate expenditures on political pressure (in the form of time, energy and money) into political influence and access to political resources.[4] Thus a single group cannot simply 'dominate' the political process, but must compete with others to attract political influence. Even if the manager of a firm chose to lobby against a proposed accounting change, a successful final regulatory outcome is not guaranteed.

Becker's (1983) theory implies that competition among these interest groups determines the equilibrium structure of the perceived costs, benefits and other political favours for each group that are associated with the determination of

accounting standards. Formally, the total costs (*S*) equals the total benefits (Becker, 1983, p. 373):

$$n_sG(R_s)=S=n_tF(R_t) \tag{1}$$

Where n_s and n_t are the total number of members of each group, and R_s and R_t is the benefits and costs paid to or by each member. *G* is the cost of providing R_s while *F* is the benefit of R_t.

The costs imposed on *t* is determined by an influence function that depends on the pressure (*p*) exerted by *s* and *t* and other variables (*x*):

$$n_tF(R_t)=-I^t(p_s,p_t,x)$$

$$n_sG(R)=I^s(p_s,p_t,x) \tag{2}$$

The political budget equation in (2) clearly implies that these influence functions cannot be independent because increased influence benefits flowing to *s* from regulation must be financed by imposing costs on *t*, and hence must lower the influence of *t*. That is,

$$n_tF(R_t)=I^t=n_sG(R_s)=I^s; I^s +I^t = 0 \tag{3}$$

Equality between the total costs and benefits associated with implementing an accounting standard implies that aggregate influence is zero: increased influence of some groups decreases the influence of others by equal amounts. Therefore, the political game modelled in Becker's (1983) paper is zero-sum in influence. The empirical implications of Becker's theory for understanding the determination of accounting standards depend upon the strength of association between individual pressure group functions (equation 2) and the political influence function (equation 3).

2.2. An institutional setting

Becker's (1983) model of competition among pressure groups for political

influence can be applied to accounting environments where (i) discretionary, non-cosmetic accounting choices are available to each group; (ii) these choices can in turn affect a group's propensity to apply political influence; (iii) the structure of accounting choices and incentives for producing pressure in order to obtain political influence are endogenous; and (iv) political influence over the determination of accounting standards can be approximated by the relations as set out in equations (1) to (3) above.

Becker's (1983) theory has previously been empirically applied to examine interactions among pressure groups over government regulation of pensions and financial service products.[5] The financial reporting practices of the Australian pension fund industry during the period 1991-1992 relevant to this study because managers could elect to adopt competing industry-developed 'best practice' guidelines and a professional accounting standard (AAS 25) developed by the Australian Accounting Research Foundation ('AARF'). These alternative standards substantially differed in their interpretation about both the ownership of pension fund surpluses and deficits and the extent of financial disclosures to be reported to members (Klumpes, 1994a).

The institutional arrangements affecting the Australian pension industry involve an economic relationship between industry-based financial intermediaries and members for both DCPPs and DBPPs. The ownership structure of both types of pension fund are governed by the unique and delegated agency relationships between relatively unsophisticated pension fund members and their sponsoring employers ('the principals') and the pension fund intermediaries ('the agents') that legally define the fund. These relationships are economically significant since pension funds and the financial intermediaries which manage them hold more equities than do individual investors in UK and US financial markets (Davis, 1995). The existence of non-trivial

fee-based financial intermediary services to the pension fund industry suggests that agency problems exist in the financial management of pension funds, just as they do in the management of corporate assets, since financial intermediaries managing pension funds are self-interested agents and their abilities and effort levels are only imperfectly observable (Brennan, 1993). This relationship involves the demand and supply of fee-based industry-based financial intermediation services. These services require pension funds to pay both discretionary managerial expenses, and professional management fees for providing this service to pension fund members (Klumpes and McCrae, 1998).

These institutional setting meets a number of restrictive conditions that is deemed suitable for the empirical validation of Becker's (1983) theory for a number of reasons. First, there are two narrow pressure groups, one representing suppliers of pension fund financial reports ('the industry association') and another representing members as users of pension plan financial reports ('AARF'), that attempted to influence the rule-making process (Klumpes, 1994a). Australian legislation requires that the ownership structure of pension funds comprises equal representation by both employee members and their employers.[6] Second, relative to industry-based reporting rules, AAS 25 has a material, non-cosmetic effect on the adopting entity's balance sheet, by requiring pension funds to recognise a present-value accrued pension benefit obligation, and to include detailed financial statements in reports sent to members. Third, AAS 25 has clearly differentiable economic effects for DCPPs and DBPPs. DCPPs are by definition fully-funded, whereas DBPPs can be either under-or over-funded and can be affected by the employer sponsors' funding and asset allocation policy. Fourth, there is a one-time, non-reversible voluntary switch available to adopt AAS 25 during the period 1991-1992.[7] Finally, Klumpes and McCrae (1998)

demonstrate that there was an endogenous relationship between the demand by pension funds for industry–based financial intermediation services (captured by costs) and the marginal fee for this reputation (proxied by fees) during this period. These endogenous relationships, which enter Becker's (1983) model as pressure functions of users and suppliers respectively, are not directly affected by the adoption of AAS 25.

3. Factors influencing competition among interest groups for political influence

Becker's theory (1983) implies that various factors affect the pressure functions of both industry association (supplier) and AARF (user) groups, which in turn will enter as sources of political influence over the determination of accounting standards.

3.1.. Industry association (suppliers)

WZ assume that corporate managers are self-interested and that their lobbying and accounting policy choice behaviour is primarily motivated by self-interest. Similarly it is assumed that the propensity of the industry association group to apply political pressure is proportional to the level of professional intermediary fees and expenses that are charged to pension funds. The industry is thus posited to generate political pressure via the fees charged for performing this service (FEE_i). This in turn is mitigated by members' countervailing political pressure via the costs incurred by the financial intermediary to operate the pension plan ($COST_i$). Conceptually, political pressure applied by suppliers in supplying financial reporting to members also depends on incentives related to managerial discretion over accounting policy choice (PAS_i), and the value-relevance of information disclosed. Klumpes and McCrae

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(1998) identify investment risk as the primary financial characteristic of financial intermediaries that affected their supply of services to Australian pension funds in 1991-92. Prior research (Amir and Benartzi, 1998) demonstrates that investment strategy is regarded as value-relevant to users because it indicates the professional abilities of pension fund financial intermediaries ($INVRISK_i$):

$$FEE_i = f\,(COST_i,\ PAS_i,\ INVRISK_i) \tag{4}$$

3.1.1. AARF (users)

AARF represents the interest of users as it argued that greater accountability of the pension fund industry, in the form of AAS 25, was in the public interest (Klumpes, 1993). AARF's ability to apply political pressure is related to the level of non-trivial discretionary expenses charged to the pension fund's members by professional industry-based financial intermediaries ($COST_i$). There are a number of sources of this cost. First, industry-based financial intermediaries periodically charge professional (administration and investment) management fees for operating pension fund assets and liabilities (FEE_i). These fees are calculated as a periodic fraction of total invested funds under management and can significantly reduce the assets available to pay members' benefits. Such costs are discretionary as they are otherwise avoidable by self-administered pension funds (Klumpes and McCrae, 1998).

AARF also exerts political pressure through its ability to influence the form and content of financial information that is provided in annual member reports ($DISCL_i$). AARF proposed that the pension fund industry produce 'general purpose financial reports' containing annual detailed financial statements, while the industry argued that such information would only serve to confuse and mislead members (Klumpes, 1994a). Klumpes (1994b) and Herbohn and Buchan (1995) find that the

design of pension fund annual reports sent to members by Australian pension funds during 1991-92 was sensitive to the demand for detailed versus abbreviated information by users. Klumpes and McCrae (1998) also find that the age of pension fund members is the primary agency-cost characteristic of Australian pension funds that affects the demand for financial intermediary reputation. The age profile of the membership structure of the pension plan affects the periodic cash inflow or outflow each year ($MATRISK_i$). Bodie et al. (1987) find that this variable significantly affects the funding strategy of US pension funds. This pension fund financial characteristic is also posited to affect the propensity to generate political pressure.

Conceptually, this formulation of the sources affecting pressure applied by members can be summarised as follows:

$$COST_i = f^i(FEE_i, DISCL_i, MATRISK_i) \tag{5}$$

3.1.3. Competition for political influence

Consistent with prior accounting literature, it is assumed that political influence over the determination of accounting standards is proxied by fund size ($SIZE_i$). However the nature of political influence is expected to differ between various types of fund. Klumpes (1994b) presents anecdotal evidence to suggest that larger DBPPs were closely associated with industry lobbying groups who opposed mandated accounting standards, whereas larger DCPPs supported these changes. Both direct and indirect pressures applied by both groups can affect their ability to secure political influence over the determination of accounting standards. Financial intermediaries seek to exert political influence both directly through fees and indirectly via their discretion over voluntary accounting choice (PAS_i). Members seek to obtain political influence directly through the level of expenses paid for the

provision of financial intermediated services ($COST_i$) and indirectly through the extent of voluntary disclosure practices of their funds ($DISCL_i$). Combining these factors into equation form, the following generalised political influence function is hypothesised:

$$LNSIZE_i = f^{ii}(FEE_i, COST_i, PAS_i, DISCL_i) \tag{5}$$

It should be noted that *FEE*, *COST* and *LNSIZE* are simultaneously determined.

4. Data Selection and Variable Descriptions

4.1. Sample Selection

The sample was selected on the basis of a two step procedure. First, the sample was chosen to be representative of the population of Australian pension funds during 1992-93 (ISC, 1993). Thus, the sample was first split evenly between DCPPs and DBPPs and then stratified by industry classification (private and public sector). Second, a sample of pension funds whose address details were published in the industry digest were asked to supply copies of their annual financial reports and annual reports sent to members. The final sample comprises 54 DCPPs and 54 DBPPs.

4.2. Variable descriptions

Table 1 reports descriptive statistics for the sample DBPPs (Panel A) and DCPPs (Panel B).

INSERT TABLE 1 ABOUT HERE

The sample of DCPPs, relative to the sample of DBPPs, on average adopted

more stringent forms of PAS and voluntarily disclosed more items of financial information in their annual member reports during the study period.[8] They also incurred, on average, relatively higher periodic financial intermediary fees and expenses, but bore significantly lower maturity risk than the sample of DBPPs.

The following variables were used to proxy the various pressure functions and the political influence functions as described in the simultaneous equations model specified by equations (1) to (3);

'PAS' is a dichotomous variable which proxies for the type of PAS used. Financial intermediaries preparing pension plan annual reports used either industry-based PAS (=0) or AAS-based PAS (=1).

'DISCL' is a categorical variable which proxies for the extent of voluntary financial disclosure contained in pension annual reports.[9] This comprises five items: an audit report, statement of financial position, statement of changes in financial position, investment performance report, and a summary of the actuarial report. Pension plans which included none of these items scored zero (=0); those which included all items scored five (=5).

'MARFEE' proxies the variable *FEE* for financial intermediary reputation in PAS choice. This is calculated as the total marginal periodic fees paid to financial intermediaries (trustees, investment managers, administrators) of the sample of Australian pension funds for the twelve months ended 30 June 1993, or nearest reporting date, as a percentage of the total invested assets of the plan. In the empirical tests the log of the total fee ('*LNFEE*') replaced this variable.

'MARCOST' is calculated as the total marginal costs paid for the administration and management of the sample of Australian pension funds for the twelve months ended 30 June 1993, or nearest reporting date, as a percentage of the net assets of the plan.

In the empirical tests this variable is replaced by the log of the total costs ('*LNCOST*').

'*MATRISK*' is a proxy for the pension plan's sensitivity to solvency. The older the age profile of pension plan members, the greater is the cash flow needed to fund benefits, which must be funded from investments. It is measured as the relationship of total contributions received, plus gross investment returns, less total benefit payments over the year ended 30 June 1993, divided by total assets of the pension fund as at 30 June 1993. During 1992-93, there was considerable political pressure placed on pension plan financial intermediaries to maintain a pension fund's solvency (Klumpes, 1994a).

'*INVRISK*' is a proxy of the risk that the pension plan's portfolio is invested in non-liquid financial products which cannot be used to fund current benefit payments. It measures the percentage of pension plan total assets that comprised classes of risky assets (e.g.: fixed interest bonds, stocks, property) as at 30 June 1993, that are not otherwise available to fund benefit payments for the year ended 30 June 1993.

'*LNSIZE*' is a proxy for political costs used by prior empirical accounting studies. It measures the net market value of assets of a pension plan in A$ million, as at 30 June 1993. For statistical testing purposes (see discussion below) these were converted to natural log scale.

Table 2 presents, for both DBPP (Panel A) and DCPP (Panel B) samples, bi-variate correlations among the factors affecting political pressure and influence functions. The high correlation between *FEE* and *COST*, for both types of fund, are expected since these variables are treated as endogenous. On the other hand, the high correlations between *DISCLXT* and *FEE* (DBPP) and *PAS* and *FEE* (DCPP) are unexpected and may affect the ability to meaningfully interpret the coefficients related

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to the political pressure influence functions. However these high correlations are removed when log-based fee and cost functions are substituted for marginal functions in the empirical tests, the results of which are reported below.

INSERT TABLE 2 ABOUT HERE
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5. Empirical Tests

In analysing the causes and effects of competition among pressure groups for political influence, a basic linear model of the three-equation simultaneous system developed above is estimated. Specifically, it is assumed that all disturbances are normally distributed. Exploratory data analysis and specification tests indicated that this assumption appears to be reasonable. Two-stage least squares (2SLS) is therefore applied to estimate the following model:

$$FEE_i = a_0 + a_1 COST_i + a_2 PAS_i + a_3 INVRISK_i + e \qquad (7)$$

$$COST_i = b_0 + b_1 FEE_i + b_2 DISCL_i + b_3 MATRISK_i + e^i \qquad (8)$$

$$LNSIZE_i = c_0 + c_1 FEE_i + c_2 COST_i + c_3 PAS_i + c_4 DISCL + e^{ii} \qquad (9)$$

In evaluating the results of this model, the following expectations are made regarding the signs of the coefficients:

(7): $a_1 > 0$; a_2, $a_3 < 0$.

(8): b_1, $b_3 > 0$; $b_2 < 0$ (DBPP) and > 0 (DCPP).

(9): $c_4 < 0$; c_1, $c_3 > 0$ (DBPP) and < 0 (DCPP); $c_2 < 0$ (DBPP) and > 0 (DCPP).

Coefficients a_3 in equation (7) and b_3 in equation (8), respectively, represent agency cost-related variables. Coefficients a_2 and b_2 represent indirect pressure via discretion over accounting policy choice and voluntary disclosure. Coefficients a_1 and

b_1 represent mitigating political pressure from the opposing interest group. The estimated coefficients on the political pressure variables in equations (7) and (8) are expected to be of opposite signs for DBPPs and DCPPs, reflecting alternative assumptions about the countervailing impact of political pressure by opposing groups.

Equation (9) recognises the endogenous relation between political influence and interest group pressure functions, either when measured directly by cost and fee functions (c_1 and c_2), or indirectly by discretion over accounting or disclosure policy (c_3 and c_4). Consistent with the differential expectations for DBPPs and DCPPs, coefficients c_1, c_2 and c_3 are also predicted to differ between these types of fund.

5.1. Results - DBPPs

Results from the basic model for DBPPs for the marginal fee and cost functions appear in Table 3. Panel A.

INSERT TABLE 3 ABOUT HERE

For equation (7), all variables have coefficients of the predicted sign, and *MARCOST* is statistically significant. The overall model is significant at the 0.01 level, with an adjusted R-squared of 0.42. For equation (8), all variables have coefficients of the predicted sign. However only *MARFEE* is statistically significant. The overall model is significant at the 0.01 level with an adjusted R-squared of 0.45. For equation (9), all variables are of the predicted sign, and *MARFEE* and *PAS* are statistically significant. The overall model is statistically significant at the 0.01 level, with an adjusted R-squared of 0.38.

Overall, the strength of statistical association between political influence, *MARFEE* and *PAS*, but not *COST* or *DISCLXT*, supports the relations predicted by hypothesis 1. However the above empirical tests assume that political pressure is

linearly increasing in marginal fees, and the validity of these relationships is subject to the high correlation between *MARFEE*, *PAS* and *SIZE*. Copley et al. (1995) show that the relationship of audit fees to auditor reputation in the US public sector is not linear, and use log fees in estimating the simultaneous demand and supply of audit reputation in this market. By analogy it is also possible that financial intermediary fees are also not linear. To examine the sensitivity of results to this assumption, and to remove the possible correlation problems associated with *MARFEE*, log fee and cost functions are substituted for marginal fees and costs. The results for DBPPs are reported in Panel B of Table 3.

The significance and signs of all the coefficients reported in Panel B are identical to that reported in Panel A, except for *PAS*, which now has a negative sign. The overall model F tests for all models are also significant at the 1 percent level, but the adjusted R-squares are slightly lower. These results demonstrate that the basic relationships hold even if the alternative linear assumption about costs and fees reported in Table 3 is removed. The results also fully support the predicted strength of association between user and supplier pressure functions and political influence.

5.2. Results - DCPPs

Results from the basic marginal fee and marginal cost model are reported for DCPPs in table 4, Panel A.

INSERT TABLE 4 ABOUT HERE

For equation (7), all variables have coefficients of the predicted sign and *MARCOST* and *PAS* are statistically significant. The overall model is significant at the 0.01 level, with an adjusted R-squared of 0.53. For equation (8), all variables have

coefficients of the predicted sign, but only *MARFEE* is statistically significant. The overall model is significant at the 0.01 level with an adjusted R-squared of 0.41. For equation (9), all variables have coefficients of the expected direction, but only *PAS* is statistically significant. The overall model is not statistically significant and has an adjusted R-squared of only 0.04.

These results are the prediction that neither group appears to exert significant political influence over the determination of DCPP financial reporting rules. Table 4, Panel B reports the results for DCPPs under the alternative assumption of non-linear fee and cost functions. Once again the significance and signs of most the coefficients are identical to those reported in Panel A, although *MATRISK* is now statistically significant (equation 8). The overall model F tests for all models, except for equation (9), are also significant at the 1 percent level, but the adjusted R-squares are slightly higher. These results suggest pension fund costs and fees are non-linear, which is consistent with evidence of size-related fees and cost behaviour in the fund management industry.

6. Conclusion

This paper provides empirical evidence on Becker's (1983) theory of competition among pressure groups for political influence in the context of Australian pension accounting rule making. The analysis relied on the assumption that accounting policy choice and voluntary disclosure of financial information in annual member reports are credible proxies of political pressure functions of supplier and user groups. A variety of signalling and monitoring incentives were posited to affect the political pressure and influence functions, which were assumed to be endogenous.

The main conclusions are that for both DCPPs and DBPPs, the industry

association exerted the most political pressure, which influenced the form of PAS mandated for annual member reports. However its political pressure functions translated into political influence for the DBPP sample only. These results are consistent with prior survey evidence indicating that DBPPs opposed AAS 25 and obtained government sanction for alternative industry-based pension accounting rules.

However these results are only tentative and must be treated with extreme caution. Some caveats may limit the validity of inferences that can be drawn from these results. First, the model assumes, consistent with the results of prior empirical research (Klumpes and McCrae, 1998), that supplier fees and users' costs are measurable proxies for their political pressure functions. It is also assumed, consistent with prior empirical accounting literature, that political influence is adequately proxied by size. These approximations may in fact be capturing other omitted variables and ignores the fact that pressure and influence functions are hard to measure. Second, lobbying activities and pressure applied by other groups in the subsequent formal submissions process were effectively ignored (e.g.: accounting firms). If these other groups significantly influence rule-making outcomes, the explanatory power of the model is correspondingly reduced.

Subject to these caveats, this study extends the literature that attempts to explain political activity surrounding accounting standard rule making in many ways. First, this study empirically examines hypothesised relationships implied by Becker's (1983) theory of competition among multiple pressure groups for political pressure, in an accounting rule making setting. These relationships contrast with those examined by prior empirical research studying accounting regulation and political activity, which assumes either that corporate managers drive the accounting standard process, and/or use size to proxy political costs as an independent, explanatory variable for

accounting policy choice. In contrast, in the institutional setting of Australian pension plan accounting rule-making activities, political pressure functions of multiple groups are assumed to be endogenous with political influence. Accounting policy and voluntary disclosure choices are thus treated as variables that may explain the overall rule-development process, together with other agency-related and management incentive factors.

Second, fee and cost functions are introduced into the accounting literature as proxies of the pressures assumed to drive political activities surrounding pension accounting standard setting processes. It is likely that equivalent industry-specific pressure factors will politically influence standard setting activities in other institutional environments. Future research is expected to develop methods and which allow further examination of this model in other institutional and accounting policy choice settings.

FOOTNOTES

1. Zeff (1998) cites growing evidence of collaborative activities among 'G4+1' accounting standard setting bodies).

2. Empirical studies of accounting policy choice and lobbying behaviour typically do not address the broader policy question of whether such behaviour actually influences the subsequent course of accounting rule development.

3. Klumpes (1994a) reports that these liabilities were excluded from the balance sheet recognition requirements of competing industry-developed standards, which were later sanctioned by government regulations for the annual preparation of membership financial reports. Stone et al. (1987) study the development of competing accounting standards for U.S. public sector pension funds.

4. Becker (1983, 371) claims that this model unifies the view that regulation (e.g.: accounting standard setting) activities correct market failures with the alternative view that they favour the politically powerful: both are produced by the competition for political influence.

5. Becker's (1983) model has previously been applied to examine political game plays between interest groups related to the congressional reviews of US financial services regulation (Randall and Krosner, 1995).

6. The role of the employer sponsor in the determination of Australian pension fund accounting standards is somewhat ambiguous, since firm cash flows are not directly affected by pension fund financial reporting. For DBPPs, employer sponsors face incentives that are both compatible (i.e. provide retirement income insurance) and incompatible (i.e. conflict over the ownership of surplus/deficit) with that of their employees. These incentive problems do not apply to DCPPs,

since employees bear all the investment and funding risk themselves. Consistent with prior research, it is assumed that sponsoring firm shareholders own both pension assets and liabilities (e.g.: Landsman, 1986), and hence their interests are compatible with those of financial intermediaries.

7. Standards for pension fund financial reporting were subsequently mandated by government regulation (*Superannuation Industry Standards Act* 1994), which is conceptually similar to equivalent USA (*Employee Retirement Income Security Act*, 1974) and UK (*Pension Act*, 1995) pension laws.

8. This is consistent with the results of prior survey research (i.e.: Anderson and Sharpe, 1992; Klumpes, 1994b; Herbohn and Buchan, 1995).

9. DISCL was alternatively examined as a dichotomous variable where pension plans were classified as either fully complying with AAS 25 'general purpose financial reports' (coded 1) or not (coded 0). However this alternative specification, when substituted for the categorical variable DISCL, did not significantly alter the results of the tests reported in section 4 below. The categorical variable is preferred because it recognises more adequately the full extent of significant cross-sectional variation in voluntary financial disclosure practices across the sample of pension funds during the study period.

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Table 1
Factors influencing pressure groups and competition for political influence
Descriptive Statistics for Sample and Population of Pension Funds

Panel A: Defined Benefit Pension Funds (Population Size 3,209; Sample Size N =54)

	Population	Sample			
	Mean	Mean	Min.	Max.	Std Dev.
MARCOST	0.52	0.35	0.00	1.40	0.33
MARFEE	0.96	0.75	0.04	3.30	0.57
PAS	n.a.	0.00	0.00	1.00	0.46
DISCL	n.a.	1.85	0.00	5.00	1.25
INVRISK	n.a.	73.81	16.44	99.69	14.08
MATRISK	n.a.	-1.40	-39.56	51.59	12.30
LNSIZE	3.23	3.71	1.36	8.16	1.57

Panel B Defined Contribution Pension Funds (Population Size 1,370; Sample Size N =54)

	Population	Sample			
	Mean	Mean	Min.	Max.	Std Dev.
MARCOST	1.93	0.90	0.01	5.00	1.09
MARFEE	8.7	2.19	0.04	6.50	1.83
PAS	n.a.	0.63	0.00	1.00	0.49
DISCL	n.a.	1.85	0.00	5.00	1.25
INVRISK	n.a.	62.33	0.00	100.00	28.70
MATRISK	n.a.	20.61	-28.59	100.00	25.38
LNSIZE	4.89	3.71	0.09	6.79	1.64

Variable descriptions

PAS = A dummy variable indicating the extent of voluntary compliance with Australian Accounting Standards in audited accounts as at 30 June 1993, from no compliance or industry-recommended guidelines (=0) to professional Australian Accounting Standard 25 (=1).

DISCL = A categorical variable extent of voluntary disclosure of financial information items in annual member reports issued as at 30 June, varying from no disclosure (=0) to disclosure of five items (=5).

MARFEE = Marginal periodic fees charged by financial intermediaries to pension plan for year ending 30 June 1993 as a percentage of total net assets (in A$M).

MARCOST = Marginal periodic expenses incurred by pension plan, other than financial intermediary fees, for year ending 30 June 1993 as a percentage of net assets (in A$M).

INVRISK = Percentage of total invested assets of pension plan, as at 30 June 1993, comprising risky investment classes (e.g.: shares, real estate).

MATRISK = Net contributions for year ended 30 June 1993 (in A$M).

LNSIZE = Natural log of total pension fund assets, as at 30 June 1993 (in A$M).

Table 2
Factors influencing pressure groups and competition for political influence
Bivariate Correlations Between Variables

Panel A: Defined Benefit Pension Funds

	COST	FEE	INVRISK	LNSIZE	MATRISK	PAS	DISCLXT
COST	1.000						
FEE	0.652^{**}	1.000					
INVRISK	-0.176	0.139	1.000				
LNSIZE	-0.327^{*}	-0.609^{**}	-0.114	1.000			
MATRISK	0.055	-0.056	0.095	-0.137	1.000		
PAS	-0.300^{*}	-0.217	-0.296^{*}	-0.298^{*}	0.127	1.000	
DISCLXT	-0.230	-0.186	-0.149	0.106	0.086	0.414^{**}	1.000

Panel B: Defined Contribution Pension Funds

	COST	FEE	INVRISK	LNSIZE	MATRISK	PAS	DISCLXT
COST	1.000						
FEE	0.657^{**}	1.000					
INVRISK	0.322^{*}	0.139	1.000				
LNSIZE	-0.134	0.044	-0.192	1.000			
MATRISK	0.144	0.265	-0.145	0.214	1.000		
PAS	-0.239	-0.459^{**}	-0.111	-0.258	-0.141	1.000	
DISCLXT	-0.059	-0.191	0.007	-0.010	-0.105	0.032	1.000

[**] Significant at 0.01 level
[*] Significant at 0.05 level

Table 3
Factors influencing pressure groups and competition for political influence
Defined benefit funded Australian pension plans (DBPPs)
(2SLS, Standard errors in parentheses)

	FEE Equation (7)	*COST* Equation (8)	*LNSIZE* Equation (9)
Panel A: Marginal Cost and Fee Functions			
MARCOST	1.08[a]		0.80
	(0.20)		(0.68)
MARFEE		0.37[a]	-1.88[a]
		(0.06)	(0.39)
PAS	-0.05		0.79[c]
	(0.15)		(0.42)
DISCL		-0.03	-0.10
		(0.03)	(0.15)
INVRISK	-0.001		
	(0.004)		
MATRISK		0.003	
		(0.003)	
Adj R^2	0.42	0.45	0.38
Panel B: Log Cost and Fee Functions			
LNCOST	0.31[a]		0.11
	(0.10)		(0.16)
LNFEE		0.57[a]	-0.98[a]
		(0.21)	(0.22)
PAS	-0.25		0.87[b]
	(0.27)		(0.43)
DISCL		-0.19	-0.16
		(0.13)	(0.16)
INVRISK	-0.005		
	(0.009)		
MATRISK		0.002	
		(0.12)	
Adj R^2	0.23	0.18	0.37

[a] Significant at 0.01 level, one-tailed test.
[b] Significant at 0.05 level, one-tailed test.
[c] Significant at 0.10 level, one-tailed test.

Table 4
Factors influencing pressure groups and competition for political influence
Defined contribution funded Australian pension plans (DCPPs)
(2SLS, Standard errors in parentheses)

	FEE Equation (7)	*COST* Equation (8)	*LNSIZE* Equation(9)
Panel A: Marginal Cost and Fee Functions			
MARCOST	1.02[a] (0.18)		-0.39 (0.27)
MARFEE		0.40[a] (0.07)	0.07 (0.18)
PAS	-1.21[a] (0.37)		-0.95[c] (0.51)
DISCL		0 .05 (0.09)	-0.001 (0.18)
INVRISK	-0.006 (0.006)		
MATRISK		-0.001 (0.005)	
Adj R^2	0.54	0.66	0.04
Panel B: Log Cost and Fee Functions			
LNCOST	0.45[a] (0.09)		-0.28 (0.19)
LNFEE		0.80[a] (0.13)	-0.07 (0.26)
PAS	-0.74[a] (0.26)		-1.17[b] (0.51)
DISCL		0.09 (0.12)	-0.02 (0.18)
INVRISK	0.001 (0.004)		
MATRISK		0.01[b] (0.006)	
Adj R^2	0.47	0.43	0.06

[a] Significant at 0.01 level, one-tailed test.
[b] Significant at 0.05 level, one-tailed test.
[c] Significant at 0.10 level, one-tailed test.