

Faculty of Commerce

Faculty of Commerce - Papers

University of Wollongong

Year 2007

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standard setter

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This paper was originally published as: Cortese, CL, Irvine, HJ & Kaidonis, M, The hollow promise of an accounting standard setter, Fifth Asia Pacific Interdisciplinary Research in Accounting (APIRA) Conference, Auckland, New Zealand, 8-10 July, 2007.

This paper is posted at Research Online.

<http://ro.uow.edu.au/commpapers/329>

THE HOLLOW PROMISE OF AN ACCOUNTING STANDARD SETTER

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THE HOLLOW PROMISE OF AN ACCOUNTING STANDARD SETTER

ABSTRACT

Purpose – This paper applies a power framework to critically analyse the international accounting standard setting process for the extractive industries.

Design/methodology/approach – Publicly available data, including comment letters, annual reports, company websites, and IASC/IASB pronouncements, is used to make connections between the key players involved in the international accounting standard setting process for the extractive industries.

Findings – Lukes' (1974) conception of power is used to explain the community of interests that developed between the IASC/IASB and extractive industries constituents. This community of interests is shown to have enabled the extractive industries to mobilise its power to paralyse the standard setting body and secure favourable regulation. While the politicisation of accounting standard setting is widely acknowledged, the revelation that economically dominant groups can covertly wield such power is a sobering one in the light of the worldwide promotion and adoption of International Financial Reporting Standards.

Originality/value – This paper contributes to understanding of the presence of power in the international accounting standard setting process and how it is mobilised by key constituents.

Key words – International accounting standards, extractive industries, power, standard setting, financial accounting

INTRODUCTION

With the adoption of International Financial Reporting Standards (IFRS), a profound change has occurred in the way many entities, including the world's largest public companies, produce their general purpose financial reports. This is particularly significant in the case of extractive industries accounting, with the International Accounting Standards Board yet to develop a comprehensive international accounting standard, and instead still struggling to achieve consensus among the many and varied interests of constituents. With accounting and accounting standard setting now accepted as being highly politicised activities, this paper provides insight into the constituents that contribute to the process of developing an international accounting standard for the extractive industries.

Defined as the petroleum (oil and gas) and mining industries (International Accounting Standards Committee, 2000a), the extractive industries have substantial economic, social, political, and environmental impacts. Many of the world's largest extractive companies, such as the Royal Dutch/Shell group, BP, BHP Billiton, and ExxonMobil, are well known and established household names. The economic strength of the major extractive industries companies is such that many are richer and more powerful than the states and even countries that seek to regulate them (Global Policy Forum, 2006). Indeed, six of the world's top twelve companies are from the extractive industries, being BP, Chevron/Texaco, ConocoPhillips, ExxonMobil, the Royal Dutch/Shell group, and TOTAL (Anderson and Cavanagh, 2000, Fortune Magazine, 2005). In 2005, these six companies recorded combined revenues in excess of US\$1.2 trillion and profits of US\$92 billion (Fortune Magazine, 2005). Comparing the combined revenues of these six global companies with current United States Gross Domestic Product of US\$11 trillion (World Bank, 2005) gives some perspective of the enormous economic strength of the major international extractive industries companies. The political influence of this sector flows on from its economic strength. Extractive industry coalitions have been active lobbyists in regulatory debates concerning issues such as global climate change, taxation policy, and sustainable development, with many, such as the American Petroleum Institute, formed specifically for the purpose of influencing public policy and regulatory processes for the benefit of members (American Petroleum Institute, 2006).

The environmental impacts are arguably the most visible consequence of extractive activities. The negative environmental impacts of mining are well-publicised, with, for example, the BHP mine in Ok Tedi, Papua New Guinea (BHP Ltd, 1999), and the Exxon Valdez oil spill in Alaska (United States Environmental Protection Agency, 2006), attracting substantial publicity as a result of the devastating environmental and socio-economic impacts. In response, extractive industries enterprises have sought to improve their corporate images, with many implementing extensive environmental programs to monitor and ensure the environmental sustainability of their operations.

The social impacts of the extractive industries are also significant. Major extractive operations can be responsible for improving infrastructure in and around the area being mined, increasing capital investment to a community and/or country, providing employment opportunities, and boosting local economies. Indeed, many developing countries benefit substantially from the royalty payments from mining companies. For example, mining in Papua New Guinea accounts for approximately

21 percent of its Gross Domestic Product and 75 percent of export earnings (Department of Foreign Affairs, 2004).

The substantial economic, political, social, and environmental impacts of the extractive industries contribute to the accountability of this sector and make evident the importance of the accounting practices used by extractive industries companies to report on their financial performance and position. One aspect of extractive industries accounting that has been plagued by controversy concerning the methods of accounting for pre-production activities. In an attempt to report on this phase of extractive operations in the most favourable light, the full cost and successful efforts methods of accounting have developed.¹ These two methods of accounting have been the cause of considerable controversy within the extractive industries due to the significantly different results generated under each method. First raised in the United States of America (US) in the 1960s (Van Riper, 1994), the debate over successful efforts versus full cost accounting has remained unresolved. Companies in the US, Canada, and the United Kingdom are still able to choose between these two methods of accounting when reporting on exploration and evaluation activities.

In 1998, the International Accounting Standards Committee (IASC) undertook to remedy the disparate accounting practices by proposing the development of an international accounting standard that enhanced comparability and consistency of financial reporting by extractive industries companies across the world (International Accounting Standards Committee, 2000a). This was to be achieved, in part, by narrowing accounting alternatives and prescribing a single method of accounting for exploration and evaluation consistent with the successful efforts concept (International Accounting Standards Committee, 2000a).

The full cost versus successful efforts issue was considered in the IASC's Extractive Industries Issues Paper (hereafter referred to as the Issues Paper), published in November 2000 (International Accounting Standards Committee, 2000a). The Issues Paper was the first stage in the process of developing an international accounting standard for the extractive industries and, as part of the process, was opened for public comment until June 2001. Comment letters were received from 52 respondents, with many of these from multinational extractive industries companies and extractive industries lobby groups. While the majority of respondents supported the proposal to narrow accounting alternatives and require all companies to report under the successful efforts method, two industry lobby groups vehemently opposed the proposal and argued that both the successful efforts and full cost methods should continue to be permitted.

After a series of delays, incorporating the IASC's restructure and reformation as the IASB, an international accounting standard for the extractive industries was finally issued in December 2004 (International Accounting Standards Board, 2004c). However, despite the claimed intentions of narrowing accounting alternatives and bringing about consistency in extractive industries reporting, in the resultant accounting standard, the IASB failed to achieve these objectives. Instead, International Financial Reporting Standard 6, *Exploration for and Evaluation of Minerals Resources* (IFRS 6), granted extractive industries companies an exemption from the restrictive provisions contained in other international accounting standards. This had the effect of enabling extractive industries companies to continue to use the accounting policies in place immediately before the adoption of IFRS 6 to account for

¹ The area-of-interest method and appropriation methods are other derivatives of these two main methods, and are practiced in Australia and South Africa respectively.

exploration and evaluation expenditure. In sum, IFRS 6 merely codified existing industry practice, perpetuating the disparate methods of accounting for exploration and evaluation, and maintaining the status quo for extractive industries companies.

The striking failure of the IASB to follow through with its aim of remedying the inconsistencies of extractive industries accounting, particularly with respect to the successful efforts versus full cost issue led to a consideration of the possible factors that may have influenced this decision. Of interest, therefore, is the *story* behind the process of setting the international accounting standard for the extractive industries. This story cannot be conveyed by a perfunctory analysis of the positions for and against the IASC/IASB's proposals and how these might be linked to the outcome of the process. Rather, it is necessary to consider *who* took these positions, in addition to identifying others perhaps less visibly involved, in order to gain insight into *how* the accounting standard was developed.

To tell this story, the international accounting standard setting process for the extractive industries was examined with a view to illuminating the political nature of accounting, and exposing the underlying institutions and arrangements of accounting. The presence of power and its effect on the outcome of the international accounting standard setting process was then explained by using Lukes' (1974) theory of power. This theory was used to argue that the role of power in the international accounting standard setting process is such that the extractive industries have mobilised their power, captured the IASC/IASB and paralysed the standard setting process in order to maintain the status quo of flexibility in accounting and financial reporting.

The remainder of this paper is organised as follows: the research approach is described in the next section and applied to the international accounting standard setting process for the extractive industries. This is followed by a discussion of power theory and how it can be used to explain the presence of power in the standard setting process. Connections between key constituents are then revealed. Finally, conclusions regarding the presence of power in the international accounting standard setting process for the extractive industries are presented, along with research limitations and opportunities for future research.

RESEARCH APPROACH: CRITICALLY EXAMINING THE PROCESS

As noted, the purpose of this research was to examine the processes that led to the issue of IFRS 6 and, thereby, the codification of existing disparate extractive industries accounting practices. International accounting standards are set within an institutional context that incorporates the IASC/IASB funding arrangements and the IASC/IASB due process procedures. Within this institutional structure, IASC/IASB constituents may participate in the standard setting processes. Examining these constituents and their role is crucial to a critical investigation of international accounting standard setting process because it enables the researcher to go behind the scenes of the process to make visible the powerful coalitions and players that contribute to and influence the process. Importantly, without this deep, multi-layered analysis, these coalitions and players may otherwise remain masked by the promulgated transparency and objectivity of the international accounting standard setting arrangements (International Accounting Standards Board, 2004b).

THE IASC/IASB FUNDING ARRANGEMENTS

The IASC launched its external funding program in 1990, with revenue received from three main sources: fees paid by Board members and by the International Federation of Accountants, profits made on IASC publications, and voluntary contributions made by companies and other organisations with an interest in the work of the IASC (International Accounting Standards Committee, 1999). Under these arrangements, the major international accounting firms were the IASC's largest source of funding (International Accounting Standards Committee, 1993).

This funding model was considered to be a considerable threat to the legitimacy of the international accounting standards because the IASC relied on voluntary endorsement of, and compliance with, its standards from the same constituents that were funding its activities. In an attempt to overcome this problem, the Committee was restructured in 2000 and the International Accounting Standards Committee Foundation (IASCF) was formed as a not-for-profit entity. A board of trustees was appointed to the Foundation and charged with the responsibility of raising funds to support the international accounting standard setting activities (International Accounting Standards Board, 2004a). The IASC was renamed the International Accounting Standards Board (IASB) and the trustees also became responsible for appointing members to the Board and overseeing the IASB's activities (International Accounting Standards Board, 2004a).

Under the new funding arrangements, large multinational corporations, stock exchanges, national accounting standard setting bodies, central banks, government entities, international agencies, and international accounting firms became the benefactors of the IASB (Brown, 2004, International Accounting Standards Committee Foundation, 2004). The major international accounting firms continued to be the primary supporters, with each pledging to contribute £1 million per annum to the IASB, approximately one-third of the IASB's estimated operating budget. In 2004, the IASB received contributions totalling over £9 million from 184 corporations, associations, and other institutions, including a number of the world's leading multinational corporations such as BP plc, Shell International, General Electric, Pfizer, Vodaphone, and the New York Stock Exchange (International Accounting Standards Committee Foundation, 2004).

Despite these efforts to improve the actual and perceived transparency of the external funding program, the arrangements continued to come under attack from commentators who suggest that there still exists a dependency relationship between the IASC/IASB and its benefactors, which may influence the issues considered (Brown, 2004, Mitchell, *et al.*, 1994, Mitchell and Sikka, 1993). For example, it has been argued that critical issues, such as environmental and social accounting and accounting for small and medium sized enterprises, are marginalised in favour of those that align with the political and economic interests of supporters (Brown, 2004). Brown (2004) further noted that the IASB's current agenda items, which cover business combinations, present value, financial instruments, and extractive industries, are indeed consistent with concerns facing the large, multinational conglomerates that support the IASB. Mitchell and Sikka (1993, p.29) have similarly argued that the "institutions and practices of accountancy are collusive and undemocratic" and that institutions, such as the IASC/IASB, are "dedicated to defending the status quo and sectional interests rather than wider interests". A related transparency issue in the

international accounting standard setting arrangements involves the due process procedures followed by the IASC/IASB when developing a standard.

THE IASC/IASB DUE PROCESS

The IASC/IASB's due process procedures were designed to protect the openness, neutrality, and independence of the accounting standard setting process and enable arguments for and against proposals to be raised at several points during the development of a standard (International Accounting Standards Board, 2004a). The due process for the extractive industries accounting standard began in 1998 when the IASC added the project to its formal agenda. Before considering the due process in more detail, it is important to note the significance of the agenda setting process itself. The IASB states that

(b)oard members, members of the Standards Advisory Council, national standard setters, securities regulators, other organizations and individuals and the IASB staff are encouraged to submit suggestions for new topics that might be dealt with in the IASB's standards (International Accounting Standards Board, 2004b).

Thus the agenda setting process can be considered an exercise of power in which certain issues may be "disregarded or suppressed and denied agenda entrance" (Walker and Robinson, 1993, p.4). In this way, the agenda may be restricted to relatively safe issues as a result of confining the scope of decision making (Bachrach and Baratz, 1970, p.43). Further, Cousins and Sikka (1993, p.53) noted that even once an issue is placed on the formal agenda, it may be that subsequent information, such as that gathered during the due process, is "controlled by the very people/groups who are being called to account". In other words, the "facts" surrounding an issue may be shaped by the priorities and influence of powerful groups who wish to maintain the status quo (Cousins and Sikka, 1993, p.4).

There is no publicly available information regarding how, by whom, or why the extractive industries project was initiated, however the international prominence, economic influence, and divergent accounting practices of the extractive industries were listed as factors contributing to the importance of the project (International Accounting Standards Committee, 2000a). Further, as will be revealed in subsequent sections, many of the IASC/IASB's financial underwriters and supporters are extractive industries enterprises. Thus, following the reasoning of Brown (2004) and Mitchell and Sikka (1993), it may be argued that the admission of the project to the IASC's agenda, at least in part, was a consequence of the relationship between the IASC and its extractive industries benefactors.

The IASC's extractive industries project aimed to address accounting measurement and disclosure issues for the extractive industries, and was led by a Steering Committee developed specifically for the project (International Accounting Standards Committee, 2000b). The Steering Committee was internationally representative, with members from Australia, Canada, Germany, India, Italy, South Africa, Switzerland, the United Kingdom (UK), and the United States of America (US) (International Accounting Standards Committee, 2000a, Micallef, 2001). The professional backgrounds of Committee members' were also varied and included past

and/or present partners of each of the Big 4 accounting firms, past and/or present mining and petroleum company executives, academics, and financial analysts.

The Steering Committee reached its first milestone in November 2000, with the publication of the Extractive Industries Issues Paper. The Issues Paper was a 412 page document consisting of 16 chapters, which raised a number of “Basic Issues” concerning matters such as reserve estimation and valuation, recognition and measurement of inventories, and financial statement disclosures. The Issues Paper was published with an invitation for interested parties to comment by 30 June 2001 on the matters raised. In addition, given the “widespread interest” in the project, the Steering Committee also sent the Issues Paper to the “senior financial officers of nearly 300 extractive industries companies worldwide” with a direct request for comment (International Accounting Standards Committee, 2000b, p.19). To guide commentators, the Issues Paper set out the Steering Committee’s tentative views on some of the issues considered most significant. For example, in chapter four of the Issues Paper, one of the Basic Issues concerned the accounting method to be used by petroleum enterprises for their financial statements, with the Steering Committee indicating its preference for a method consistent with the successful efforts concept. An excerpt from chapter four, shown in Exhibit 1, illustrates this example.

Exhibit 1: Excerpt from chapter four of the Issues Paper

<p>Basic Issue 4.1 - Historical cost concepts for petroleum enterprises For petroleum enterprises, if one of the historical cost concepts were required for the primary financial statements, which of the following concepts, broadly defined, should be adopted? Each of these concepts is interpreted in a variety of ways in practice today.</p> <p>a. Accounting standards more consistent with the successful efforts concept than with the other concepts. b. Accounting standards more consistent with the area-of-interest concept than with the other concepts. c. Accounting standards more consistent with the full cost concept than with the other concepts. d. Accounting standards more consistent with the appropriation concept than with the other concepts.</p> <p><i>Steering Committee Tentative View:</i> <i>For petroleum enterprises, the Steering Committee favours adoption of a method more consistent with the successful efforts concept than with the other concepts.</i></p> <p>(International Accounting Standards Committee, 2000a, p.88)</p>

Respondents to the Issues Paper were required to indicate their preferences on the Basic Issues raised and thereby indicate their agreement or disagreement with the Steering Committee’s tentative views.

THE COMMENTS LETTERS

Despite the Steering Committee’s efforts to elicit responses, and the supposed interest in the project, 52 comment letters were received in respect of the Issues Paper. These were from respondents in countries including Australia, Canada, China, Germany, South Africa, the UK, and the US. The principal activities of the respondents were varied and included mining and petroleum companies, extractive industries lobby

groups, international accounting firms, professional accounting bodies, standard setting bodies, and academics. To summarise this information, respondents have been categorised according to location and into one of the following groups: mining companies, mining industry lobby groups, petroleum companies, petroleum industry lobby groups, accounting firms, professional accounting and standard setting organisations, and others (academics and individuals). Table 1 presents this summary of the respondents according to location and principal activity.

Table 1: Responses to the Issues Paper, categorised according to location and principal activity of respondents

		Principal activity					Total
		Mining companies and their representative groups	Petroleum companies and their representative groups	Professional accounting and standard setting organisations	Chartered accounting firms	Others	
Location	Argentina			1			1
	Australia	8		1	1	2	12
	Belgium			1			1
	Canada		1	1			2
	China		1				1
	Germany		3	1			4
	International				2		2
	Italy		1				1
	Japan			1			1
	Kazakhstan					1	1
	Pakistan			1			1
	South Africa	5		1	1		7
	Sweden			1			1
	UK	2	5	3			10
	USA		6				6
	Zimbabwe			1			1
	Total	15	17	13	4	3	52

As shown in Table 1, the majority of comment letters were received from Australian commentators (21 percent), followed by the UK (19 percent), South Africa (13 percent), the US (13 percent), Germany (8 percent), and Canada (4 percent). Petroleum companies and petroleum industry lobby groups were the largest respondent group (33 percent), followed by mining companies and mining industry lobby groups (29 percent), professional accounting and standard setting organisations (25 percent), the Big 4 accounting firms (7 percent), and others (6 percent).

As noted, one of the controversies addressed in the Issues Paper concerned the method of accounting for pre-production activities. Respondents were asked to comment on which of the four methods of accounting for pre-production costs should be adopted by an international accounting standard for the extractive industries (full cost, successful efforts, area-of-interest, appropriation) (International Accounting Standards Committee, 2000a). In addition, respondents were to indicate whether they advocated the use of only one of these methods or whether more than one method should be permitted. The Steering Committee's tentative view was that a method consistent with the successful efforts concept should be adopted and that only this method of accounting for pre-production costs should be permitted (see Exhibit 1 for example).

There was overwhelming support for the use of the successful efforts method of accounting with 87 percent of respondents commenting on this issue indicating a preference for the successful efforts method only. Support for the use of the successful efforts method was hardly surprising, given the desire of the extractive industries companies to maintain the status quo. In contrast, only 13 percent of respondents commenting on this issue indicated their support for having the option of both the successful efforts and full cost methods. Thus, the Steering Committee's tentative view on this issue was supported, with the majority of respondents preferring a single method of accounting for pre-production costs consistent with the successful efforts concept.

This content-based type of analysis is characteristic of most studies of accounting standard setting. It is also considered to be preliminary in this research because it is limited in three respects: First, *who* is making a particular argument and *what* is being said is masked by the aggregation of the responses. Treating submissions as votes does not take into account the relative power of the respondents making the submissions, nor does it reflect the decision making processes of the IASC/IASB, which is arguably more complex than a simple tally of preferences (Walker and Robinson, 1993). Secondly, the relationships between the respondents and other key (but perhaps less visible) players in the process remains hidden. Simply because a company does not respond directly, and therefore publicly, to the IASC/IASB on a proposed issue does not mean that they have played no part in the accounting standard setting process (Walker and Robinson, 1993). Thirdly, based on the preliminary analysis, there appears to be little conflict among respondents and the IASC. This apparent absence of conflict over the successful efforts and full cost methods is contrary to the long-standing and intense debate that has surrounded this issue. As such, it is pertinent closely to examine the responses, and the respondents and other key players in the extractive industries and the relationship between them. This is consistent with the second and third dimensions of power theory because it seeks to reveal how shared meanings may be created between the players and how this ultimately influences the development of the accounting standard. In the following section, power theory is discussed before further examining the key players in the standard setting process for the extractive industries and the overlaps between them.

POWER THEORY

To explain the presence of power in the international accounting standard setting process and its effect of the outcome of the IASC/IASB's extractive industries project, a Lukes' (1974) three dimensional view of power was relied upon.

LUKES' (1974) FIRST DIMENSION OF POWER

Lukes' (1974) first dimension of power is based on the "pluralist" view of power, so named because it attempts to demonstrate that power is distributed pluralistically across many centres of power (Lukes, 1974, p.11). It does not identify a single, unified power elite, but instead argues that there are many competing interest groups with differing backgrounds, values, and bases of power. This view of power has been examined in an accounting context by Kwok and Sharp (2005) who concluded that the international accounting standard setting process (for segment reporting and

intangible assets) involved a “mixed power system” (Kwok and Sharp, 2005, p.74) where no one interest group had control over the process of setting international accounting standards.

Polsby (1963, p.113) supported the pluralist focus on actual exercises of power, stressing the need to study specific outcomes in order to “determine who actually prevails” in decision making. Therefore, pluralists are concerned with the study of “concrete, observable behaviour” (Lukes, 1974, p.12) “either at first hand or by reconstructing behaviour from documents, informants, newspapers, and other appropriate sources” (Polsby, 1963, p.121). The popularity of the pluralist view of power was aided by the methodological assumptions and research methods of this approach which were considered to “turn up hard evidence” and provide reliable conclusions that “met the canons of science” (Lukes, 1974, p.12, Merelman, 1968, p.451).

LUKES’ (1974) SECOND DIMENSION OF POWER

Lukes (1974, p.20) refers to his second dimension of power as a “qualified critique of the behavioural focus” of the pluralist view. Critics of the pluralist view argue that its behavioural focus is a key limitation because an observable conflict of interest must be present to determine the existence and exercise of power. Bachrach and Baratz (1962), in their “classical contribution” (Lukes, 1974, p.59) to the power literature, argued that power in fact has two faces: the first is that advanced by the pluralists, and termed the one-dimensional view by Lukes (1974), and the second face of power was developed by Bachrach and Baratz (1962, p.948) who argued that

power is also exercised when *A* devotes his energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to *A*. To the extent that *A* succeeds in doing this, *B* is prevented, for all practical purposes, from bringing to the fore any issues that might in their resolution be seriously detrimental to *A*’s set of preferences.

In other words, “to the extent that a person or group – consciously or unconsciously – creates or reinforces barriers to the public airing of policy conflicts, that person or group has power” (Bachrach and Baratz, 1970, p.8). Therefore, an analysis of two-dimensional power involves examination of both decision making and non-decision making. Bachrach and Baratz (1970) defined these concepts: a decision is a “choice among alternative modes of action”, whereas a non-decision “results in suppression or thwarting of a latent or manifest challenge to the values or interests of the decision maker” (Bachrach and Baratz, 1970, p.35).

To identify non-decisions, Bachrach and Baratz (1970) suggested that the researcher should begin by analysing the decision making process and determining the individuals and groups who participated, either directly or indirectly, in the process of making the decision. Following this, a detailed study of the process should be conducted to determine the existence of a “mobilisation of bias” and reveal those players that are favoured in the decision making process (Bachrach and Baratz, 1970). With their two faces of power, Bachrach and Baratz (1970) “in effect redefined the boundaries of what is to count as a political issue” (Lukes, 1974, p.19). While the

pluralists maintained that a “political issue can hardly be said to exist unless and until it commands the attention of a significant segment of the political stratum” (Dahl, 1961, p.92), the two-dimensional view highlights the importance of identifying potential issues which are prevented from becoming actual, and those that are silenced or marginalised by powerful political players (Lukes, 1974).

Despite Lukes’ (1974) commendation of Bachrach and Baratz’s (1962, 1963, 1970) contribution to the power literature, he argued that their second face of power fell victim to the same limitation as that encountered by the pluralists: namely, the focus on actual, observable conflict, whether it be overt or covert. Like the pluralists, Bachrach and Baratz (1970, p.49) felt that “if there is no conflict, overt or covert, the presumption must be that there is consensus on the prevailing allocation of values, in which case non-decision making is impossible”. Seeking the comfort of empirics, Bachrach and Baratz (1970, p.50) justified the need for conflict in investigations of power “to determine empirically whether the consensus is genuine or instead has been enforced through non-decision making”.

LUKES’ (1974) THIRD DIMENSION OF POWER

In developing his third dimension of power, Lukes (1974) conducted a comprehensive critique of Bachrach and Baratz’s (1962, 1963, 1970) two faces of power. His first criticism of the two-dimensional view was that it was “still too committed to behaviourism”, that is the study of overt behaviour in situations of actual conflict (Lukes, 1974, p.21). Lukes (1974) argued that while decisions may indeed be choices between alternatives that are consciously and intentionally made by individuals, it was possible that the bias of the system, the “rules of the game”, may be such that decisions “are neither consciously chosen nor the intended results of particular individual’s choices” (Lukes, 1974, p.21). Under this conception, the domination of power holders may be “so secure and pervasive” that the dominated individuals may be unaware of any alternative to the existing political system (Lukes, 1974, p.21). In this way, the rules of the game, that is, the social practices, are

not sustained simply by a series of individually chosen acts, but also, most importantly, by the socially structured and culturally patterned behaviour of groups, and practices of institutions, which may indeed be manifested by individuals’ inaction (Lukes, 1974, p.22).

In his critique of the behavioural focus of the one- and two-dimensional views of power, Lukes (1974) commented on the limitations of relying on actual conflict to determine the existence of power. He argued that it is “highly unsatisfactory to suppose that power is only exercised in situations of conflict” (Lukes, 1974, p.22), and noted that two types of power, manipulation and authority, may not involve conflict at all. Lukes (1974, p.23) then proposed his central thesis:

A may exercise power over *B* by getting him to do what he does not want to do, but he also exercises power over him by influencing, shaping or determining his very wants. Is it not the supreme exercise of power to get another or others to have the desires you want them to have – that is, to secure their compliance by controlling their thoughts and desires?

Lukes (1974) argued that power, as conceptualised in the one- and two-dimensional forms, is assumed to show up only in cases of actual conflict, however this ignores the crucial and very real possibility that “the most effective and insidious use of power is to prevent such conflict from arising in the first place” (Lukes, 1974, p.23). The three-dimensional view of power, therefore, overcomes the limitations of the one- and two-dimensional views by considering the ways in which potential issues are excluded from the political process “whether through the operation of social forces and institutional practices or through individuals’ decisions” (Lukes, 1974, p.25). It recognises that power need not be empirically verifiable to exist and that the status quo may need to be questioned in order for the presence of power to be recognised and illuminated. Lukes’ (1974) three dimensions of power are summarised in Table 2.

Table 2: features of Lukes' (1974) three dimensions of power

	One-dimensional view of power	Two-dimensional view of power	Three-dimensional view of power
Theoretical view:	Pluralist	Two faces of power	Radical
Type of power:	Exercise of actual power	Exercise of actual power Exercise of power by confining the scope of decision making	Exercise of power by 'influencing, shaping or determining' perceptions and preferences
Focus on:	Decision making	Decision making and non-decision making	Decision making and control over political agenda (not necessarily through decisions)
Observe power via:	Overt conflict	Overt or covert conflict	Overt or covert conflict and latent conflict
Key power theorists:	Dahl (1957, 1961), Polsby (1963)	Bachrach and Baratz (1962, 1963, 1970)	Lukes (1974)

(Adapted from Lukes, 1974, p.25)

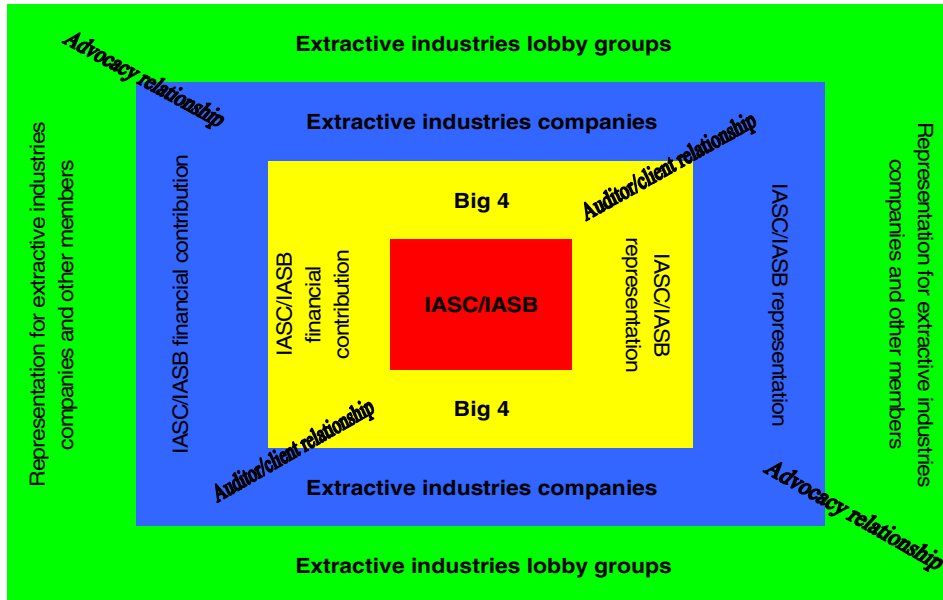
This research examines the relationship between the regulator (the IASC/IASB) and the regulated industry (the extractive industries) and explores the power plays involved in the international accounting standard setting process for the extractive industries. The three-dimensional view of power is used to argue the existence of power and how it has been mobilised by extractive industries constituents to capture the international accounting standard setting process. The following section reveals the connections between the key players in the international accounting standard setting process.

MAKING CONNECTIONS

Table 1 summarised the raw demographic data obtained from the comment letters submitted in response to the Issues Paper. Analysis of these responses showed that the majority of respondents agreed with the Steering Committee’s proposal to mandate the use of the successful efforts method only when accounting for pre-production activities. This analysis, although relatively superficial, is useful for

summarising responses and as a starting point for subsequent investigations of power. To conduct these investigations, closer examination of the respondents was undertaken and revealed a number of overlapping interests between the key players. The overlaps have been categorised in terms of funding, representation, and relationships and are portrayed in Figure 1.

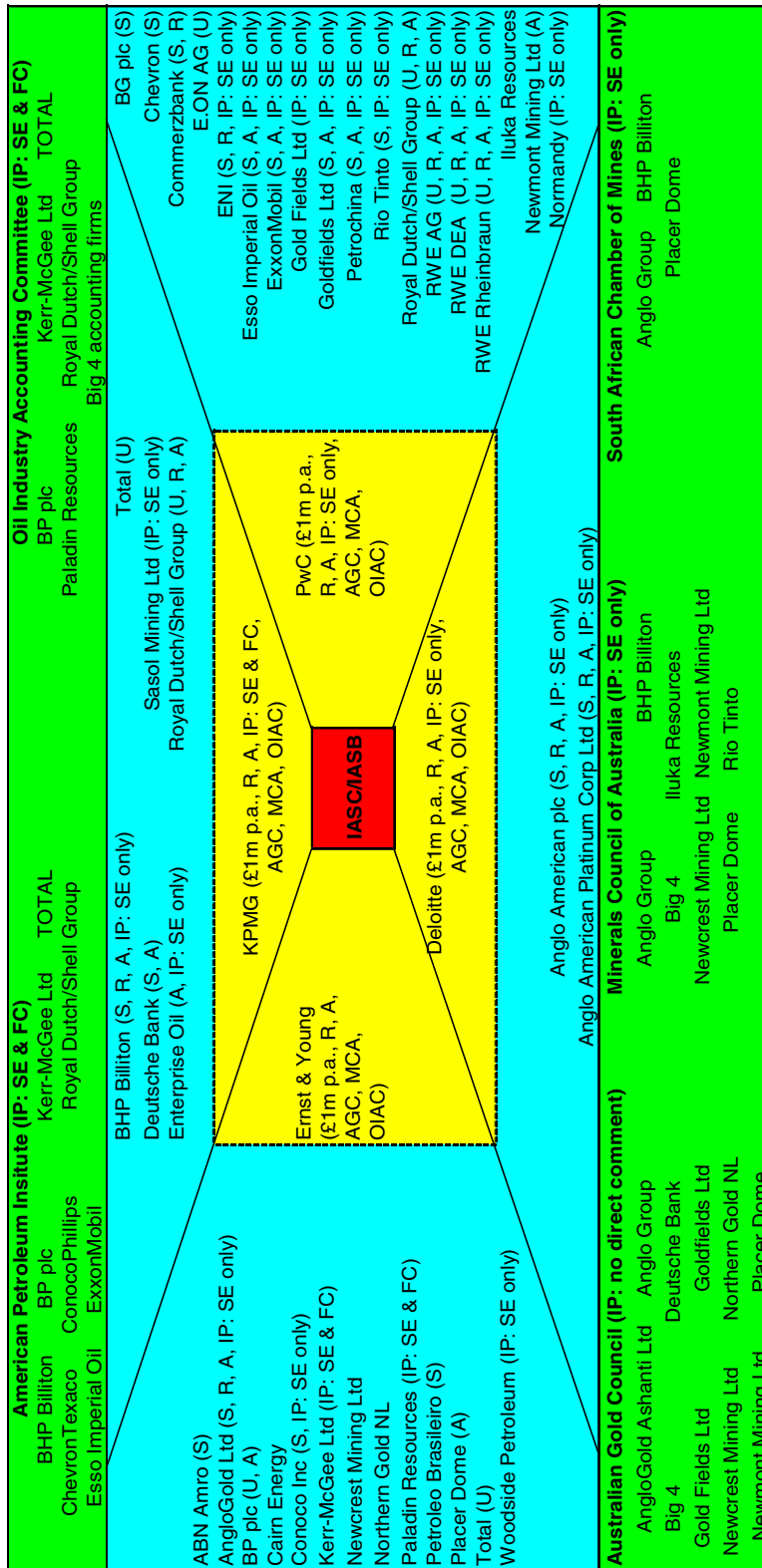
Figure 1. Overlaps between IASC/IASB, the Big 4, extractive industries companies, and industry lobby groups



At the centre of these overlaps is the IASC/IASB. Overlaps exist between the IASC/IASB and other key players due to the funding arrangements of the IASC/IASB and key players' representation on the boards and committees of the IASC/IASB. The Big 4 accounting firms are portrayed as the first layer of overlap because of the substantial financial contribution made by these firms to the IASC/IASB and the high level of representation of the Big 4 on the boards and committees of the IASC/IASB. Following the Big 4 are extractive industries companies, which overlap with the Big 4 in terms of auditor/client relationships and with the IASC/IASB in terms of funding and representation. The third layer comprises the industry lobby groups which represent the interests of members (which includes extractive industries companies and the Big 4) when liaising with the IASC/IASB.

Figure 2 extends Figure 1 by incorporating details of the constituents involved in the international accounting standard setting process for the extractive industries and their overlapping interests.

Figure 2: Overlaps between the IASC/IASB, the Big 4, extractive industries companies, and industry lobby groups



£1m p.a.: Financial contribution of £1 million per annum

U: Underwriter contributing between 100,000 and 200,000 pounds per annum

S: Supporter contributing an undisclosed amount per annum

R: Represented on the Steering Committee and/or IASCF and/or IASB and/or IFRIC and/or SAC

A: Association with other key players

IP: SE only: response to Issues Paper indicated preference for successful efforts method only

IP: SE & FC: response to Issues Paper indicated preference for successful efforts and full cost methods

Note: the Group of 100 was inferred to be representing the Australian mining industry, however it was not included in this Figure because its membership cannot be verified.

As shown in Figure 2, the overlapping interests between the IASC/IASB and the Big 4 are summarised in terms of financial support, representation, association with other key players, and the response to the Issues Paper and successful efforts versus full cost issue. Ernst & Young was the only one of the Big 4 not to make a formal response to the Issues Paper. PwC and Deloitte responded with a preference for a single method of accounting consistent with the successful efforts concept, while

KPMG also advocated the use of the successful efforts method but was cognisant of the value of the full cost to smaller exploration companies. The financial and personnel relationships between the IASC/IASB and the Big 4 are undeniable, however, as well as providing financial, personnel, and technical support, the Big 4 firms serve an important liaison function between the IASB and their clients. For example, at least one of the Big 4 have a focus group, comprising representatives of its extractive industries based clients, which meets monthly to discuss issues arising from IASB developments, provide training on the implementation of IASB pronouncements, and formulate responses to IASB proposals (Personal communication, 2004). Georgiou (2004) provided evidence that a considerable number of companies lobby the IASB through their external auditor thus requiring extensive consultation between auditor and client in order to ensure that client interests are accurately represented. Ryan *et al.* (1999, p.177) also noted the tendency of auditors to “adopt the position of their clients” when participating in the accounting standard setting process.

Given the relationship between the IASC/IASB and the Big 4, and the Big 4 and their clients, an indirect relationship is established between the IASC/IASB and the major corporations, creating another layer of influence between the IASC/IASB, the Big 4, and the major corporations. This influence is heightened by the direct relationship between some of these companies and the IASC/IASB in terms of financial support and/or representation, shown as the second layer in Figure 2.

The second layer presents details of the overlaps between extractive industries companies and the IASC/IASB. These extractive industries companies are grouped according to their external auditor (that is, one or more of the Big 4) to highlight the intricacy of the relationships between the key players in the standard setting process. The characteristics of the relationship between the companies and the IASC/IASB is summarised according to the nature of the financial contributions (if any) made to the IASC/IASB, the representation of the companies (if any) on the boards and committees of the IASC/IASB, and the public position (if any) taken by the company in respect of the full cost versus successful efforts issue. Also indicated is whether the company has significant associations with other key players in the process (denoted by “A” in Figure 2). Many of the key extractive industries companies identified in the second layer also have associations with industry lobby groups, which represent the third layer of overlapping interests.

As shown in Figure 2, the third layer comprises the extractive industries lobby groups that participated in the international accounting standard setting process. The extractive industries companies that are represented by these coalitions have been listed according to the lobby group that represents them. These lobby groups are powerful coalitions of extractive industries companies that together represent a formidable force against the IASC/IASB. The American Petroleum Institute (API)’s membership list, for example, includes six of the world’s top twelve companies that together earned revenues in excess of US\$1.2 trillion during 2005. The Oil Industry Accounting Committee (OIAC)’s membership list was more elusive than the API’s, however the members that could be discerned were equally impressive and also included each of the Big 4. In their responses to the IASC in respect of the Issues Paper, both the API and the OIAC argued strongly for the retention of the full cost and successful efforts methods of accounting.

Interestingly, while some of the members of these coalitions individually responded to the Issues Paper and commented that they agreed with the IASC’s proposal to eliminate the full cost method, they were also likely to be instrumental to

the development of the policy positions taken by the lobby groups that represented them. For example, the Exxon Group submitted an independent comment letter in response to the Issues Paper that supported the requirement of a single method of accounting for exploration and evaluation consistent with the successful efforts method. However, the API's comment letter was vehemently opposed to the elimination of the full cost method. It is highly likely the Exxon Group, as the largest and most powerful member of the coalition, was consulted by the API on this matter. Another example is the position taken by the OIAC and those taken by the Big 4, which are also members of the OIAC. While PwC and Deloitte indicated their support for the IASC's proposal to require only the successful efforts method, the OIAC strongly opposed this proposal. However, the collaboration of the OIAC's members in developing the position taken by the Committee must have been substantial given that KPMG's response to the IASC was identical to that submitted by the OIAC.

This analysis of the layers of respondents to the Issues Paper has further highlighted the complexity and intricacy of the overlaps between key players in the international accounting standard setting process for the extractive industries. Conclusions are presented in the following section, including limitations of the study and opportunities for future research.

CONCLUSIONS

This paper has presented the results of a critical examination of the international accounting standard setting process for the extractive industries, undertaken to reveal the underlying practices and institutions of accounting, and illuminate the political, economic, and social influences that shaped the standard setting process and the resultant accounting standards.

The IASC/IASB's extractive industries project was commenced in 1998, with the objective of enhancing comparability and consistency of extractive industries accounting and financial reporting. Issued in December 2004, the outcome of the IASC/IASB's project so far, IFRS 6 *Exploration for and Evaluation of Mineral Assets*, is simply a codification of existing industry practice. This has resulted in a perpetuation of the disparate accounting and financial reporting endemic to the extractive industries. In other words, despite all of the time, money, and other resources expended to eliminate divergent accounting practices within the extractive industries, nothing has changed. The IASB has stressed that IFRS 6 is an interim measure pending further consultation with the extractive industries, however the most recent board discussion on the extractive industries research project was an IASB Education Session held on 16 October 2006, with subsequent discussion papers based on this meeting not expected before mid 2007 (International Accounting Standards Board, 2006b).

The failure of the IASC/IASB to minimise alternative accounting practices for the extractive industries was determined to be worthy of further study, in particular the role of power in this process. In this context, this research demonstrates that power was exercised via a system of intricate, overlapping interests. The extractive industries, as a collective community of interests, mobilised their power, ensuring that the IASC/IASB's processes, agenda, and discourses were influenced in a way favourable to them. In this way, the IASC/IASB was predisposed to take actions consistent with the preferences of these constituents, so that there was no evidence of coercion or conflict. This led to the preservation of the existing flexibility and

enabled extractive industries companies to continue to choose between methods of accounting for exploration and evaluation. The status quo was the desired outcome for the extractive industries, despite the extensive processes of the IASC/IASB.

RESEARCH LIMITATIONS

The identification of lobbying activity is perhaps more akin to pluralist studies of power than the three dimensional view, given that it is an overt behaviour. In addition, lobbying activity may occur relatively late in the process of setting accounting standards compared to agenda setting and formulation of proposals. However, to compensate for these limitations, lobbying activity was used in this research primarily as a starting point for the identification of key players. This formed the basis for detection of the linkages and connections between players.

The official due process of the IASC/IASB is reasonably transparent, with information concerning committees, boards, and participants made publicly available. However, the agenda setting process is significantly less transparent and the absence of publicly available information concerning the inner workings of this process is a limitation of this research. The setting of the agenda may itself involve elements of power as issues are “disregarded, suppressed, or denied agenda entrance” (Walker and Robinson, 1993, p.4) by powerful participants (Bachrach and Baratz, 1962, 1963, Bachrach and Baratz, 1970, Lukes, 1974, Mitnick, 1980). Unlike Walker’s (1987) study, this research was not conducted inside the process and therefore intimate complex nuances are not identified. This research instead places more reliance on the role of theory to unmask the presence and role of powerful interest groups. Given that this was an analysis of prior events, and there was limited access, publicly available information was considered the most effective means of gathering evidence for the presence of power in the international accounting standard setting process for the extractive industries.

FURTHER RESEARCH OPPORTUNITIES

One opportunity for future research in this area relates to the methods used to collect data to support the research question. Although publicly available information has the advantage of offering relatively unproblematic access, a participant observer may be able to add valuable insights to the research findings. The main obstacles to participant observation would undoubtedly be gaining access to the IASC/IASB’s processes and/or constituents, particularly given the sensitive nature of the research issues.

The theoretical framework developed in this research can be applied to other studies of international accounting standard setting projects. For example, a similar study of the IASB’s financial instruments project would be an interesting and valuable addition to extant research, particularly given the controversy generated by the project and the high profile players with an interest in the project, such as the World Bank, J.P. Morgan Chase, Allianz, the European Central Bank, Goldman Sachs, and HSBC (International Accounting Standards Board, 2006).

Other aspects of the extractive industries project may also be explored using the research approach and theoretical framework developed in this research. A pertinent and timely issue for the extractive industries concerns accounting for removal and restoration expenses, which is an area of substantial accounting flexibility. This area is also likely to be of interest to many and varied stakeholder

groups including extractive industries companies, environmental groups, and non-government organisations.

The purpose of this research has been to consider the role of power in the international accounting standard setting process for the extractive industries and how it has been mobilised by extractive industries constituents. A framework has been considered that enables the identification of a powerful community of interests within the extractive industries, which has paralysed the standard setting body under which it operates. While the politicisation of accounting standard setting is widely acknowledged, the revelation that economically dominant groups can covertly wield such power is a sobering one in the light of the worldwide promotion and adoption of International Financial Reporting Standards.

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