Journal of Research Administration
Society of Research Administrators International

AN ORGANIZATION THEORY PERSPECTIVE ON THE CORPORATE DECISION TO OPPOSE FASB STANDARDS

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Abstract:
In order to identify the circumstances in which companies are most likely to oppose the financial reporting requirements put forth by the Financial Accounting requirements Board (FASB), this study proposes a theoretical framework. Three levels of study are used to identify factors that influence corporate resistance to FASB standards: the standard, the corporation, and the industry in which the corporation operates. Summaries of the determinants' impacts at each of these three levels are proposed as propositions, and recommendations for testing the claims are provided. There is additional discussion of the implications for accounting regulation theory and practice. The paper's main objective is to improve our knowledge of the factors that influence business opposition to FASB standards so that accounting regulators can more skilfully oversee the adoption of accounting standards.

Introduction:

A significant quantity of scholarly literature has been written about the Financial Accounting Standards Board (FASB) since its establishment in 1973. For example, Kelly-Newton (1980) and Miller, Redding, and Bahnson (1998) provided operational details of the Financial Accounting Standards Board (FASB) and highlighted its political role as an arbiter of the competing interests of its stakeholders, which include financial statement users and preparers, as well as the Securities and Exchange Commission and the US Congress. Meyer and Rowan (1977) and other academics have taken an institutional approach when examining the FASB. They have documented the FASB's pursuit of legitimacy (Fogarty, 1992) and the creation of specific financial reporting difficulties as institutionalized agenda items for the FASB (Young, 1994).

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Additional writers have explored the political aspects of FASB standard-setting, such as whether outside parties such as big accounting firms control the FASB (Fogarty et al., 1994, Haring, 1979, Hussein and Ketz, 1991, Newman, 1981, Puro, 1985). Lastly, research based on accounting choice theory and positive accounting theory aims to characterize the driving forces behind business and accounting firms' advocacy of specific financial reporting standards before the FASB (Deakin, 1989, Kelly, 1985, Ndubizu et al., 1993, Puro, 1984, Watts and Zimmerman, 1978, Watts and Zimmerman, 1990).

The accounting literature still lacks a general understanding of the circumstances in which firms are likely to oppose FASB rules, notwithstanding the knowledge produced by this effort. The term "resisting FASB standards" refers to a variety of actions, including direct involvement in FASB due process, public relations campaigns, two-step leverage initiatives (Gargiulo, 1993) aimed at swaying parties that the FASB depends on, and support for legislative actions that restrict FASB discretion over financial reporting standards. In severe circumstances, some corporations may even commit financial resources to swaying the standard-setting process by augmenting their presence on FASB committees, endorsing research bolstering their stance, or advocating for the removal of FASB's authority to set standards in favor of another organization. We take into consideration companies as a stakeholder group of the FASB and question what circumstances will lead this stakeholder group to resist proposed FASB financial reporting requirements, in accordance with Rowley and Moldoveanu's (2003) model of stakeholder group behavior.

The drivers of corporate lobbying activity have been examined empirically in the positive accounting theory stream; however, the majority of those research use data from lobbying efforts related to a specific FASB standard. As a result, the studies ignore characteristics of standards that differ throughout standards, which may help to explain why businesses violate some standards but not others. In this study, we highlight these qualities in an effort to identify the features of financial reporting standards that cause businesses to object. As part of our theoretical framework, we investigate the impact of an essential factor affecting corporate resistance, namely the quantity of information-processing required by a FASB standard.

The structure of the paper is as follows. First, we go over earlier scholarly studies on the functioning of the Financial Accounting Standards Board (FASB) and accounting regulation in general, paying close attention to the process of establishing financial reporting standards. Next, starting with variables that represent standard qualities, we create our multi-level theory to identify the variables driving business opposition to FASB standards. We then go on to discuss several company characteristics that corporate managers have determined to be harmful and that promote resistance to FASB standards. Lastly, we talk about a few characteristics of the sector that promote opposition to FASB norms that are thought to be harmful. Because of this, our theory is nested, focusing first on standard qualities that cause corporate resistance before

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moving on to company and industry-level variables that cause the same kind of resistance. We identify a set of drivers that are significant in business resistance to FASB standards at each level of examination, but we certainly do not claim to have identified every factor that could be causing this kind of resistance.

Our theoretical paradigm places less emphasis on financial and economic factors and more emphasis on the cognitive, social, and political factors that contribute to business resistance to FASB standards. A contributing factor in this is the prominence of economic and financial variables over cognitive, social, and political determinants of corporate action in previous empirical studies of corporate lobbying in the positive accounting theory literature (Deakin, 1989; Watts and Zimmerman, 1978, for example). We aim to correct this imbalance by adding business resistance to FASB standards outside of lobbying to the dependent variable.

This work adds a multi-level theory to the body of literature on accounting standard-setting by attempting to forecast the moment at which firms will reject proposed FASB financial reporting standards. We present certain claims as part of the theory that serve to condense our theoretical arguments and are intended to be investigated in upcoming empirical studies. To help with future empirical research, we offer some broad guidance at the end of the paper on how the assertions could be tested. This work aims to provide insights for regulators and policy makers in accounting in addition to contributing to future scholarly research. These people would find these insights useful since they could help them predict when companies might oppose the financial reporting rules that their agencies are creating.

Literature Review

Sociological theory has influenced certain researchers researching FASB standard-setting, which is not surprising given the social character of the process, which involves interactions between numerous stakeholders. Regarding the functioning of the FASB, three major study streams have emerged: resource dependence theory (Salancik&PfeVer, 1974), neo-institutional theory (Meyer & Rowan, 1977), and lobbying in accounting literature. This section examines the three distinct lines of academic research, which we then utilize to inform our proposals for company reactions to FASB announcements. Nonetheless, we start by outlining the FASB standard-setting procedure, which has been described as political and occasionally the target of intense lobbying efforts.

FASB due process and superior standards of quality

Since the FASB's founding, researchers have been interested in the internal standard-setting procedure. The Financial Accounting Standards Board (FASB) was founded in 1973 and is a privately funded nongovernmental organization authorized by the Securities and Exchange Commission (SEC) to develop standards that govern how corporations that trade their securities on public stock exchanges report their financial results. This information has been reported by

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Miller et al. (1998) and Kelly-Newton (1980). The 1934 Securities Exchange Act and the 1933 Securities Act provide the SEC with regulatory jurisdiction. Through those legislation, the SEC was given the authority to set accounting standards for its registrants—businesses that have to abide by SEC reporting guidelines in order to list their securities on stock exchanges. The SEC gave the FASB authority to develop financial reporting standards, but the FASB did not receive enforcement authority; that power still belongs to the SEC.

The FASB due process, which is a balancing mechanism that allows for constituent participation, is embedded in a political environment (Rahman, Lay, & Tower, 1994). When establishing a new financial reporting standard, the FASB asks its stakeholders in the financial community for feedback (Miller et al., 1998). The Financial Accounting Standards Board (FASB) seeks the participation of many stakeholders, including reporting corporations that create financial statements, auditing companies that review those statements, and different kinds of investors, to resolve the occasionally conflicting interests of these groups. Miller et al. (1998) illustrate that the Emerging difficulties Task Force (EITF) of the FASB is responsible for identifying new financial reporting difficulties before the standard-setting process can begin. While the EITF handles certain emergent reporting concerns, others that are beyond its purview are brought before the full FASB board for consideration and potential standard-setting action (Mezias&Scarselletta, 1994).

At that point, the FASB usually drafts a discussion letter outlining the problem and distributes it for feedback to the financial community's stakeholders (Miller et al., 1998). Public meetings at FASB headquarters are held after this phase to allow interested parties to voice their opinions. After taking into account the information, the FASB staV creates an exposure draft (ED), which is a preliminary resolution of the problem. Subsequent discussions and adjustments usually ensue, culminating in the formal release of a Statement of Financial Accounting Standards (SFAS) addressing the relevant financial reporting matter.

To create accounting declarations that are credible and of high quality, which in turn increase investor trust and facilitate the smooth operation of capital markets, an eVective standard-setting process is necessary. A few scholarly investigations have explored the attributes of superior FASB accounting statements. Rogero (1998), for instance, claimed that standard quality is a function of the "right" standard content and the "right" standard-setting procedure. According to Pasewark, Collins, and Strawser (2002), the primary factor influencing standard quality is the "inform-mational content" of the standard—that is, the value of the data it generates for decision-making. These findings imply that an informative standard for users is one that is generated through a procedure that is marked by equal and full participation from all stakeholders. However, more than any other constituent group, financial statement preparers (corporations and auditing firms) lobby the FASB, and this action has the potential to undermine the equality of constituent engagement that is essential for eVective standard-setting (Tandy & Wilburn, 1992). Therefore, it is useful to read up on corporate lobbying to gain insight into how companies and audit firms influence the process of standard-setting.

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Corporate lobbying and Accounting Choices

According to Sutton (1984), lobbying is the term for actions performed by interested parties to influence a body that makes rules. Lobbyists' long-term objectives frequently involve influencing the standard-setting process itself, even though their short-term objectives are to influence the substance of currently proposed or existing standards (Sut- ton, 1984). Lobbying has many different forms, but the most prominent one is represented by the comments that constituents make on FASB exposure drafts, which also serve as the foundation for the majority of empirical studies on lobbying. The literature on accounting choice, which examines the many economic motivations connected to management's choice of accounting techniques (see, for example, Holthausen&Leftwich, 1983; Kelly, 1983; Zmijewski& Hagerman, 1981), includes lobbying research in the field of accounting. Accounting choice studies contend that different reported financial results from different accounting rules have an economic impact on managers and owners through contracts for lending and management compensation as well as political expenses. Thus, these results give firms an incentive to advocate for or against a specific accounting standard (Francis, 1987).

Although lobbying is but one potential technique of opposing a proposed FASB standard, research has given it a great deal of attention. Empirical studies on lobbying can be separated into two streams within the lobbying literature: (1) studies analyzing the impact of a proposed financial accounting standard on net income in relation to lobbying behavior, and (2) studies analyzing the impact of firm characteristics on lobbying behavior in order to analyze incentives to lobby. The implied research question in the first stream pertains to the timing and purpose of corpo-rate lobbying efforts against a FASB norm. For instance, there is some indication, according to Griffin (1982), that respondents to the FASB's examination of SFAS 8 (which accounts for foreign exchange) had more fluctuations in pretax earnings than other multinational corporations. Deakin (1989) postulated and discovered that oil and gas managers' lobbying activity on the standard was explained by the effects of an accounting standard on loan covenants, management incentive remuneration, and regulatory expenses. Corporate lobbying against the proposed SFAS 123 (accounting for stock-based compensation) was examined by Hill, Shelton, and Stevens (2002). They discovered evidence that managerial economic self-interest drove lobbying activity on SFAS 123. This collection of research emphasizes how significant a financial incentive for businesses and managers is to engage in lobbying.

In the second group of lobbying studies, the main research question concerns the characteristics of firms that lead lobbying campaigns. The variables examined in these research have not consistently been significant in the predicted directions, with the exception of business size and debt ratio. Variables like firm size, debt ratio, existence of bonus or stock-based management compensation plans, and type of auditor are typically compared between lobbying and non-lobbying companies in this group of studies (e.g., Francis, 1987; Sutton, 1984; Trombley, 1989; Watts & Zimmerman, 1978, 1990). The positive accounting theory (Watts & Zimmerman, 1978) and related papers on contractual agreements between a firm and interested parties are typically the starting point for discussions of the characteristics that are explored. The prevalent reasoning

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is that companies engage in lobbying to reduce or mitigate the anticipated adverse effects of a proposed norm on CEO pay, debt coverage, and the firm's political standing. Sutton (1984) determined the traits of lobbyists, the time of their lobbying, and the techniques they were likely to utilize by using Downs's (1957) voting model. Sutton (1984) made the claim that large, undiversified financial statement preparers are more inclined than others to influence the FASB, based solely on cost-benefit assumptions. Despite studying corporate activity from an economic standpoint, Sutton (1984) did not investigate the implications of the literature on transaction cost economics (e.g., Williamson, 1964, 1981), which addresses the influence of transaction economics on corporate action. More significantly, Sutton (1984) neglected to evaluate the problems of power and dependence associated with corporate action directed against FASB. Ultimately, Sutton (1984) neglected to recognize the influence of several standard features on corporate behavior. Our article maps standard, corpo- rate, and industry variables that drive firm resistance to FASB standards, offering a potentially more thorough explanation of corporate behavior than current theories.

Watts and Zimmerman (1978) observed that large corporations opposed accounting standards that increased net income in order to avoid the political costs (such as increased regulatory scrutiny) that come with large income streams. Watts and Zimmerman conceptualized FASB standard-setting as a political process with potential economic and social consequences. The primary forces behind corporate lobbying on SFAS 8, which requires unrealized foreign exchange gains and losses to be included in income, were firm size and the proportion of overseas sales, according to Kelly's (1982, 1983) investigation of corporate lobbying on the standard. King and O'Keefe (1986) discovered a connection between corporate insider trading activities and lobbying by oil and gas firms. Lastly, Ndubizu et al. (1993) investigated corporate lobbying in relation to the SFAS 87 exposure draft, which aimed to control employer pension accounting. According to Ndubizu et al. (1993), lobbyists opposed to the proposed norm were more numerous, had greater leverage ratios, and spent more money on pensions per dollar of income, as well as more volatile revenues compared to non-lobbyists.

More recently, Ettredge, Soo, and Smith (2002) looked at how businesses positioned themselves regarding the proposed SFAS 131 (segment disclosures) and discovered that lobbying firms were driven by self-interest about the possible expenses the new standard would place on them. Puro (1984), in contrast to the studies previously discussed, compared the perspectives of agency theory and regulation on the lobbying activities of audit firms, as opposed to corporations. Puro (1984) came to the conclusion that, depending on whether the topic being lobbied for is a transparency requirement or a standardization push, each of the two views has the ability to explain lobbying behavior.

The main takeaways from the above discussion are that:

(1) the FASB standard-setting process is highly political;

(2) some standards are more likely than others to elicit corporate action;

(3) certain FASB constituents actively lobby to counter perceived negative effects of a proposed FASB standard on contractual agreements

(4) because of the asymmetrical preparer-user influence on FASB, corporate action is likely to have a significant impact on the process's outcome.

We now examine research that examines business responses to proposed FASB rules from the perspective of organization theory.

Neo-institutionalandresourcedependenceexplanationsofcorporateactions

Organization theory has been used by scholars to explain business responses to proposed FASB rules, in addition to accounting choice explanations of corporate activities. The neo-institutional theory perspective (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) is one viewpoint that has received a lot of discussion. This viewpoint uses institutional norms and practices to explain corporate behavior. For instance, Hunt and Hogler (1993) investigated the social structures that support accounting standard-setting self-regulation. Despite having authority granted to it by the SEC, a government agency, the FASB is not a government organization in and of itself. organization outside of the accounting industry. Therefore, the FASB's standing indicates an institutionalized set of values that promote privatization of the process of determining financial reporting standards, as proposed by Hunt and Hogler (1993).

Smith and Fogarty (1996) looked at the organizations that both encourage and restrict accounting regulation. These academics examined the strategies the SEC employed in its early years to create its credibility and function within the financial markets (for a comparable examination of the FASB, refer to Fogarty, 1992). Similarly, Puxty, Willmott, Cooper, and Lowe (1987) examined the organizations in charge of accounting regulation in four different nations and came to the conclusion that accounting regulation reflects the unique features of a nation's markets, politics, and social mores. Additionally, Carpenter and Feroz (2001) investigated the ways in which resource dependency and institutional pressures worked together to advance the adoption of generally accepted accounting principles (GAAP) as the benchmark for US state financial reporting to the outside world. Carpenter and Feroz (2001) came to the conclusion that state bureaucrats' strategic attempts to oppose the adoption of GAAP were bound to fail due to the constraint exerted by the growing consensus regarding the use of GAAP in state government financial reporting, in contrast to Oliver's(1991) theory of strategic responses to institutional processes.

Young (1994, 1995, 1996) examined several facets of the accounting standard-setting process using a paradigm derived from neo-institutional theory. Young (1994) examined in one piece how financial reporting concerns are framed as "problems" deserving of being on the FASB's agenda for standard-setting. Young (1994) emphasized that the creation of difficulties in regulatory space is the result of interaction between numerous parties (such as the FASB, other financial regulators, Congress, reporting corporations, etc.), drawing on the metaphor of

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regulatory "space." Young (1995) also examined the role of accounting in the savings and loan crisis in a second paper, using the regulatory space metaphor to demonstrate how the character of the "right" accounting changed as the crisis progressed.
as well as the political agendas of the parties tasked with finding a solution. Although accounting rules were undoubtedly based on context, Young (1995) also noted that financial regulators continued to generally embrace the idea of an objectively "right" accounting. Young (1996) conducted an investigation into a FASB project on financial instruments as a follow-up to the first two articles. She noted the existence of institutional thinking that focused regulators on the traditional accounting concerns of disclosure, recognition, and measurement while excluding many skeptic interpretations of financial instruments.
Robson (1991) explored the social arenas of accounting transformation in other literature that falls under the neo-institutional theory stream. He used the UK's establishment of the accounting standard-setting program as an example. "Precise accounting statements, calculations, and techniques are subject to a translation into wider social, economic, and political discourses not normally associated with the seemingly neutral, technical discourse and practices of accounting," according to Robson (1991, p. 566). Building on his interest in the connections between social issues and accounting, Robson (1994) provided a detailed account of the Sandilands Committee, a panel set up by the UK government to look into accounting for inflation. According to Robson (1994), the Sandilands Committee's operations offer one method for the government to act remotely on accounting-related matters without being involved in the process of creating accounting standards.
Finally, Mezias and Scarsell (1990) and Mezias (1990)-Large-scale empirical studies were a valuable contribution made by Etta (1994) to the neo-institutional theory stream of accounting standard-setting. The effects of institutional and economic variables on the adoption of the flow-through approach for recording investment tax credits on financial statements were compared by Mezias (1990). Mezias (1990) discovered that institutional factors significantly impacted firms' adoption of the flow-through approach, indicating that a purely economic explanation for the practice of financial reporting is insufficient. Mezias and Scarselletta (1994) examined the prevailing decision-making processes, mirroring Young's (1994) worry on the creation of accounting difficulties.
within the Emerging Issues Task Force (EITF) of the FASB. Mezias and Scarselletta (1994) came to the conclusion that the best way to characterize the EITF's decision-making process is as an institutionalized garbage can. The EITF's decision-making process was characterized by order from the institutionalized context, but disarray from the random elements within the process. The neo-institutional stream is very helpful to our understanding of corporate behaviors related to established financial reporting practice, despite the fact that it generally ignores concerns of power and dependence. Firms are motivated to comply with and adapt to institutional procedures, particularly "objective" and "right" accounting regulations, as argued in multiple studies in this stream (Young, 1995). Institutional restraints are what led to the development of accounting as a discipline (Carpenter &Feroz, 2001) and are also what typically spark resistance

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to modifications to accounting regulations. Through rigorous training and socialization programs that prioritize conformity, the accounting practitioner is ingrained with adherence to current accounting norms, which fosters resistance to change. The considerable influence of institutional variables on the behaviors of accounting statement preparers forms part of the theoretical framework that follows.

Apart from the theories of neo-institutionalization, (PfeVer& Sala-ncik, 1978; Salancik&PfeVer, 1974) have also made significant contributions to our knowledge of the establishment of accounting standards. Conflict and power have been suggested by the opposing interests of FASB members and the implications of a proposed standard on wealth transfer among these members, which have politicized the FASB due process (Booth & Cocks, 1990). As mentioned in the introduction, a significant portion of this literature (see Brown, 1981; Haring, 1979; Hussein &Ketz, 1991; Newman, 1981; Puro, 1985) has focused on the issue of whether the large auditing firms and their corporate customers control the FASB. After looking over documents produced as part of the previously mentioned FASB due process, research on this topic has generally concluded that auditing is not the primary factor in FASB standard-setting.

corporations or the corporate clients of such companies (Brown, 1981; Hus- sein&Ketz, 1991; Puro, 1985). There doesn't seem to be a constant alignment between the preferences of auditing firms and their clients and the financial reporting rules that the FASB issues. Furthermore, there is occasionally a lack of consistency in the expressed views of these two stakeholder groups about certain FASB standards. These findings lead Hussein and Ketz (1991) to characterize the process of developing accounting standards as a "mixed power system," in which the FASB's job is to mediate disputes between the competing interests of the many stakeholders and no single stakeholder is in a dominant position.

More broadly, Fogarty, Ketz, and Hussein (1992) and Fogarty et al. (1994) contended that politics is an intrinsic component of accounting standard-setting and, as such, ought not to be viewed as a distorting of the procedure. In addition to reviewing numerous conceptions of power, Fogarty et al. (1994) presented compelling evidence in favor of the application of political models in studies on the nature of accounting standard-setting. Lastly, Robson (1993) investigated the discourses around policy-making on R&D expense reporting in the United Kingdom, while Hope and Gray (1982) investigated the role of power in the development of accounting standards on the reporting of R&D expenses.

The fact that stakeholders can provide feedback during the standard-setting process serves to further emphasize how politicized it is. Large auditing firms and financial statement preparers for corporations have shown they are capable of directly or indirectly affecting FASB due process. Because of this influence, it's fascinating to examine the structural reasons behind corporate conduct, as we will do in the theoretical framework section that follows. In order to develop a theory of corpo-rate resistance to FASB standards that is partially motivated by changes in power, dependency, and dominance, resource dependence theory is a crucial resource.

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Theoretical Framework

We create a theoretical framework and make certain claims in this section to explain why corporations resist the proposed FASB rules. To root the corporate resistance behavior we aim to explain in the proposition, particular cases are added to the proposition. We investigate independent factors at the level of the standard, the corporation, and the company's industry in our hypothesis to attempt and determine what circumstances will drive firms to take action against a FASB standard. Our framework specifically addresses the following queries: precisely when will businesses decide to object to a proposed FASB standard? What aspects of the industry, the corporation, or the norm would encourage such behavior? We use arguments based on the resource dependency, accounting choice, and neo-institutional theories that were previously discussed to capture the various legal, economic, and structural dynamics that are present at each of the three levels.

We first concentrate on the quality of ambiguity in standards, starting with characteristics that could elicit opposition from corporations. Organization theory has a long history of addressing the idea of uncertainty and how it affects the rationality of corporate decision-making (see Chandler, 1962; Cyert& March, 1963; Duncan, 1972; Thompson, 1967). Uncertainty has been conceived as a subjective perception impacted by rates of change and powerlessness, but it is also frequently understood as an objective reality to which the right answer must be sought (Appley& Trumbull, 1967; Lazarus, 1966; McGrath, 1970). The ability of managers to manage resource dependencies and adjust to the external environment is compromised by uncertainty (Dixon, 2000).
According to Giddens (1984), the most universal motivational urge guiding human conduct is the need to avoid uncertainty. Similarly, Thompson (1967) declared eliminating ambiguity from an organization's technical core the central tenet of his theory of organizational action. Businesses operating in highly uncertain environments frequently concentrate their efforts on combating alleged sources of uncertainty rather than taking into account the organization's long-term prospects (Bass, 1983; Weick, 1984). The wish to stay away from
Corporate action against any FASB norm that is thought to create uncertainty is likely to be motivated by ambiguity. In actuality, Thompson's (1967) theory of smoothing is congruent with expanding corpo-rate influence into the environment by action taken against a FASB standard that generates ambiguity.
Corporate managers may experience a great deal of ambiguity in response to FASB-proposed standards. For instance, FASB regulations that pose a risk to reported profit volatility, such as SFAS 8 (Kelly, 1985), may be followed by a rise in uncertainty. Additionally, managers will feel more uncertain if a FASB regulation mandates them to forecast future values of variables. For instance, the firms in the industry rejected the SEC's suggested solution to the problem (called "reserve recognition accounting") because of the uncertainty it would have caused in valuing their oil and gas reserves, even after opposing SFAS 19's attempt to regulate oil and gas accounting. Even while it seems that the oil and gas producers have avoided this uncertainty,

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they still have to deal with another kind of uncertainty because there isn't a clear standard for accounting for drilling expenses. Therefore, legal action against the FASB or the SEC may occasionally be used to offset a rise in one type of uncertainty with a decrease in another. If the FASB changed a well-established accounting technique that gave some businesses or industries a competitive edge, uncertainty may also increase. For instance, the FASB released its exposure draft on accounting for business combinations in September 1999. The FASB declared in this exposed draft that it would (1) do away with the pooling-of-interests method and (2) mandate that all business combinations be treated as purchases. In the latter case, goodwill (tangible assets) resulting from combinations would be expensed over a maximum of 20 years as opposed to 40 years. These ideas caused a great deal of debate, especially among "new economy" businesses whose intangible assets made up the majority of their assets and had grown significantly through company combinations. Congressional hearings on the subject resulted from the management of these corporations' outspoken opposition to the exposure draft.

According to Beresford (2001). According to us, the corporate concern was a reflection of increased apprehension about the viability and financial performance of combined businesses as well as the competitiveness of potential acquisitions.
The previously outlined reasoning lead to our first claim:

Proposition 1. *The greater the perceived uncertaintyposedbyaFASBstandard,themorelikelyacorpo-ration's managers will initiate action against thatstandard.*

Similar to uncertainty, business managers are inclined to see information-processing tasks as a burden. The research streams on lobbying and accounting choices (refer to Holthausen&Leftwich, 1983; Kelly, 1983; Sutton, 1984; Zmijewski& Hagerman, 1981, among others) have provided some insight into how corporations respond to standards that may impose additional administrative, financial, or competitive burdens. For instance, it was discovered that lobbying firms were driven by self-interest in relation to the expenses the new standard that was being suggested would impose upon them (Ettredge et al., 2002). We expand on previous literature in those areas by arguing that a standard's information processing requirements could be a burden and lead to corporate action against the Financial Accounting Standards Board.
The specific kind of information processing that is involved in gathering and evaluating data to meet FASB requirements is the one that we are talking about here. For instance, in order to be compliant with SFAS 8 (Kelly, 1985), a diversified organization would have to gather information on changes in foreign exchange rates for every nation in which it conducts business. Similar to this, financial statement preparers who were worried about the costs of implementing the standard were highly agitated by the FASB mark-to-market project, which included, among other things, SFAS 107 Disclosures about Fair Value of Financial Instruments and SFAS 115 Accounting for Certain Investments in Debt and Equity Securities

(Miller et al., 1998). According to White and Wyatt (1991), the proposed standard mandated that companies disclose the market values of their assets and liabilities as of the end of the reporting period. Here's what's at risk for businesses
the expenses of valuing assets and liabilities and the subsequent recognition of holding profits shift in the firm's power dynamics. Managers have two options: they either try to find a and losses resulting from holding these assets and liabilities when prices grew or fell, to the proposed standard (Miltz&Sercu, 1993). The amount of accounting resources needed to meet the criteria would be high.
This type of information processing not only raises expenses, but it also might need the addition of units to the current organizational structure in order to provide the required information. The outcome can be more difficult coordination and communication tasks, as well as a potential solution to the resulting coordination issue or assume responsibility for the perceived source of the increased information-processing demand. In the event that the source is a FASB standard, managers have the option to use formal lobbying, political influence, or public relations efforts to challenge the standard. Businesses will probably lobby the FASB while a standard is being developed if it would result in higher implementation costs than adoption advantages (Pearson, Jerris, & Brooks, 1995; Sutton, 1984). A FASB norm that imposes more information-processing requirements is likely to make corporate managers more motivated to pay for lobbying, political influence, or public relations campaigns. This raises a second hypothesis:
Proposition2. *The greater the information-process-ingrequirementsposedbyaFASBstandard,themorelikelyacorporation'smanagerswillinitiateactionagainstthatstandard.*

Moving on to yet another characteristic of FASB standards, we contrast this one with one covered in the literature on positive accounting theory—the social costs that they can produce for a corporation. The political costs incurred by major corporations that are subject to accounting rules that boost their reported income streams were highlighted by Watts and Zimmerman (1978). We believe that the social costs associated with accounting standards are also important to consider, and we base this argument for corporate action against FASB standards on the neo-institutional perspective that we covered in our literature review (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Tolbert &Zucker, 1996). As previously said, according to neo-institutional theory, organizations become legitimate by abiding by institutionalized norms that specify what constitutes "good" management (Meyer & Rowan, 1977). A corporation's reputation among its peers and stakeholders may be jeopardized if it breaks an institutional regulation (such as total quality management or business process reengineering) it has grown used to.
We conclude that this reasoning will hold true for other aspects of corporate management as well as the financial reporting practices employed by publicly traded corporations. Hence, companies may incur social costs and be compelled to take legal action against a new FASB standard if it forces them to depart from established conventions for financial reporting. Within the framework

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of the FASB, this argument is similar to Young's (1996) concept of "insti- tutional thinking" and makes the assumption that company attitudes toward financial reporting standards may be influenced by this institutional thinking.
For instance, SFAS 2, Accounting for Research and Development Costs, stipulates that companies must deduct the majority of their R&D expenses within the period in which they are incurred due to the unpredictable nature of the benefits that may be obtained in the future. Prior to the introduction of SFAS 2, businesses could choose to capitalize or expense R&D costs. When the R&D exposure draft was released in 1974, businesses, especially those in scientific and knowledge-based industries (such pharmaceuticals and high technology), where R&D expenses are large, opposed it. They contended that the unfavorable effects of deducting R&D expenses would encourage businesses to invest more in short-term projects rather than long-term R&D endeavors, which would ultimately weaken US companies' competitiveness. Research on the market's response to the exposure draft's release produced noteworthy findings that supported theories of a detrimental effect on over-the-counter companies but not listed companies (Dukes, Dyckman, & Elliott, 1980; Horwitz&Kolodny, 1980; Wasley&Linsmeier, 1992). We think the companies opposing the exposure draft had a purpose.
by the widely held perception that capitalizing R&D expenses is the appropriate way to present those costs in financial statements, as well as by the apparent detrimental effect on the long-term profitability of the company.
A poll of business leaders in charge of financial statement preparation could confirm such deeply held notions. The poll may look at CEOs' opinions regarding appropriate financial reporting procedures for R&D cost reporting. Survey items may ask managers in knowledge- and science-based sectors, for instance, to rate how suitable it is overall to capitalize R&D expenses as opposed to deducting them from expenses. For the respondent, "appropriateness" could mean using the "correct" accounting technique (Young, 1995). An indicator of managerial views on this matter would be Likert scores gauging the perceived relative appropriateness of capitalizing versus expending R&D spending.
Additionally, as previously noted, FASB encountered significant opposition when creating standards for mark-to-market accounting, specifically SFAS 12, published in 1975; SFAS 33, published in 1979; SFAS 107, published in 1991; and SFAS 115, published in 1993 (Miller et al., 1998; White, 1991; Wyatt, 1991). As we previously stated, mark-to-market accounting entails expensive information gathering, processing, and reporting requirements for businesses; nonetheless, deviating from the standard of financial reporting comes with costs as well. Many businesses that were accustomed to the more conventional historical cost reporting found it unsettling that the more "certain" and verifiable historical cost accounting had to be abandoned in order to implement the new accounting system, which increased income volatility and the amount of information available to users.
In these situations, companies have institutionalized the accounting treatment that serves their own interests, despite the fact that financial data from different companies is not comparable. At the very least, it would make management more uncertain about their companies' futures. At the

most, it would force these companies to adopt an accounting treatment that differs from the entrenched reporting practices.

Proposition 3. *The more a FASB standard requiresdeviation from institutionalized financial reportingpractice, the more likely a corporation's managerswillinitiateactionagainstthatstandard.*

Lastly, the resource dependence stream of work on accounting standard-setting mentioned above, together with resource reliance theory (Hardy & Clegg, 1996; PfeVer&Salancik, 1978; Salancik&PfeVer, 1974), serve as a reminder that all businesses rely on external stakeholders for resources. Examples of this kind of reliance include a manufacturer's reliance on suppliers to produce necessary parts, a corporation's reliance on banks and investors for funding, and a business's reliance on clients to provide income. According to Salancik and PfeVer (1974), a party's power over the resource consumer increases with the scarcity and criticality of the resource it contributes. Building on these observations, we reason that managers of a corporation may feel compelled to act against a FASB standard if it seems to jeopardize their capacity to obtain valuable, scarce resources that the company depends on. This reasoning explains why several firms objected to the FASB's proposed standard for the disclosure of stock option-related compensation expenses.

Accounting regulators have been considering the question of whether to expense executive stock pay since at least 1948 (Miller et al., 1998). The Accounting Principles Board and the Committee on Accounting Procedure made multiple fruitless attempts to create a standard to address the problem, and in the mid-1980s, the FASB included accounting for stock option compensation to its agenda. It was evident in the early 1990s that the FASB was working toward issuing a standard that would mandate the recognition of compensation expenditure equivalent to the amount of employee stock options.

Miller & associates, 1998). At that point, a massive backlash from businesses and their auditing companies started to emerge. This opposition manifested itself in the form of letters of protest addressed to the FASB, demonstrations and picketing outside of FASB hearings, hiring lobbyists to organize campaigns opposing the standard, and reaching out to legislators to urge them to put pressure on the FASB to withdraw the proposal (Miller et al., 1998). The result of all these lobbying tactics was a vote by the FASB in December 1994 to promote, as opposed to require, the recording of compensation expenditures related to stock options on the income statement. In October 1995, that stance was codified as a standard (SFAS 123) (Miller et al., 1998). The debate over the accounting treatment of stock option compensation has recently resurfaced, as readers of today's business press will notice. According to a recent New York Times article (The New York Times, 2003), the FASB has added the topic on its agenda for reconsideration. Resource dependence theory can explain corporate resistance to the FASB options expense- ing standard, assuming that the top managers of resistant corporations are worried that this standard will restrict their ability to use stock options and stock options are seen as a necessity to attract the scarce, critical managerial talent required to run their corporations. Since we think that this approach generally applies to situations other than the options expensing proposal, we forecast:

Proposition 4. *The more a FASB standard seems tothreaten a corporation'sability to acquire scarce,critical resources, the greater the likelihood that thecorporation's managers will initiate action againstthatstandard.*

relies on outside parties for funding (PfeVer&Salancik, 1978). Due to this dependence, the focus corporation is susceptible to possible stakeholder influence and will probably become responsive to their views. There may be pressure on the focal corporation to support or participate in such action if those preferences include going against a FASB standard. This reasoning is in line with the theory put forth by DiMaggio and Powell (1983), according to which the more dependent organization A is on organization B, the more likely it is that A will resemble B in terms of structure, atmosphere, and behavioral focus. Our reasoning also presents the intriguing potential that defying a FASB requirement could lead to the collapse of dependency hierarchies between superior and inferior firms.

One example of how reliance on an external stakeholder might bring a focal organization into compliance with resistance eVorts to FASB standards started by that stake- holder is the connection between auditing firms and their corporate clients. The Arthur Anderson and Enron case serves as a reminder that auditing companies can occasionally become overly reliant on their corporate customers. The auditing companies can feel under pressure to join the customers' resistance against a FASB standard. This could be the reason behind the opposition from all six of the Big Six auditing firms to the FASB's stock-based compensation project, which would have required the income statement to recognize compensation-related expenses. The chief accountant of the SEC, Walter Schuetze, called the big auditing firms "cheerleaders" for their audit clients because of the deep-seated resentment of the auditing firms' support of their clients' position against what appeared to be a correct technical position by FASB (Schu-etze, 1994, p. 74). Our reasoning extends to dependence connections in situations where there are no contracts between the parties, such as those between audit firms and their corporate clients, and goes beyond the type of dependence present in contractual arrangements between a central organization and a powerful stakeholder. For example, a focal corporation may feel pressured to oppose a FASB norm that was the target of competition from other firms vying for the business of a certain consumer.

the potential customer's resistance, despite the fact that the focal company and the potential consumer did not yet have a formal contractual arrangement. The focus corporation's willingness to join action against the FASB norm, which the potential customer is opposed to, can be explained by the corporation's dependence on the potential client. The size of the focal corporation in relation to the potential customer or the portion of the focal corporation's revenues that would be accounted for by the potential customer are two ways to gauge how dependent the focal corporation is on the potential customer. The focal corporation might feel dependent on the potential customer and feel under pressure to satisfy them by joining its resistance to the relevant FASB standard if the focal corporation were small in comparison to the potential customer and the potential customer accounted for a sizable portion of the focal corporation's sales.

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Extrapolating these situations to the circumstances of any dependent business, we have: ***Proposition 5:*** *A focal corpora-tion's managers are more likely to join an action against a FASB standard they believe to be harmful if they are dependent on external stakeholders for that action.*

According to McCarthy and Mone (2003), a focal corporation is not solely reliant on external stakeholders; these same stakeholders typically have a reciprocal dependence on the focal organization. The resistance to a FASB norm can be explained by this reliance pattern, which arises when stakeholders that rely on a focus corporation have the ability to influence the FASB. Our reasoning is that in the event that corporations oppose a FASB norm, they stand to gain from the support and influence of the stakeholders on whom the FASB depends. Consequently, in certain circumstances, firms are more inclined to challenge a FASB standard that they believe to be harmful. This is comparable to the Gargiulo (1993) phenomenon of two-step leverage. Corporations may provide campaign contributions to certain members of Congress, giving the corporations influence over the lawmakers.

Legislators also have the power to influence the FASB by virtue of their control over the SEC. Beresford (2001) provided a summary of some of the occasions in which political participation occurred during the standard-setting process. These included hearings held by Congress on accounting-related topics, including deferred taxes, derivatives, loan losses, and general price level (inflation). For instance, the Accounting Principles Board, the precursor to FASB, released Opinion 11 on deferred tax accounting, which sparked controversy. In 1987, FASB adopted SFAS 96 in response. However, the preparer community rapidly voiced concerns that eventually developed into considerable opposition. SFAS 96 was being overridden through various means, such as congressional pressure on the SEC to reject the standard. This ultimately led to the release of SFAS 109, a new standard that overturned SFAS 96 and permitted the recognition of deferred tax assets in certain circumstances. Some people believe that the new standard does not adequately account for the financial advantages of deferring tax payments until later. It was even suggested that this was just another instance of the "triumph of politics over theory" that had happened in other contexts, like the oil gas accounting issue and the stock-based compensation issue (Miller et al., 1998, p. 145).

In light of the conversation above.

Proposition

6.*Thegreaterafocalcorporation'spoweroverstakeholdersonwhomtheFASBisdependent,the morelikelythe focalcorporation'smanagers are to take action against a FASB stan-dardthattheyperceiveasdetrimental.*

If a large firm lacks these professionals on staff, it is more likely than a small one to have spare financial resources that can be used to hire the right people. Additionally, large corporations are more likely to have money available to them to cover the expenses of protests, public relations efforts, and other initiatives that go against the norm. Therefore, if all else is equal, we would anticipate seeing big businesses lead the opposition to FASB rules that are viewed as harmful. Research has consistently supported a relationship between lobbying conduct and firm size, as

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demonstrated by studies that looked at this relationship empirically (Watts & Zimmerman, 1978; Francis, 1987). Size was suggested to be a significant issue in these research because, compared to small businesses, large enterprises are more likely to have severe economic implications, high implementation or adoption costs, and high effective corporate tax rates as a result of changes in accounting standards. Firm size has also been utilized as a stand-in for firm-specific benefits and political costs of lobbying in a number of studies (Gavens, Carnegie, & Gibson, 1989; Sutton, 1984; Watts & Zimmerman, 1990; Zmijewski& Hagerman, 1981). It was suggested that a disproportionate number of business representatives from major corporations, including American Express and Cisco Systems, attended congressional hearings on accounting for company combinations (Beresford, 2001). Furthermore, larger companies who conducted a significant amount of business overseas and anticipated significant losses under the new accounting law were the main source of resistance to the foreign currency exchange norm (Abdel-khalik, 1982). According to all of these studies, big businesses are better positioned than small businesses to take action against harmful FASB regulations because they have greater resources and incentives. Therefore, we propose:
Proposition 7. *The larger a corporation*, *the morelikely the corporation*'*s managers are to take actionagainst a FASB standard that they perceive as detri-mental.*

We further propose, considering the historical trajectories of organizations, that prior corporate action against FASB rules can serve as a valuable resource for current action, just like huge size does. An
A corporation's history of engaging in actions against FASB rules suggests that it has knowledge of resistance strategies and their results (e.g., high technology and oil and gas industries; see Deakin, 1989; King & O'Keefe, 1986). The firm will be better equipped to select the method that will maximize the likelihood of effective resistance to a present standard that its managers have deemed harmful thanks to this experience. Put differently, managers' expectations that action taken against a current standard will be effective are raised by past action taken against FASB rules. If managers believe that FASB standards are harmful, they should be encouraged to launch campaigns against the standards by the procedures and expertise gained from previous lobbying or resistance. According to Beresford (2001), successful lobbying eVorts against a previous accounting standard encourage the same actor(s) to take part in other lobbying eVorts. He pointed out that high-tech companies were well-represented at the two Congressional hearings on the topic of accounting for business combinations, and he explained that this was because high-tech companies were very successful in their efforts to lobby against the previous FASB stock compensation standard.
Proposition 8. *The longer a corporation*'*s past his-tory of action against FASB standards*, *the morelikelythecorporation*'*smanagersaretotakeactionagainstacurrentFASBstandardthatthey perceiveasdetrimental.*

A historical perspective is added to our suggested explanation of business behavior against FASB rules by Proposition 8. This sets our theory apart from a large portion of earlier lobbying

studies that neglected to consider the background of the groups who were opposing FASB rules. Over a company's lifetime, knowledge may amass that makes it easier to oppose FASB standards, but things can also happen that cast doubt on those standards. The combination of historical resistance desire and historical resistance capabilities shows that corporate history warrants closer examination. as the origin of the ongoing action taken against FASB standards.

Industry characteristics

At this juncture, we turn our attention to characteristics at the industry level that could enable company action against FASB norms deemed harmful. We first propose that the level of industrial concentration is one of those characteristics. Highly concentrated industries are those in which the majority of the market is controlled by a small number of companies. Conversely, less concentrated industries show a more even distribution of revenue over a greater number of businesses. The likelihood of inter-firm communication will rise in a concentrated industry since companies operating there are likely to be aware of one another. Any industry participant planning to take action against a current FASB standard will find value in this kind of communication, which is likely to include details about previous corporate actions in that industry to oppose FASB standards. Furthermore, industry concentration raises client prices and, consequently, seller profits, according to fundamental economic theory. Campaigns against FASB regulations that corporate managers in the sector believe are harmful can be funded using these excess "rents." Studies have also demonstrated that, according to what is known as the "Olsonian hypothesis," high-concentration businesses are more likely than low-concentration industries to be technologically innovative (Schum- peter, 1942) and well-represented in the policy-making process (Francis, 1987; Hart, 2003; Olson, 1965).

There is no shortage of examples to support these points. Oil and gas, utilities, banking and financial services, software, and computer manufacture are examples of concentrated businesses. Conversely, low-concentration industries consist of landscaping, restaurants, and agriculture. The discussion up to this point has made it clear that certain industries are resisting FASB standards. These industries include the software and computer manufacturing sectors, which are against the stock-based compensation project, the banking and financial services sectors, which are against the accounting for derivatives and accounting for initiatives involving corporate mergers and acquisitions) and the oil and gas sector (accounting for drilling expenses). However, compared to high-concentration businesses, instances of resistance to FASB in low-concentration industries are neither as severe nor as widely reported. In conclusion, we think that concentrated sectors provide a more favorable environment than less concentrated industries for action taken against FASB norms.

Proposition 9. *The more concentrated an industry,themorelikelythecorporationsinthatindustrywilltake action against a FASB standard that they per-ceiveasdetrimental.*

According to Thompson's (1967) theory of organizational action, companies that are unable to demonstrate improvement across all performance dimensions will attempt to do so on the fronts that matter most to their external stakeholders. Consequently, if an industry's firms are

particularly reliant on its shareholders, those corporations will want to raise the price of their shares. However, if businesses in a given industry rely heavily on their clientele, such businesses will make an effort to improve aspects of their offerings like product quality or price. Companies in an industry may be compelled to take action against a proposed or enacted FASB standard if it hinders their capacity to demonstrate improvement on performance criteria relevant to significant task-environment components.

Kelly (1985) provided an example of a practical reaction to SFAS 8, which mandated the use of the temporal technique of translation for foreign currency transactions. According to Ziebart and Kim (1987), investors reacted negatively to SFAS 8, which they attributed to the standard's production of income fluctuation and the expenses associated with the hedging strategies some businesses used to combat it. Businesses in a given industry that rely heavily on investors would be expected to take a con- template stance against SFAS 8 since it would impede their capacity to demonstrate improvement on a performance dimension (a steady stream of income) that is significant to investors.

The same reasoning applies to FASB standards that fall under the mark-to-market category (such as accounting for financial instruments, marketable securities, and asset impairments), which carried the risk of higher earnings volatility due to the recognition of holding gains and losses at period's end. Due to significant geopolitical events that occurred in the 1970s, the US saw losses in the value of its currency. In response, the FASB adopted SFAS 33 in 1979, requiring financial statements to reflect these changes in asset and liability values. Corporations worried about potential increases in volatility and decreases in income resisted reporting holding gains and losses resulting from the recognition of market values of assets and liabilities (Miller et al., 1998; White, 1991; Wyatt, 1991). An important performance criterion that is appreciated by key industry players such as bond rating agencies, investors, and lending institutions is income. As a result, businesses rejected this standard, and the FASB member consensus that gave rise to SFAS 33 quickly evaporated. After some time, a set of rules known as SFAS 89, 107, 115, and 126 were released, giving preparers some flexibility in how they disclosed market information (Miller et al., 1998).

Proposition 10. *The more negative the impact of aFASB standard on performance criteria valued bypowerful industry stakeholders, the more likely thecorporationsinthatindustrywillinitiateactionagainstthestandard.*

Industries differ not just in how much government control they face, but also in how much concentration and exposure they have to influential outside parties. For instance, the US pharmaceutical business can be seen as highly regulated, as the Food and Drug Administration is in charge of all aspects of drug discovery, manufacturing, and marketing. For pharmaceutical corporations to prove that the new medications they intend to sell are safe and effective for patients, they must collect experimental data. FDA regulators will only approve the manufacturing and marketing of a medicine if they have access to this proof. Nonetheless, the consultancy sector

offers an illustration of a sector that is not well regulated in the US. There appears to be no regulation of the activities consulting companies carry out during client engagements, and they are not legally required to prove to regulators the efficacy of their programs or client interventions.

We think that over time, the act of regulating will become institutionalized in industries with high levels of regulation. Businesses in highly regulated sectors will grow accustomed to navigating regulatory restrictions and will be less appreciative of regulation than businesses in less regulated sectors. Companies in highly regulated industry will therefore see the FASB's attempt to enforce a new standard for financial reporting as an extension of the institutionalized regulatory environment to which they are already used. Conversely, businesses in less regulated sectors are less likely to regard a new FASB standard as a component of an established regulatory framework that they have to abide with. The implementation of a FASB standard will not be as legitimate in these businesses because regulatory strictures are typically less taken for granted. Numerous examples of resistance to FASB standards from less regulated areas, like software, oil and gas, and high technology (Deakin, 1989; King & O'Keefe, 1986), lend credence to the truth of this argument.

Testingthepropositions

In order to support empirical research grounded in our theoretical framework, we offer some broad principles for hypothesis testing the above-mentioned claims. Studies looking into corporate lobbying have typically used comment letters received in response to FASB requests for feedback on exposure drafts as their primary source of data (see Ettredge et al., 2002; Kelly, 1985; King & O'Keefe, 1986; Tandy & Wilburn, 1996). Researchers could use this data to examine firm activities on various FASB standards that differ along the dimensions specified in Propositions 1-4 in order to test those claims. To evaluate the kinds of steps that companies have done on the relevant set of criteria, researchers may also consult newspaper articles and other historical sources. To keep constant elements that can skew the eVect of the independent variable in each proposal, control variables could be used.
A survey instrument listing the FASB projects that are presently under consideration by the Emerging Issues Task Force or for which an exposure draft has been prepared might also be developed by researchers. Those initiatives are developing FASB standards. After providing a description of each project on the survey, respondents (such as corporate managers) could be asked to rank the projects according to the characteristics that function as independent variables in Propositions 1-4: uncertainty genera-

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impact on the acquisition of vital resources, information-processing requirements, deviation from institutionalized financial reporting procedure, and tion.
For each standard, the average of the respondents' scores on the creation of uncertainty, information processing needs, deviation from reporting procedures, and effect on resource acquisition could be calculated. This would make it possible to calculate quantifiable scores that would indicate, among other things, the average perceived uncertainty created by a certain emerging standard, the average information processing burden linked to that standard, and so forth. Corporate action on the standard at a later time might then be connected with variance in those scores across standards. For instance, if Proposition 1 is legitimate, then more corporate lobbying should be directed toward emerging standards with high average uncertainty generation scores during the discussion memorandum and exposure draft stages, as well as increased public relations and political influence campaigns during the formal SFAS issuance stage. This should also apply to emerging standards that have high average scores for perceived negative effects on resource acquisition, high average scores for information processing, and high average scores for "deviation from reporting practice."
A set of FASB standards deemed harmful by company management could be determined in order to evaluate Propositions 5–8. These could include guidelines like SFAS 19, which requires the oil and gas sector to use a uniform method of accounting for drilling expenses (Deakin, 1989; Miller et al., 1998), and the suggested guideline for stock option expensing (Miller et al., 1998). Experts could be invited to evaluate each corporation's frequency and degree of action in relation to specific requirements after a study of the corporations most affected by those standards. Data regarding the company characteristics that serve as independent variables in Propositions 5–8 may be gathered. Regression equations could be used to predict the experts' assessments of the frequency and degree of anti-standard behavior in each firm based on the corporate attributes. Features of the industries that could confuse the

Another option is to insert the relationships under test as control variables. The significance of the regression coefficient for the relationship between the relevant business attribute and the dependent variable would be used to determine the level of support for Propositions 5–8. Support for Proposition 7 would be suggested, for instance, if the regression coefficient expressing the relationship between corporate size and the experts' assessments of the degree and incidence of anti-standard corpo- rate behavior were positive and significant.
Propositions 9–12 may be tested using the same research design as Propositions 5–8, with the exception that the independent variables would be the traits of the industry mentioned in Propositions 9–12. Either secondary data (such as industry concentration ratios) or expert opinions (such as the extent to which a sector is subject to government control) could be used to compile measures of these variables. These measurements could be used as predictors of dependent variables in regression equations that represent the average incidence and degree of

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anti-standard behavior among the companies in each industry. The general objective would be to isolate the independent effect of a postulated independent variable (in this case, an industry characteristic) on business activity against FASB standards, similar to the testing of Propositions 1–8. Such independent eVects could be captured by coefficients from multiple regression analysis, leading to ceteris paribus evaluations of hypotheses similar to ours.

Discussionandconclusion

We have tried to outline some of the circumstances in this article that will most likely lead to corporate action against FASB standards. The characteristics of the standard, the company, and the industry that could encourage corporate action against FASB standards have been covered. Twelve hypotheses that forecast how these characteristics affect the likelihood of business action against FASB standards are the outcome of our theoretical eVort. The claims and related theoretical explanations undoubtedly do not encompass all potential motivators for corporate action against FASB guidelines, but we think they address a significant portion of those factors.

Implicationsfortheory

Though they have done so standard by standard, accounting studies have provided compelling arguments for business resistance to FASB standards. Resource dependence logic and the institutional setting of the lobbying activity were not fully incorporated into the theoretical foundations of even earlier research that tried to simulate theories of corporate lobbying. Here, we offer a series of hypotheses supported by examples that illustrate our views and that draw from resource dependence theory and neo-institutional reasoning. Our work highlights the complexity of the factors influencing business behavior against FASB norms as a significant theoretical issue for the future. It is unlikely that theorists can provide a comprehensive explanation of business activity against proposed or implemented FASB financial reporting rules by taking into account solely independent variables at a single level, as these determinants operate at numerous levels of analysis. Rather, our framework serves to remind accounting regulation theorists that key factors influencing contra-standard action are the kind of regulatory mandate conveyed by a FASB standard and a corporation's ability to act against the standard (as demonstrated by its corporate and industry attributes). While we have delineated theoretical principles that distinguish the independent effects of several variables on the probability of corporate action against FASB standards, it is likely that multiple causes will be at play concurrently in every empirical corporate action scenario.

Take, for instance, a proposed FASB norm that raises company uncertainty about the stability of future revenue streams, expands the need for disclosures, and consequently raises the requirements for corporate information processing. It is also assumed that a significant portion of the firms to which the standard is meant to apply are big, strong, and operate in quickly expanding industries with little to no government regulation. These elements all point to a vigorous business campaign opposing the planned

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FASB standard, and resistance should be higher than it would be in the event if any of the variables were at a low level. It is important to keep in mind that the combination of elements in the empirical world highlights the fact that individual incidents of corporate opposition are not entirely explained by the theoretical abstractions needed to create positions such as ours.

We purposefully highlighted social and cognitive factors as disincentives to business action against FASB standards, as mentioned in the introduction. Although some writers in the positive accounting theory literature (Deakin, 1989; Watts & Zimmerman, 1978) have emphasized the importance of managerial and financial wealth variables, these factors do not fully explain managers' decisions about whether or not to oppose a FASB financial reporting standard. We think that factors pertaining to managerial cognitions, such as perceived uncertainty and perceived information processing needs, as well as factors affecting managers' relationships of dependence with stakeholders and the credibility of their organizations, are also important factors in determining whether or not to resist standards. Despite recent corporate scandals suggesting that, in certain situations, the eVects of their actions regarding revenue and wealth are the most important consideration, managers take other considerations into account.

Additionally, our theoretical framework highlights the reality that the regulatory targets may not always take accounting regulation passively. If the conditions are right, corporations subject to a proposed or enacted financial reporting standard may take action against it, perhaps through less formalized influence tactics like lobbying Congress to block the standard, or through the use of comment letters (Miller et al., 1998). Therefore, the final result of a complicated social interaction between the regulatory target and the regulator is accounting regulation. Through this interplay, regulatory action "arenas" (Robson, 1991; Young, 1994) are created, and power (Fogarty et al., 1992) starts to determine whether a given regulation requires compliance. While this study and previous publications have examined these social dynamics.
The proactive impact of regulatory targets on the adoption of accounting regulations is still a topic for further investigation.

Consequences for the profession

This study offers some useful guidance for accounting regulators regarding the timing of potential pushback from firms that are the subject of regulatory actions. According to the paper, regulations that, among other things, make corporate managers feel more uncertain, burden them with more information to process, force them to stray from established accounting practices, or make it more difficult for them to obtain resources they consider essential are likely to encounter resistance. A simpler implementation process is likely to occur if

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accounting regulators are sensitive to these company concerns and craft their standards to lessen these sources of corporate resistance. Regulators must also keep in mind that companies governed by regulations that they view as lowering uncertainty may, in fact, view them in the exact opposite way. For instance, the FASB may see the proposed standard on stock option expensing as a tool to lessen consumers' ambiguity over the precise cost of a company's compensation from financial statements. However, from the perspective of the business, the rule may make it more difficult to find available managerial talent. The saying "uncertainty is in the eye of the beholder" refers to this quality, which is occasionally lost when trying to address problems with financial reporting.
One of the business concerns with accounting standards is that they should first be implemented in a small number of industries before being applied to all corporations. Before a policy was made universal, the FASB or other accounting regulators may have been able to better examine its effects through a gradual rollout of the regulation. Before the regulation became omnipresent, changes may be made if implementation issues arose or corporate resistance showed itself. One may even create incentives for firms to act as test subjects for new legislation.
prior to the full implementation of the regulations. While the full internal validity obtained by randomly assigning firms to an experimental group of the regulated would obviously not be replicated by these kinds of quasi-experimental ventures, at least the implications of new laws might be clarified prior to full implementation. The ultimate objective would be for accounting regulators to maximize expected repercussions and minimize unforeseen ones in order to strengthen the rationality of their regulatory activities.

Lastly, we think that accounting authorities should take seriously the market reaction studies that are carried out to evaluate the market impact of exposure drafts and final standards as an assessment of FASB independence. Because corporate interests have a greater sway over the standard-setting process than do users, academic research examining how the stock market responds to FASB statements should be given more weight as a public vote on the standard's usefulness. With any luck, this kind of useful recommendation might steer accounting regulation away from the acrimony that frequently accompanies it and into a place where regulations are more thoroughly and better developed by all parties involved in the financial community.

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