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# The power of history: accounting standard setting and the extractive industries in Australia

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# The power of history: accounting standard setting and the extractive industries in Australia

**Abstract**
The application of accounting standards assists in the production of financial information that is used as the basis for decision making by a wide variety of stakeholders. Viewed in this way, the process of setting accounting standards is critical because it will ultimately generate information that will shape people's behaviour. Accounting standard setting processes have been analysed, applauded, and critiqued by many scholars in recent decades. Lobbying efforts of constituents have been scrutinised, the standard setting processes in different geographic regions have been analysed and compared, and the economic consequences of proposed accounting alternatives have been identified and debated.

**Keywords**
accounting, setting, power, extractive, industries, australia, history, standard

**Disciplines**
Business | Social and Behavioral Sciences

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**Research Proposal**

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**School of Accounting & Finance**
**University of Wollongong**

1. *Project (working) title*

**The power of history: accounting standard setting and the extractive industries in Australia**

2. *Background to the study (or scenario for investigation)*

The application of accounting standards assists in the production of financial information that is used as the basis for decision making by a wide variety of stakeholders. Viewed in this way, the process of setting accounting standards is critical because it will ultimately generate information that will shape people's behaviour. Accounting standard setting processes have been analysed, applauded, and critiqued by many scholars in recent decades. Lobbying efforts of constituents have been scrutinised, the standard setting processes in different geographic regions have been analysed and compared, and the economic consequences of proposed accounting alternatives have been identified and debated.

For the extractive industries, the accounting standard setting process has involved a series of attempts to regulate financial reporting, for example by the US FASB and, most recently, the IASB. The result, however, has been a series of highly politicised arguments, aggressive lobbying on the part of extractive industries constituents, postponements and delays, and ultimately an inability by standard setters to regulate accounting practice. The capacity of extractive industries constituents to "get their way" was convincingly demonstrated in the US when the FASB proposed accounting changes in the 1970s. At the international level, a lack

of consensus regarding the IASB's proposals, which attempted to limit accounting flexibility, led to an indefinite postponement of deliberations. In Australia, there exists an accounting standard for the extractive industries which is sufficiently broad as to enable considerable flexibility for financial report preparers (Gerhardy, 1998).

A number of Australian studies have reviewed the financial reporting practices of extractive industries companies, and have highlighted the unique accounting problems faced by this important sector of the national economy. However, a detailed analysis of the actual players involved in the process of setting the initial accounting standard is absent from the literature. This leaves unanswered important questions such as which companies were involved in the standard setting process for the extractive industries? What influence did they have on its outcome? And, how have these historical influences affected the accounting practices used in Australia today? These questions lead to the main research objective for this study.

*3. Main research objective to be stated in a single, concise sentence*

The aim of this research is to identify participants in the accounting standard setting process for the extractive industries in Australia, examine their input, evaluate their influence and explore the motivations for their submissions (and other lobbying activity).

Five key questions emanate from this research objective.

*4. Concise statement of key research question(s)*

(1) What were the institutional arrangements that supported accounting standard setting in Australia during the 1960s to the 1980s when the extractive industries issue was considered?

(2) Who were the major players in the extractive industries in Australia during the time the accounting standard was proposed and debated?

(3) What was the involvement of major players and other constituents in the process of setting the extractive industries standard?

(4) How have the actions of constituents impacted on current accounting practices used by extractive industries companies?

(5) Why were constituents so successful in influencing standard setting?

*5. Research methodology*

This study will adopt a constructivist perspective to investigate the research questions. Relevant to this perspective is the notion that the present is contingent on the past and that social actors play an important role in shaping our existing realities: accounting is not viewed as a neutral and objective practice, as it is often portrayed. It is considered to be an evolutionary phenomenon that must adapt to reflect changing social conditions and as a result is subject to political influence, negotiations, and compromise.

Based on this methodology, the proposed research method will involve gathering comment letters submitted in respect of Australian exposure drafts dealing with the extractive industries. An additional source of information would be interviews with past players involved in accounting standard setting for the extractive industries.

Information from interviews would be a valuable supplement to written data and would give a valuable insight into the discussion and arguments surrounding the issuance of exposure drafts and standards. Potential starting points for interviews include academics Keith Aflredson and Terry Heazlewood, who were actively researching this issue at the time. Critical Discourse Analysis will be used as a medium for analysing the comment letters, interview transcripts and other relevant information (Fairclough, 1995). The data will be analysed to determine (a) which constituents had an interest in the standard setting process for the extractive industries and the motivations for their interest, (b) the arguments put forward by constituents, (c) which constituents were influential in the standard setting process. It is anticipated that research findings will be interpreted through the lens of regulatory capture theory, which explains the "development of a predisposition by regulators to make decisions and take actions consistent with the preferences of the regulated industry" (Mitnick, 1980, p.207). This theory is relevant to discussions of accounting standard setting for the extractive industries because historically, and particularly in the US, attempted regulatory efforts are argued to have failed because of the clout of extractive industries constituents (Van Riper, 1994).

*6. Period selection*

The period to be considered extends from the 1960s when the minerals boom swept through Australia, to 1989 when the most recent extractive industries accounting standard was pronounced (Alfredson, 1964; Gerhardy, 1998; Lourens and Henderson, 1972).

*7. Limitations of the study*

The study is likely to be limited by the amount of information available for examination. The study relies on complete and accurate maintenance of records and comment letters, and the ability to access them. Further, the research will be limited to a study of publicly available information and, which means that observation of the relationships between players is not discernable. The social and political nature of processes such as accounting standard setting means that much of the negotiation and compromise may occur covertly, and a researcher not privy to the nuances of the process and the relationships may miss out on a complete understanding. This limitation may be alleviated to some extent by supplementing existing written data with interviews however it is difficult to overcome these concerns completely.

*8. Expected (original) contribution of the study to the literature*

As noted, extant literature covering the standard setting process for the extractive industries in Australia provides important insights into the nature of the Australian minerals industry and attempts to regulate accounting practice in this area (Alfredson, 1964; Gerhardy, 1998; Lourens and Henderson, 1972; Wise and Spear, 2000). To extend our understanding, this research proposes an in-depth review of the political processes surrounding early attempts to regulate accounting practice for the extractive industries in Australia. Specific players will be identified, their arguments analysed, and their affect on accounting developments explored. This type of research has been conducted to examine the more recent international accounting standard setting process for the extractive industries (Cortese *et al.*,

2009; 2009), but a historical study such as that proposed will offer important insights into the success of regulation efforts in the past and give an understanding of why our accounting standards exist in their current form.

*9. List of no more than eight key references relating to the proposed study*


Alfredson, F. K. (1964), *A Study of Some Accounting Problems in the Oil Industry*, The University of Queensland Press, St Lucia.

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Van Riper, R. (1994), *Setting Standards for Financial Reporting: FASB and the Struggle for Control of a Critical Process*, Quorum Books, Connecticut, USA.

Wise, T. and N. Spear (2000), "Accounting for extractive industries: An Australian perspective", *Petroleum Accounting and Financial Management Journal*, Vol.19, No.1, pp.30-53.


*10. Where the proposal relates to the completion of a PhD, provide details of the names and addresses of the doctoral supervisors and the institution where the research will be/is being conducted.*

Not relevant.