

## Insights into the IASB due process: the influence of country characteristics on constituents' formal participation

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### Abstract

The paper explores the impact of country characteristics on constituents' formal participation in the IASB's due process. We hypothesize that there is an association between the level of constituents' participation and (1) the level of economic development, and (2) the cultural characteristics of the country of origin. We use a number of comment letters (CLs) and their length as proxies for constituents' formal participation in the IASB's due process. The results indicate that economic development (equity market capitalization) is the most important explanatory factor for the different levels of participation. In contrast, the cultural characteristics measured by Hofstede's cultural framework can only partially explain that differences. Only individualism is a significant positive influence factor for the level of constituents' participation. The results of our descriptive analysis for the CLs and the information input provided show that there is still a lack of participation in the IASB's due process. Despite the huge impact of accounting norms on societies, only a limited number of constituents participate, and some constituent groups, like users or academics, participate less.

**Keywords:** due process, standard setting, IFRS, comment letters, cultural characteristics, Hofstede.

### Streszczenie

#### Proces konsultacyjny IASB: legitymizacja standardów oraz wpływ krajowej specyfiki na udział zainteresowanych stron

W artykule poddano badaniu wpływ charakterystycznych dla krajów cech na formalny udział zainteresowanych stron w procesie konsultacyjnym IASB. Sformułowano hipotezy, zgodnie z którymi istnieje związek pomiędzy poziomem ich udziału a (1) stopniem rozwoju gospodarczego oraz (2) kulturowymi wymiarami kraju ich pochodzenia. Dla ustalenia poziomu udziału zainteresowanych stron w procesie konsultacyjnym IASB wykorzystano liczbę nadesłanych listów z uwagami (*comment letters* – CLs) i ich długość. Wyniki badań pozwalają stwierdzić, że poziom rozwoju gospodarczego (mierzony kapitalizacją rynkową) jest najważniejszym czynnikiem determinującym udział zainteresowanych stron w konsultacjach organizowanych przez IASB. Wymiary kulturowe określone przez G. Hofstede kształtują go jedynie częściowo. Wyłącznie indywidualizm ma istotny pozytywny wpływ na udział zainteresowanych stron w procesie konsultacyjnym. Wyniki przeprowadzonych badań wskazują, że udział zainteresowanych stron w konsultacjach prowadzonych przez IASB jest wciąż niewystarczający. Pomimo istotnego wpływu regulacji rachunkowości na społeczeństwo zakres ich udziału jest ograniczony, a niektóre grupy, takie jak użytkownicy sprawozdań finansowych czy przedstawiciele środowiska akademickiego biorą udział w konsultacjach w dużo mniejszym zakresie niż pozostałe grupy.

**Słowa kluczowe:** proces konsultacyjny, opracowywanie standardów, MSSF, listy z komentarzami, wymiary kulturowe, Hofstede.

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## **Introduction**

Since the formation of the International Accounting Standards Board (IASB), the use of International Financial Reporting Standards (IFRS) has spread (IFRS Foundation, 2015). Just 16 years ago, very few jurisdictions allowed IFRS (previously IAS). Nowadays, about 140 nations and reporting authorities permit or require their use for domestic listed companies (IFRS, 2017). The European Union (EU) requires all companies whose securities are admitted to trading on a regulated market of any EU member state to prepare their consolidated financial statements according to IFRS. Around 500 cross-border registrants of the US Securities and Exchange Commission (SEC) use IFRS as a result of the Commission's decision to allow non-US registrants to file financial statements using IFRS without the need to reconcile them with US Generally Accepted Accounting Principles (GAAP) (Larson and Herz, 2011; IFRS Foundation, 2015). However, US domestic issuers are required to use US GAAP in preparing their financial statements (IFRS Foundation, 2016). According to Street (2012), the SEC needs to 'make a decision' and set a date for the US adoption of IFRS or else IASB will have effectively abandoned its goal of a single set of high quality global accounting standards.

With the increase in use and anticipated rising significance of IFRS, the participation of a wide variety of stakeholders in the global accounting standard-setting process seems to be gaining importance (Larson and Herz, 2011). The IASB and other standard setting institutions undertake a range of stakeholder communication activities to provide opportunities for the interested parties to discuss their proposals (Huian, 2013). According to the opinions of some authors (Suchman, 1995; Larson, 2007), stakeholder involvement (i.e. constituents' participation) is a key component for an organization to obtain acceptance, legitimacy and success.

As the IASB is a private-sector standard-setter with no elected or other governmental authority, transparent standard setting with the participation of constituents is a crucial element of its legitimacy. The IASB is well aware of the importance of public participation and has stressed its importance in a number of communications. Constituents can participate in the IASB's due process of standard setting in many ways. The IASB, like other private-sector standard setting bodies, incorporates formal public consultation (e.g. organizing public hearings or issuing discussion papers and exposure drafts for comment) in its due process as well as other more informal methods (e.g. informal meetings with IASB members and its staff) (Jorissen et al., 2012). Webinars, live webcasts and online surveys are also possible options (Huian, 2013).

As Jorissen et al. (2013) point out, participation in the process of standard setting is considered important because it generates information which can help the standard-setter measure the potential reaction of interest groups to the standards it issues. While developing accounting standards, the IASB ought to be aware of their economic consequences in countries around the world, as IFRS are applied in different institutional frameworks and national settings. In the course of the due process, interested parties

from all over the world are invited to submit comment letters (CLs) in response to the IASB's due process documents i.e. discussion papers (DPs) and exposure drafts (EDs). CLs are assigned "a pivotal role in the deliberations process" (IASCF, 2013, par. 3.64; Dobler and Knosp, 2016). Jorissen et al. (2013) argue that the lack of widespread constituents' participation in the IFRS setting process has been criticized by high-level international authorities in the context of the financial crisis of 2008. In response, the IASB declared that it is aware of the importance of extensive constituents' involvement. The significance of the constituents' participation is also stressed by several academics who have called for more research in this regard (Barth, 2000; Cooper and Robson, 2006; Luthardt and Zimmerman, 2009).

In response to the concerns expressed by international authorities and to the calls for research on constituents' involvement, this paper focuses on constituents' participation in the IASB's due process. The purpose of our research is to explore the impact of country characteristics on constituents' formal participation in the IASB's due process. Regarding country characteristics, we hypothesize that there is an association between the level of constituents' participation and (1) the level of economic development, and (2) the cultural characteristics of the country of origin. To verify the above hypotheses, we analyzed a total of 3,305 CLs sent as part of the IASB consultation process from 2011 to 2014.

The key findings of this paper are as follows: First, we can demonstrate that there are still substantial differences in the participation of the IASB's due process projects. Both the number of CLs and the information input per issue vary considerably. Second, there are imbalances in the representation of the different constituent groups. Preparers, accountants, and regulators dominate the participation in the due process, while users are underrepresented. Third, a geographical analysis of the CLs reveals that only five countries provide more than half of the CLs in this period and that some continents (Oceania, Africa, and South America) participate less and provide substantially less input. The imbalances in the representation of the different constituent groups and of the different countries let us conclude that both the legitimacy of the standards as well as the sufficient informing of the IASB's discourse might be questioned. Fourth, we can demonstrate a significant positive influence of the economic development (equity market capitalization) on the country-specific participation in the IASB's due process. Fifth, cultural factors seem to play a minor role in explaining the different levels of participation. Only the individualism index of a country has a significant influence on the country-specific number of CLs and the information input provided.

We believe that our research contributes to the body of literature as it confirms the results of previous studies with the use of more recent data and for different objects of investigation (other IASB projects). Cumming (2014) argues that "a single study is rarely, if ever, definitive". In his view, additional related evidence is necessary in the social sciences. We provide this evidence and show that the constituents' formal participation in the IASB due process is still low. Additionally, our paper extends the latest research by Larson and Herz (2013), Jorissen et al. (2013) and Dobler and Knosp

(2016) by including the legal system as a country characteristic which has not appeared in other studies on the IASB's due process. On the one hand, that increases the confidence in the original findings (Cumming, 2014) as we can confirm the results in another setting with an additional variable. On the other hand, we demonstrate that there is another significant influence factor which explains the different levels of participation. Following Dobler and Knospe (2016), we chose CLs to measure constituents' formal participation in the IASB's due process. However, we go beyond their investigation as we analyze not only the number of submitted CLs but also the information input measured by the number of CL pages, which has not been done so far.

This paper proceeds as follows. Section 2 presents the IASB's due process of standard setting and the opportunities for the constituents to participate. It also outlines the theoretical context of the study, which is legitimacy theory. Section 3 reviews the extant participation literature. Section 4 derives research hypotheses, while Section 5 presents the research methodology. Section 6 discusses the research results, followed by a conclusion and an indication of possible future research in Section 7.

## 1. The IASB's due process in the context of legitimacy theory

The IASB's process aimed at developing high-quality global accounting standards, and referred to as 'due process', resembles similar procedures followed by other private standard-setters (e.g. the FASB) (Georgiou, 2010; Alali and Cao, 2010). It consists of mandatory and non-mandatory stages during which an interested party can submit comments prior to the adoption of an IFRS. It is described in the *Due Process Handbook for the IASB and IFRS Interpretations Committee* (IASCF, 2013). According to this document, the due process steps that are mandatory include:

- 1) debating any proposals in one or more public meetings;
- 2) exposing for public comment a draft of any proposed new Standard, proposed amendment to a Standard or proposed Interpretation – with minimum comment periods;
- 3) considering in a timely manner the comment letters on the proposals;
- 4) considering whether the proposals should be exposed again;
- 5) reporting to the Advisory Council on the technical program, major projects, project proposals and work priorities; and
- 6) ratification of an Interpretation by the IASB.

Other steps are specified in the IASCF Constitution as non-mandatory. They include:

- 1) publishing a discussion document (for example, a Discussion Paper) before an Exposure Draft is developed;
- 2) establishing consultative groups or other types of specialist advisory groups;
- 3) holding public hearings; and
- 4) undertaking fieldwork.

According to the *Handbook* (IASCF, 2013), CLs play a crucial role in the deliberation process of the IASB because they provide considered and public responses to a formal consultation. While analyzing CLs, the IASB assesses the issues raised and the related explanations, and evidence provided by respondents. It is the strength of the analysis given in CLs together with the supporting evidence that matters. An analysis of the type of respondent and their geographical origin can help the IASB to assess whether there are any areas or types of respondents for which additional outreach might be appropriate.

The due process described above is needed for the IASB to gain legitimacy, apart from sufficient authority. Legitimacy theory is frequently applied in research on international accounting standard-setting bodies and IFRS due process (e.g. Richardson and Eberlein, 2011; Jorissen et al., 2013; Dobler and Knospe, 2016; Eisenschmidt and Schmidt, 2016).

One of the most commonly cited definitions of legitimacy was formulated by Suchman (1995), who described it as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. According to Deegan and Unerman (2011), legitimacy theory asserts that organizations continually seek to ensure that they are perceived as operating within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as being ‘legitimate’.

Legitimacy theory is based on the assumption that there exists a social contract between the organization and the society in which it operates. The term ‘social contract’ is not easy to define but it can be assumed to mean a wide range of hidden and explicit public expectations as to how the organization should function. The idea of the social contract is not new as it was discussed by such philosophers as Hobbes, Locke, or Rousseau (Cooper, 2004). Each social institution, and the standard setting organization is no exception, works in a society under a social contract, explicit or hidden, whereby its survival and development is based on: (1) the delivery of some socially desirable results to a widely conceived society, and (2) the distribution of economic, social, or political benefits to groups from which it receives power. It should be noted that this contract is not in any way formal but merely hypothetical. It has moral overtones and is strongly associated with ethics (Crowther and Rayman-Bacchus, 2004).

Lindblom (1983) has identified ways in which an organization can get or maintain legitimacy. One of them is to attempt to educate and inform a wide public it considers important of actual changes in the results of the activities and operations that are consistent with the social values and expectations (Godfrey et al., 2006). This approach might be used by a standard-setter to get or maintain legitimacy as part of the due process. While discussing the process of IFRS development in the context of legitimacy theory, Jorissen et al. (2013) refer to earlier studies by Johnson and Solomons (1984) and Wallace (1990) and they distinguish between substantive due process and procedural due process. Procedural due process relates to the fact that the standard-setter must

provide an adequate and impartial opportunity for interested parties to provide input to the standard setting process. Based on a normative model of procedural legitimacy, Richardson and Eberlein (2011) define the legitimacy of a private standard-setter as a three stage process (Jorissen et al., 2013; Dobler and Knospe, 2016): first, inputs are collected from affected parties (input legitimacy), then they are considered, aggregated and transformed through a formalized decision process (throughput legitimacy), and finally standards are produced (output legitimacy). According to Dobler and Knospe (2016), input legitimacy requires constituents that are affected by the standards to be represented in the standard-setting process, which is also stressed by other authors (e.g. Johnson and Solomons, 1984; Durocher et al., 2007; Larson and Kenny, 2011). As Jorissen et al. (2013) argue, referring to Scharpf (1999), input legitimacy is attained when the inputs received reflect the will of all people. Thus, in the case of the IASB, gaining input legitimacy implies that all stakeholders affected by IFRS financial reporting should participate in the IASB's process of standard setting. In other words, widespread participation across interest groups and geographic origins is crucial (Kothari et al., 2010; Burlaud and Colasse, 2011; Larson and Herz, 2013; Dobler and Knospe, 2016). Wide participation in the standard-setting process is considered necessary not only to gain legitimacy but also to generate relevant information that helps the IASB to assess how a norm affects the constituents (e.g. preparers and users of financial statements) and their potential reactions to its standards, as stressed by Suchman (1995), Zeff (2002), Jorissen et al. (2013), and Eisenschmidt and Schmidt (2016). Better informed discourse should lead to more effective decision making of the authority (Luthardt and Zimmermann, 2009) and result in better accounting standards, which should be beneficial for all interested parties.

The use of informed deliberation in the process of standard setting is the crucial element to gain legitimacy of the output (the norm). The idea behind this is primarily based on the concept of hypothetical consent (Rawls, 1971). In this theoretical approach, a norm is legitimized when it expresses the consent of all constituents affected by the norm (Eisenschmidt and Schmidt, 2016). In that sense, it is not the norm itself that creates legitimacy rather it is how the norm was derived by the standard setter (Richardson and Eberlein, 2011; Eisenschmidt and Schmidt, 2016). In practice, such a hypothetical consent is difficult to achieve because two major assumptions – the negotiation under a 'veil of ignorance' and the participation of all affected constituents – do not exist in real life.

The concept of hypothetical consent is also used in Habermas' concept of an 'ideal speech situation' (Eisenschmidt and Schmidt, 2016). In this theoretical approach, the output of the process – the norm or standard – is legitimized if the process to develop it (the discourse) meets certain requirements (Habermas, 1993; Eisenschmidt and Schmidt, 2016). The IASB's due process was already analyzed by researchers regarding whether the requirements for an 'ideal speech situation' are fulfilled. The studies conclude that the current due process complies at least to a certain degree with the conditions to achieve Habermas' ideal discourse (Luthardt and Zimmermann, 2009; Richardson and

Eberlein, 2011). In that sense, due process can provide throughput legitimacy and lead to legitimate accounting standards. In this connection, the quality of the deliberation or discourse is essentially linked to the quality of input or participation (Richardson and Eberlein, 2011). That means that the legitimacy of the process output can only be gained if we achieve widespread participation as mentioned before.

## 2. Literature review

A rapidly growing body of research addresses the subject of constituents' participation in the due process used by the IASC and IASB. An extensive review of the literature on this issue is provided by e.g. Larson and Herz (2013), and Larson (2007). In their empirical research, most studies analyze the CLs submitted to the standard-setters in response to the exposure drafts (Table 1). As noted by Dobler and Knospe (2016), much prior research focused on two characteristics of constituents: the representation of interest groups (e.g. Larson and Herz, 2011; Giner and Arce, 2012; Jorissen et al., 2012) and of geographic origins (e. g. Kenny and Larson, 1993; Jorissen et al., 2013; Larson and Herz, 2013). According to the authors, the observed imbalances in this regard might provoke criticism about the input legitimacy of the IASB.

**Table 1.** Selected research on the IASB's due process and constituents' participation

Author (year)	Research aim and method	Main findings
Larson (2007)	The purpose of the study was to examine whether key geographic and stakeholder interest groups regularly participated in the due process. The author investigates CLs written by respondents with regard to IFRIC's first 18 Draft Interpretations (in total 714 CLs generated by 272 respondents from 40 countries). Apart from extensive descriptive analysis, correlations were performed for the strength of auditing and accounting standards and the availability of company financial information and the number of letter writers, the number of letters written, and whether an IFAC member wrote or whether an accounting standard-setter wrote.	The EU provided the majority of writers and letters, with the UK being the largest contributor. The USA, Canada and developing countries generated few letters. Responses remained concentrated with 35 respondents, mostly professional accountancy bodies and accounting standard-setters. Countries with stronger financial reporting systems responded more to IFRIC.

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Author (year)	Research aim and method	Main findings
Hansen (2011)	In order to assess what characteristics of lobbyists and lobbying behavior are associated with lobbying success, the author investigated 629 CLs submitted by lobbyists on five IASB exposure drafts: ED2, ED3, ED4, ED5, and ED6, and the final IFRS issued in relation to these exposure drafts.	The largest number of letters submitted was from the U.K., but the sample exhibits a wide variation across countries. Firms submitted the largest number of letters. Regression analysis revealed that lobbying success was positively associated with both financial contribution level and the size of the equity market in the lobbyist's home country.
Kastelas et al. (2011)	The authors examined CLs provided by the 27 firms on the ED 8 <i>Operating Segments</i> and tested the association between firm characteristics and firm views.	The results revealed that larger firms were more likely to lobby in favour of ED 8, and firms with two segments or fewer were more likely to lobby against ED 8. The research also provided evidence that relatively profitable firms operating in an environment of low competition are less inclined to support ED 8.
Larson and Herz (2011)	The authors examined the academic community's participation in the IASB's standard setting process through the submission of CLs on 79 issues.	Academic participation is low. For 55 IASB issues, academics and academic organizations provided 153 responses (2.7% of total responses), and for 24 Draft Interpretations issued by IFRIC just 20 responses (1.9%). Overall, Anglo country writers dominated, with Australia, Canada, New Zealand, the United Kingdom, and the United States together providing the majority of writers and responses.
Jorissen et al. (2012)	The paper's aim was to inquire about the nature of constituents' participation in the IASB's due process in terms of representation (constituents' diversity and characteristics) and drivers to participate. 3,234 CLs sent to the IASB and 299 CLs sent to EFRAG over the period 2002–2006 were analysed.	The preparers sent most CLs to the IASB followed by the accounting profession and standard-setters, while national standard-setters, stock exchanges and their supervisory bodies provide most responses in the course of EFRAG's public consultation on issues on the IASB's agenda. The preparers concentrated their participation efforts at a later stage in the process compared to the other constituents, who reacted earlier. The data revealed that preparers, accountants and standard-setters react significantly more when proposals have

cont. tab. 1

Author (year)	Research aim and method	Main findings
		a major impact on the accounting numbers of a company. Users, stock exchanges and their supervisory authorities write significantly more CLs when disclosure issues are at stake. Finally, participating preparers in the IASB's due process were larger and more profitable than non-participating preparers.
Larson and Herz (2013)	The study explored country participation and the regional and institutional factors that influence the geographic diversity of CLs using 5,921 CLs regarding 57 IASB issues during the period 2001–2008.	Countries with EU membership, G4+1 membership, donations to the IASB, and larger equity market development were associated with larger numbers of CLs and CL writers.
Kosi and Reither (2014)	The study investigated the determinants of financial firms' lobbying behavior in the replacement process of IFRS 4 <i>Insurance Contracts</i> . 250 CLs were analysed.	Insurance companies and financially constrained IFRS firms were more likely to lobby the IASB. The study results reveal intense lobbying by financial firms. The economic consequences of anticipated accounting changes are the main driver of firms' lobbying behavior.
Dobler and Knospe (2016)	The authors analysed 8,825 CLs submitted in the IASB due process during the period 2006–2012 to investigate the impact of country and IASB's due process documents characteristics on the level of constituents' participation.	There are imbalances in the representation of interest groups and geographic origins in the IASB's due process. Multivariate regressions reveal positive associations between the level of constituents' participation and both a country's equity market capitalization and its level of individualism, where each variable has explanatory power over the other. Further evidence suggests that language barriers may inhibit constituents' participation in non-English speaking countries, while the level of participation is unaffected by a country's level of institutional reliance on IFRS.

Source: author's own elaboration.

As for the interest groups' participation in accounting standard setting, particular attention is paid to the firms as financial statement preparers, and to corporate lobbying.

According to the rational-choice model of lobbying developed by Sutton (1984) and widely cited in the literature, a rational agent would only participate in the process of standard setting if the expected benefits of lobbying, adjusted for the probability that lobbying influences the resulting standard, exceed the costs of lobbying. Sutton further argues that preparers receive greater potential economic benefits from obtaining their favoured accounting treatment than users of financial statements because preparers are likely to be wealthier and less diversified. Based on Sutton's (1984) framework, Dobler and Knospe (2016) recognize three major strands of CL-based lobbying research. The strands focus on the participation in, the content of, and the success of lobbying a standard-setter. The first strand documents the fact that interest groups are not equally represented in the IASB's due process. In particular, and as predicted by Sutton (1984), this results in a user-preparer imbalance in the process of standard setting. As supported by empirical evidence, preparers of financial statements participate more extensively than users of financial statements, while there are intermediate levels of participation for accountants and regulators (e.g. Larson, 2007; Kwok and Sharp, 2005; Giner and Arce, 2012; Jorissen et al., 2012, 2013).

Another interest group that attracts researchers' attention is academia's participation in the due process. According to Alvarez et al. (2014), there are two ways in which academics can influence the accounting standard setting process: (1) through the impact of their research and (2) through their participation in the process by giving their opinion in CLs, through direct participation or by other means of communication. Both standard-setters and academics have suggested that the latter should play a more prominent role in the standard-setting process (Gordon and Street, 2013). Larson and Herz (2011) stress that relevant accounting research is also very helpful, and Schipper (1994) notes that there are stages in due process where an "academic researcher can have a positive impact". This is important because, according to Leisenring and Johnson (1994), "by and large, practitioners do not and cannot understand much of academic research". However, researchers can help 'familiarize' standard-setters with research findings (Schipper, 1994). One way to do that is to encourage academics to be actively involved in the due process, particularly through submission of CLs (Larson and Herz, 2011). For many years, the important role that academic research can play in the formation of IFRS has been noted (Barth, 2008; Fülbier et al., 2009; Ewert and Wagenhofer, 2012). Academic research has also made contributions to the IFRS via Board, committee, and staff service. This input is deemed significant because academics present a more conceptually pure and unbiased lobbying position in standard-setting since the outcome does not affect them in the same way it does other stakeholders (Barth, 2008; Fülbier et al., 2009; Ewert and Wagenhofer, 2012). Unfortunately, evidence indicates that academics have written very few CLs to the IASB. Tandy and Wilburn (1996) ascribe the low rate of academics' participation to their lack of understanding or interest in the due process, and the low expectations of affecting the standard-setter's decisions. Also, the lack of academic rewards and the absence of a relationship between the issues and teaching or research are quoted as factors. Research suggests that academics often believe

their views hold relatively little weight in the accounting standard-setting process (Tandy and Wilburn, 1996). Larson and Herz (2011) identify other reasons, such as language barriers in combination with sometimes short-term comment periods that may be hindering academic participation from non-English speakers. The correlation results support Standish's (2003) suggestion that language may be a significant obstacle discouraging non-English speakers from participating. Operating only in English may jeopardize the IASB's legitimacy as a truly global body, or at least it may restrict those who could comment.

Another group of studies relates to the geographic origins of the constituents' participation. Empirical research indicates imbalances in the representation of geographic origins but provides limited and partly mixed evidence on the country characteristics that drive constituents' participation in the IASB's due process. Research results reveal that European constituents participate most frequently in the due process of the IASB followed by constituents from North America and Asia/Oceania (Larson and Herz, 2011, 2013; Jorissen et al., 2013; Wingard et al., 2016). Sutton's (1984) framework implies more participation from countries that are more heavily affected by proposed standards and that are wealthier compared to others. Empirical work relates the relative over- or underrepresentation of geographic origins to differences in economic development (Larson and Herz, 2013; Dobler and Knospe, 2016), cultural values (Jorissen et al., 2006, 2013; Dobler and Knospe 2016), institutional, and linguistic characteristics (Larson and Herz, 2011, 2013; Jorissen et al., 2013; Dobler and Knospe, 2016) of the constituents' countries of origin.

### 3. Hypotheses development

As presented in the section above, constituents' participation has been found to be causally linked to various participant and country characteristics. This section focuses on hypotheses development and presents two main factors that we suggest might influence the constituents' participation: (1) the level of economic development and (2) the cultural characteristics of a country.

Focusing on economic characteristics, Larson and Herz (2013) report that the level of equity market development is positively associated with constituents' participation in the IASB's due process. According to the authors, given the IASB's goal that IFRS should be useful for investors, greater CL participation might be expected of countries with greater equity market development. Countries with larger stock markets may be more affected by IFRS. Hope et al. (2006), Khurana and Michas (2011), and others suggest that IFRS adoption and equity market development are related. Constituents from countries with developed equity markets are likely to be more heavily affected by the IASB's standard-setting and to participate more extensively (Larson and Herz, 2013; Dobler and Knospe, 2016). Dobler and Knospe (2016) refer to empirical findings on imbalances in the representation of the geographic origins in the IASB's due process

which are roughly in line with these assessments. Larson and Kenny (1998) and Larson (2007) document relatively low levels of participation by constituents from economically less developed countries. Larson and Herz (2013) find a positive impact of various variables representing a country's level of economic development on constituents' participation. More particularly, Hansen (2011) finds evidence that lobbying success with the IASB is positively associated with the size of the equity market in the letter writer's home country. Therefore, it might be expected that countries with larger equity markets generate more CLs as well as more information input. Thus, our first hypothesis states that:

**H1:** *The level of economic development of a country is positively associated with the level of constituents' participation in the due process.*

The second problem we focus on in our study is the relation between participation in the due process and the country's cultural values. Culture is considered to be a powerful environmental factor that affects the accounting system of the country and how individuals perceive and use accounting information (Doupnik and Tsakumis, 2004).

The cultural framework of Hofstede (1980) was introduced to the accounting literature by Gray (1988) and is most widely used in accounting research. His study is also the most extensive research on national cultural differences conducted to date. Hofstede's framework decomposes cultures into component parts (or dimensions) and provides quantitative measures of those dimensions by country (Table 2). As such, these quantitative measures lend themselves to use as independent variables in statistical analysis<sup>1</sup>.

**Table 2.** Hofstede's four dimensions of national culture

Power Distance Index (PDI)	This dimension expresses the degree to which the less powerful members of society accept and expect the fact that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of Power Distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low Power Distance, people strive to equalize the distribution of power and demand justification for inequalities of power.
Individualism versus Collectivism (IDV)	The Individualism side of this dimension can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care only of themselves and their immediate families. Its opposite, collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we".

<sup>1</sup> In our study, we focus on four dimensions of national culture which have also been used in previous research (Dobler and Knospé, 2016; Jorissen et al. 2012, 2013).

*cont. tab. 2*

Masculinity versus Femininity (MAS)	The Masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material rewards for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented. In the business context Masculinity versus Femininity is sometimes also related to as "tough versus tender" cultures.
Uncertainty Avoidance Index (UAI)	The Uncertainty Avoidance dimension expresses the degree to which the members of society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how society deals with the fact that the future can never be known: should we try to control the future or just let it happen? Countries exhibiting strong UAI maintain rigid codes of belief and behaviour and are intolerant of unorthodox behaviour and ideas. Weak UAI societies maintain a more relaxed attitude in which practice counts more than principles.

Source: Hofstede (2017).

According to Dobler and Knospe (2016), cultural characteristics should be related to the country-level of participation in the IASB's due process. Jorissen et al. (2006) suggest a negative association between power distance (PDI) and constituents' participation. As presented in Table 2, PDI expresses the degree to which the less powerful members of a society accept and expect the fact that power is distributed unequally. Hofstede (2001) argues that "citizens of high-PDI societies tend to wait for action by the government, and citizens of low-PDI societies are more likely to cooperate with their governments" (Dobler and Knospe, 2016).

Following Jorissen et al. (2013) and Dobler and Knospe (2016), we expect a positive association between individualism (IDV) and constituents' participation because IDV is positively related to the involvement of voters in the political system. In individualist societies, people are supposed to look after themselves and their direct family only. In collectivist societies, people belong to 'in-groups' that take care of them in exchange for loyalty (Hofstede, 2017).

Masculinity (MAS) is a measure for masculinity as opposed to femininity. The high level of MAS relates to a more adversarial political discourse, which suggests a positive association between MAS and constituents' participation (Dobler and Knospe, 2016). A high score on this dimension indicates that the society will be driven by competition, achievement and success, with success being defined by the winner/best in field – a value system that starts in school and continues throughout organizational life (Hofstede, 2017).

The Uncertainty Avoidance (UAI) dimension relates to the way that a society deals with the fact that the future can never be known (should we try to control the future or just let it happen?). Jorissen et al. (2006, 2013) indicate that the level of constituents' participation is negatively associated with the levels of UAI. Similarly, Dobler and Knospe (2016) suggest a negative association between UAI and constituents' participation as uncertainty avoidance is a measure for society feeling uncomfortable with uncertainty, and Hofstede (2001) predicts that citizens from countries with a low UAI are more interested in politics and protest against government decisions. Given these expectations, we formulate our second hypothesis as follows:

**H2:** *The cultural characteristics of a country are associated with the level of constituents' participation in the due process.*

## 4. Research methodology

### *Sample and data collection*

We analyze the consultation process of the IASB in the period of 2011 to 2014. The relevant projects in this period were downloaded from the IASB's homepage. In total, we have a sample of 3,305 CLs which are written for the development of five standards, twelve amendments, and three post-implementation reviews. The Appendix shows a complete list of the analyzed IASB projects in the covered period and the number of CLs for each project.

We use content analysis (Krippendorff, 2012) to evaluate the CLs and gain the relevant information for our research. Each CL will be analyzed regarding the specific project, the type of request, the CL writer, the number of authors, the length of the CL, the country where it is sent from, and the constituent party. We define five classes of constituents: preparers, users (differentiated into equity investors, individuals, and academics), the accounting profession, standard-setters, and other interested parties. The CLs were coded by six people. To assure the reliability of the empirical analysis, we implement controls in the coding process. Every fourth data point (CL) of each coder has to be checked from one of the other five coders. In total, 26.08% of the manual compiled data was checked in terms of the right coding of the CLs. We did not find substantial differences between the coding of the different coders. Thus, we can assure intercoder reliability (Lombard et al., 2002) for our content analysis. Additionally, randomly selected observations are checked by the authors, too.

### *Research method*

We use an empirical quantitative approach to analyze our research hypotheses. In the first step, we aggregate the data and present descriptive results about participation in the due process. We distinguish our analysis regarding the different constituent groups

and the geographical participation. Therefore, we use statistical measures of central tendencies. Additionally, we test whether there are statistically significant differences regarding the participation of the different constituent groups and regarding the continents from which CLs were sent from. We use the Mann-Whitney test and the Kruskal-Wallis test to define whether there are statistically significant differences.

The main analyses explore the effect of country-specific characteristics on CLs per country and on the input provided by the country. Thus, we want to enhance the understanding of what drives participation and information input in the consultation process. So far, there are only analyses which focus on the geographic diversity of CLs sent to the IASB (e.g. Larson and Herz, 2013; Dobler and Knospe, 2016). There are no studies which focus on the country-specific input and the determinants which influence the level of input. The country-specific input can be a proxy for the quality of the response (Hansen, 2011) and therefore gives further insights regarding this issue. To analyze our derived hypotheses of chapter 4, we choose a multivariate approach and build two regression models.

### *Regression models and variables*

In chapter 4, we identified two main factors which should influence the number of CLs per country (CL\_COUNTRY) and the input provided by a country (INPUT\_COUNTRY). They are the economic development level and Hofstede's four cultural factors. In line with prior research in that area (Larson and Herz, 2013; Dobler and Knospe, 2016), economic development level will be measured by the two following variables: gross domestic product per capita (GDP) and equity market capitalization (MAC). We use the published data of the World Bank (World Bank, 2017) and calculate the arithmetic mean of the GDP per capita and the equity market capitalization for the period from 2011 to 2014. GDP per capita of a country enters into the regression with the natural logarithm. MAC per country equals the equity market capitalization of a country to the sum of all equity market capitalizations of the analysed countries (Larson and Herz, 2013). The four relevant cultural factors are power distance (PDI), uncertainty avoidance (UAI), individualism (IDV), and masculinity (MAS). The country-specific data stems from the homepage of Hofstede (Hofstede, 2017). The dependent variable CL\_COUNTRY is the sum of CLs per country sent to the IASB, and the variable INPUT\_COUNTRY represents the sum of CL pages per country sent to the IASB.

Additionally, we have to control for several issues: the history of a country's legal system, the IFRS obligation in the country, and the language. We use the history of the legal system (LAW) to control for the country's experience with the consultation processes. To distinguish between countries, we use Choi and Meek's (2014) classification of code law and common law countries, which has been present in the accounting thinking for the last 25 years. Code law countries are characterized by a legalistic orientation and low disclosure. The way accounting is regulated in these countries gives managers

little flexibility to make accounting estimates while leaving regulating and monitoring to the government (Rappeport, 2008). Setting accounting regulations in code law countries lies within the public sector, with a relatively low influence of the accounting profession. Although public consultations on introducing new accounting regulations are possible, they usually do not receive much attention from the interested parties (constituents). In the light of the above, we assume that countries with due process similar to the IASB procedures regarding the development of national accounting standards (common law countries) are more likely to participate in the consultation process than countries which did not have such procedures in the past (code law countries). If the country is a code law country, we assign 1 point, otherwise 0. For countries which are not listed in Choi and Meek's (2014) classification, we use the CIA World Fact Book to gather that information.

Another control variable is the IFRS obligation in the country. If it is compulsory to apply IFRS in a country, the number of CLs and the information input of this country should be increased because the people in this country are affected by this accounting regime. In contrast, constituents of a country where IFRS are not permitted for use in the preparation and presentation of financial statements will not have a strong incentive to participate because their financial reporting is not affected by the standards. So, the country-specific legal requirements for the use of the accounting regime can influence the information input and the participation of a country's constituents. We include two dummy variables. The first one (IFRS\_COMP) assigns 1 if it is compulsory to apply IFRS in the country, otherwise 0. The second one (IFRS\_PERM) assigns 1 if it is permitted to use IFRS in the country, but there is no obligation, otherwise 0. The relevant data for each country comes from *iasplus.com* where we were able to find the country-specific requirements for using IFRS in the annual reporting.

Finally, we control for language barriers. Prior research states that language barriers could impede or diminish the ability to participate in the standard setting processes (Standish, 2003; Burload and Colasse, 2011; Larson and Herz, 2013; Dobler and Knospe, 2016). The IASB's official language is English, and without English-language competences it is difficult to participate in the discourse (Standish, 2003; Larson and Herz, 2013). We use a dummy variable to address this issue in the regression analysis. The variable is coded 1 if the country's major or official language is English, otherwise 0. The data stems from the CIA's world fact book.

We derive two regression models for our analysis which only differ in the used dependent variable:

- (1)  $CL\_COUNTRY = \alpha + \beta_1 GDP + \beta_2 MAC + \beta_3 PDI + \beta_4 IDV + \beta_5 MAS + \beta_6 UAI + \beta_7 LAW + \beta_8 IFRS\_COMP + \beta_9 IFRS\_PERM + \beta_{10} LANG + \varepsilon$
- (2)  $INPUT\_COUNTRY = \alpha + \beta_1 GDP + \beta_2 MAC + \beta_3 PDI + \beta_4 IDV + \beta_5 MAS + \beta_6 UAI + \beta_7 LAW + \beta_8 IFRS\_COMP + \beta_9 IFRS\_PERM + \beta_{10} LANG + \varepsilon$

## 5. Results

### 5.1. Descriptive analysis

#### *Comment letters and information input per issue*

In total, we analyzed 3,305 CLs which were sent to the IASB from 69 countries for 24 different accounting issues in the period 2011 to 2014. The average number of CLs per issue amounts to 137.71, an increase in comparison to the period 2001 to 2008 when 104 letters per issue were sent (Larson and Herz, 2013). So, there is greater participation in the due process, which is positive for the IASB and desirable in terms of gaining input legitimacy and enhancing the information background for the standard setting discourse. The number of CLs per issue varies between 38 (ED/2011/5 *Government Loans proposed amendment to IFRS 1*) and 657 (ED/2013/6 *Leases*), which shows that not every project of the IASB is the focus of attention for the constituents (see also Appendix for an overview). Table 3 presents the descriptive results.

**Table 3.** Descriptive results for the IASB's issues

Variables	CLs per issue	Input per issue	Input/CLs per issue
Min	38	112	2.83
Max	657	4,352	23.61
Range	619	4,240	20.78
25 <sup>th</sup> percentile	68	286	3.88
Median	98	501	5.02
75 <sup>th</sup> percentile	165	1,196	8.10
Arithmetic mean	137.71	999.38	6.79
Standard deviation	131.33	1,065.06	4.68

Source: author's own elaboration.

The information input provided by the constituents and measured by the sum of pages in the CLs also varies for the different IASB issues. The minimum and maximum values belong to the same projects as those mentioned above for the CL analysis. The average number of pages sent to the IASB for a certain issue amounts to 999.38, which seems quite high, but is basically driven by a few projects with a substantially higher information input (ED/2013/6 *Leases*; ED/2011/6 *Revenue from contracts with customers*; ED/2013/3 *Financial Instruments: Expected Credit Losses*; ED/2013/7 *Insurance Contracts*; *Request for Information – Comprehensive Review of the IFRS for SMEs*). So, we see that specific projects which could have a stronger impact on the constituents are more in the focus of the constituents and get a higher information input. If we differentiate the results between the type of issue (amendment vs. new standard) we can demonstrate

a significantly higher participation (sum of CLs per issue) for the development of new standards (Mann-Whitney test;  $p = 0.002$ ) and a significantly higher information input (sum of CL pages per issue) for the development of new standards (Mann-Whitney test;  $p = 0.000$ ).

The average number of pages sent in a CL for a certain issue amounts to 6.79 pages. There are some projects which achieve a substantially higher average input per CL. These are the *Request for Information – Comprehensive Review of the IFRS for SMEs* (23.61 pages), DP/2014/2 *Reporting the Financial Effects of Rate Regulation* (10.44 pages), ED/2013/3 *Financial Instruments: Expected Credit Losses* (10.77 pages), ED/2013/7 *Insurance Contracts* (13.48 pages), and *Post-implementation Review of IFRS 3 Business Combinations* (11.21 pages). So, if we compare the results, we see that some projects with a high participation (number of CLs) and a high sum of pages sent, like the ED/2013/6 *Leases*, do not have a high average input per CL. There are projects where fewer constituents participate but where the input provided per CL is substantially higher, e.g. for the *Request for Information – Comprehensive Review of the IFRS for SMEs*.

### *Constituent groups*

Preparers of financial statements are the group which participates most in the due process. This group has a total number of CLs amounting to 1,544, which represents 46.72% of the total CLs sent and is in line with prior findings in that area (Kwok and Sharp, 2005; Giner and Arce, 2012; Jorissen et al., 2012, 2013). Accountants (781 CLs) and regulators (616 CLs) also write quite a lot of CLs, whereas users participate less. The expected user–preparer imbalance in the standard-setting process (Sutton, 1984) still exists. That is interesting because this group is also substantially affected by changes in the accounting system, and the IASB focuses on this group in its objectives but it seems to be that this group still has no interest or not enough incentives in participating that much. Only a few individuals (77 CLs) and equity investors (69 CLs) respond to the releases of the IASB. Academics also still play a minor role (53 CLs), which is in line with prior empirical findings in that area (Larson and Herz, 2011) and can be explained by a lack of incentives for academics to participate (Barth, 2008; Fülbier et al., 2009). If we think about the huge impact which changes in an accounting system can have, such low participation of financial statement users is surprising. Input legitimacy, which implies that all stakeholders affected by IFRS financial reporting should participate in the IASB's process of standard setting, might be questioned because we cannot find the widespread participation across different interest groups and geographic origins which is crucial (Kothari et al., 2010; Burlaud and Colasse, 2011; Larson and Herz, 2013; Dobler and Knosp, 2016). Beside input legitimacy, throughput legitimacy could be also weakened, because the deliberative discourse is perhaps only partially informed due to the missing participation of one of the major constituent groups. If the quality of the input suffers, the quality of the deliberation can be affected as well and thus the derived standards might be not adequate or biased. Table 4 presents the descriptive results.

**Table 4.** Constituent groups<sup>2</sup>

Constituents	Number of CLs	Input in pages	Input per CL
Preparers	1,544	10,754	6.97
Users	199	1,143	5.74
Equity investors	69	404	5.86
Academics	53	319	6.02
Individuals	77	420	5.45
Accountants	781	6,165	7.89
Regulators	616	4,809	7.81
Others	165	1,114	6.75

Source: author's own elaboration.

The number of pages sent per constituent group follows the results of the number of CLs per constituent. Preparers, accountants, and regulators dominate the information input provided. The differences between the various groups in the total number of pages are significant at the level of 1% (Kruskal-Wallis test;  $p = 0.000$ ). The average input per CL is highest for the accounting profession, which provides 7.89 pages per CL. Regulators also provide a great deal of information (7.81 pages per CL), followed by preparers with 6.97 pages per CL. Individuals provide the lowest average information input per CL (5.45 pages). On the one hand, that could be caused by less knowledge and expertise for financial accounting and the standard setting process in comparison to the other constituent groups. On the other hand, the abovementioned user-preparer imbalance, which is also present in the average input provided per CL, could be the result of fewer incentives for users to participate in the due process or the thinking that their comments will have no impact or will not be adequately considered in the process.

### *Geographical differentiation*

We also differentiate the results regarding the continent where the CL was sent from. Most CLs come from Europe (1,374 CLs; 41.57%), and countries of the European Union (38.73%) dominate the responses. So, there is still substantial participation in the EU but the participation rate is slightly lower in comparison with previous studies (Larson and Herz, 2013). North America (976 CLs; 29.53%) follows Europe in the due process participation. The results show that 71.10% of the CLs are sent by those two continents, which indicates that the standard setting process is dominated by only two regions in the world. Other huge regions, like South America (3.42%) or Africa (3.57%), have only a low participation rate. The reason for this might be e.g. that Africa has

<sup>2</sup> Authors of CLs which cannot be properly assigned to one of the displayed constituent groups are coded in the group "others". That reduces potential biases in the mapping.

a wide spectrum of countries and the accounting capacity in them varies from one country to another, just like the adoption of IFRS (IFRS, 2011). Despite the low participation ratio of Africa in total, some countries like South Africa provide substantial input and participate in the due process (51 CLs; 467 pages). Moreover, participation is at a similar level for some European countries like the Netherlands (49 CLs; 522 pages) or Sweden (57 CLs; 269 pages). This can be explained by the obligation of South African companies to be listed on the Johannesburg exchange to be in full compliance with IFRS since 2005 (Ames, 2013). Therefore, constituents of South Africa have a strong incentive to participate in the IASB's due process because they are affected by the standards. The results of the geographical analysis are presented in Table 5.

**Table 5.** Constituents' participation per continent<sup>3</sup>

Constituents	Number of CLs	Input in pages	Input per CL
Africa	118	916	7.76
Asia	513	3,509	6.84
Europe	1,374	10,785	7.85
EU	1,280	10,194	7.96
North America	976	6,451	6.61
US	721	4,882	6.77
Oceania	173	1,265	7.31
South America	113	633	5.60

Source: author's own elaboration.

If we focus the analysis on the information input provided by region, we find similar results to the participation rate. The main information input comes from Europe and North America. The differences regarding the input provided between the regions are significant at the level of 1% (Kruskal-Wallis test;  $p = 0.002$ ). The average input per CL reveals that countries from the EU offer the highest information input per CL (7.96 pages). Surprisingly, countries from Africa and Oceania, despite the low participation rate (number of CLs), provide a higher information input per CL.

We also analyze the portion of certain countries in the due process. More than half of the responses (55.13%) are sent by only five countries – the US (21.82%), the UK (16.88%), Canada (6.90%), France (4.78%), and Germany (4.75%). That finding is similar to a previous analysis for the period of 2001 to 2008, where seven countries aggregated 55% of the responses (Larson and Herz, 2013). The large rate for the US can be explained by joint projects between the IASB and the FASB, like the revenue recognition project (ED/2011/6), and the development of the new leasing standard (ED/2013/6). Half of the responses (50.84%) for ED/2013/6 *Leases* come from the US,

<sup>3</sup> 38 CLs (1.15%) could not be properly mapped to a certain country and were excluded from the table.

for example. That result confirms again the logical conjecture that constituents participate when they are especially affected by the norms. It must be viewed critically that 55.13% of the responses come from only five countries. If we think about the large impact of accounting norms on societies around the world, it is surprising that only five countries dominate the standard-setting process to such an extent. For both the gaining of input legitimacy and an informed discourse, a greater variety of participating countries would be desirable.

## 5.2. Regression results

We had to reduce the sample size for our regressions because we do not have the relevant data for some countries. In particular, Hofstede's cultural factors are not available for all countries. In total, we excluded nine countries because of missing information, which reduces the number of CLs by about 61 (1.85%) and the number of pages by about 617 (2.57%). The regression analysis, thus, covers 3,242 CLs and 23,368 pages from 60 different countries in the period from 2011 to 2014.

We can demonstrate a significant positive influence of the economic development of a country on the number of CLs. Both variables (GDP and MAC) have the expected sign, but only the equity market capitalization is significant at the level of 1%. This finding seems consistent with the IASB's focus on the information needs of the capital markets. Countries with a higher equity market capitalization participate more in the due process because they are more affected by changes in the accounting system. We can confirm hypotheses 1 with our analysis. Most of Hofstede's cultural factors do not have the expected sign for the regression coefficients and are not significant. Only the individualism variable (IDV) has the expected positive sign for the regression coefficient, which fits our theoretical explanations, and this variable is, in addition, highly significant (1% level). It seems to be that the high levels of constituents' involvement in a domestic political system are also reflected in high levels of constituents' participation in the IASB's due process. The cultural factor power distance (PDI) is significant at the level of 10%, but the sign of the regression coefficient is not negative. That means that countries with a higher power distance participate more in the due process, which is not in line with our theoretical thoughts.

In comparison with previous studies, we can confirm their results with regard to economic and cultural influences on participation in the due process (Larson and Herz, 2013; Dobler and Knospe, 2016). We extend their results for another period and an additional control variable (LAW). We control for the type of legal system which is predominant in the country and assign 1 point if the country is a code law country. Our regression results confirm the expected relationship. The regression coefficient is negative, which means that code law countries participate less in the due process. This finding is in line with the assumption made in the theoretical part of our paper. Additionally, the regression coefficient is significant at the level of 5%. Due to the fact that we can only find the expected relationship and the highly significant influence of IDV

and not the other three cultural characteristics (PDI, MAS, and UAI), our results support Hypothesis 2 only in terms of individualism. The analysis of the standardized beta coefficients shows that the highest impact on the dependent variable comes from our economic variable MAC (0.659), followed by the cultural factor IDV (0.308) and LAW (-0.168). So, the main influence factor for participation in the due process is the economic development of a country and cultural aspects only play a minor role. Table 6 shows the results of the analysis.

**Table 6.** Regression results for the country-specific participation and information input

	Expected sign	CL_Country		Input_Country	
		Beta	p-value	Beta	p-value
Intercept	?	-139.500**	0.031	-1,166.699**	0.023
GDP	+	8.727	0.122	63.837	0.132
MAC	+	1,727.361***	0.000	11,867.44***	0.000
PDI	-	0.551*	0.082	3.783	0.156
IDV	+	1.505***	0.005	11.295***	0.009
MAS	+	-0.029	0.931	0.581	0.833
UAI	-	0.337	0.257	3.069	0.210
LAW	-	-43.192**	0.012	-286.426**	0.020
IFRS_COMP	+	-20.997	0.266	-95.390	0.494
IFRS_PERM	+	-21.685	0.278	-89.766	0.540
LANG	+	34.987	0.232	276.058	0.230
Adjusted R <sup>2</sup>		71.78%		64.54%	
F		42.71***		22.23***	
N		60		60	

Notes: \*\*\*, \*\*, \* Significant at the levels of 1%, 5% and 10% respectively. Robust standard errors were used to calculate the level of significance. All variables are defined in Section 5. F represents the F value of the regression model and N is the number of observations in the regression analysis.

Source: author's own elaboration.

We also analyze the influence of economic and cultural factors on the information input provided by the different countries' constituents. As for the participation model, we can also demonstrate the significant impact of economic development on the dependent variable (the number of pages provided by a country's constituents). The variable equity market capitalization (MAC) has the expected positive sign and is significant at the level of 1%. The results also support Hypothesis 1. Countries which have a higher

economic development measured by equity market capitalization not only participate more, they also provide more information input for the due process and therefore they enrich the standard setting discourse. If we interpret the number of pages sent to the IASB as a proxy for the quality of responses (Hansen, 2011), those countries provide a higher quality of information input which can again be explained by the circumstance that they are more affected by the standards.

Only the cultural factor of individualism (IDV) is significant in our second model (level of 1%). The other three factors are non-significant, and for two of them (PDI and UAI), the regression coefficients do not have the expected sign. Therefore, we can only confirm Hypothesis 2 in terms of individualism. High levels of constituents' involvement in a domestic political system are also reflected in high levels of constituent information provision in the IASB's due process. The type of predominant legal system is again a significant explaining factor (level of 5%). Code law countries provide less input in the due process, which can be explained by less experience of the constituents for such processes and a different understanding of how legal, and subsequently accounting standards are made. The analysis of the standardized beta coefficients in this regression shows that the highest impact on the dependent variable comes again from the economic variable MAC (0.619) followed by the cultural factor IDV (0.316) and LAW (-0.153).

Both models are significant at the level of 1% and have a very high explanatory power with an adjusted  $R^2$  of 71.78% for the participation model and 64.54% for the information input model. So, both models explain a large portion of the variation in country-level participation and information input. We checked the regression assumptions and cannot find any violations. The variance inflation factors are between one and three, so there is no multicollinearity problem as mentioned in previous studies (e.g. Larson and Herz, 2013). We used robust standard errors for calculating the level of significance, which avoids problems with heteroscedasticity. We used the Durbin-Watson coefficient to control for autocorrelation of the residuals. The values are close to two, which implies that there is no autocorrelation. To check for outliers we used a multivariate analysis (anomaly detection) in SPSS which displayed no outlier problem.

## Conclusion and future research

Setting widely accepted international financial accounting standards is a difficult task and meeting the expectations of different parties is more complicated at the international level than at the national one. The IASB, as the global standard-setter in the world, faces this dilemma. One way to solve this problem is the integration of the constituents' views and thoughts by using the due process as actually implemented in international accounting standard setting. The main aims are thereby to better inform the standard setting discourse and to gain legitimacy of the standard-setting process. The participation of constituents is therefore crucial.

In this study, we analyse the constituents' formal participation in the IASB's due process and try to understand what factors affect this. We focus our empirical research on the period 2011–2014 and use a content analysis of CLs to gather the relevant information.

The results of the research allow us to state that participation in the due process is still low and is not commensurate with the huge impact that accounting norms can have on societies and their constituents. In addition, we can demonstrate substantial imbalances in the representation of the different constituent groups. Preparers, accountants, and regulators dominate the participation in the due process, while users are underrepresented. Those imbalances can also be shown in the geographical analysis of the participation in the IASB's due process. The number of participating countries is limited and only five countries dominate half of the CLs sent to the IASB in this period.

There are a lot of possible explanations for the lack of widespread participation, e.g. a lack of knowledge/expertise, interest, or financial resources etc. With regard to this situation, one could argue that, currently, only interested stakeholders are involved in the due process, which leads to a better quality of the input and to a higher legitimacy of the output. But several points can be addressed against this issue. First, despite the lack of knowledge and resources, etc. all constituents who have to apply IFRS in their financial statements are affected by the future standards. So, from their point of view, participation is crucial because they can enrich the discourse, or at least they can try to prevent an undesirable result. Second, financial resources do not play a significant role, only the time spent, and no additional costs arise. Third, if constituents are not part of the standard setting process they will hardly accept the derived norms (Luthardt and Zimmermann, 2009), but acceptance is a crucial element for the standards' legitimacy. Habermas' ideal discourse, or an approximation of it, seems hardly attainable because the deliberation is only partially informed. Moreover, a due process with only interested constituents can be affected more strongly by lobbying procedures, which can lead to biased standards and a lower acceptance.

The analysis of influence factors on country-specific participation reveals that, in particular, economic development (equity market capitalization) and the type of predominant law in the jurisdiction (common law) have a significant positive influence on the participation and the information input provided. In contrast, cultural factors seem to play a minor role as only one of Hofstede's four analysed cultural factors – the individualism in a country – has a significantly positive influence on the country-specific participation.

The study which we propose in this paper is not free from limitations. (1) We only cover a limited period of investigation and certain projects during this time. An extension of the covered period can give further insights. (2) Our analysis is only focused on CLs because we think this is the main method used by the IASB to receive input from its constituents and to gain input legitimacy. Perhaps analyses for other information channels and procedures of the IASB would reveal different results. (3) We used proxies for the economic development and cultural factors of a country. Despite the huge

explanatory power of the models, additional variables or other proxies can alter the empirical results. (4) The content of particular CLs is not part of the analysis but can help one to gain additional insights into the quality of responses.

Despite the abovementioned limitations, we believe that our study has several potential theoretical and practical implications. It confirms the results of previous studies in this field (Larson and Herz, 2013; Jorissen et al., 2013; Dobler and Knospe, 2016) and shows that constituents' formal participation in the IASB's due process is still low. The IASB, as well as its constituents, not only gets feedback about current participation (number of submitted CLs) but they also receive data about the information input which can be used as a proxy for the quality of the responses. The analysis of potential influence factors on participation provides additional insights, which drives the participation and offers opportunities to explain and also to change the current behaviour of constituents.

Finally, since we believe that the problem of constituents' participation in the process of setting global accounting standards is an important and interesting field of scientific inquiry, we propose some avenues for future research. First, the volume and geographic diversity of stakeholders involved in the global accounting standard-setting process is an important indicator of legitimacy, while at the same time the incentives for constituents to participate in the current due process are low. Future research should look for proper means to achieve broad participation in the standard-setting process, as already proposed for academics as one constituent group. Attention should also be paid to how to motivate developing countries' representatives, who are also affected by the standards, to participate in the due process. Second, alternative ways besides due process should be evaluated regarding gaining input legitimacy and producing a well-informed discourse which leads to adequate accounting standards. Third, other research methods, such as surveys or semi-structured interviews, could be applied to investigate how constituents feel about the IASB's due process and why they do not respond to the IASB's calls.

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**Appendix. IASB Projects and comment letters**

<b>IASB project</b>	<b>Number of comment letters</b>
Comprehensive Review IFRS SME	85
DP/2014/2	124
ED/2011/1	164
ED/2011/4	170
ED/2011/5	38
ED/2011/6	371
ED/2011/7	64
ED/2012/1	84
ED/2012/4	168
ED/2012/5	101
ED/2012/6	66
ED/2012/7	70
ED/2013/10	59
ED/2013/3	188
ED/2013/5	101
ED/2013/6	657
ED/2013/7	203
ED/2013/9	56
ED/2014/1	118
ED/2014/2	79
ED/2014/3	69
ED/2014/6	112
PIR IFRS 3	95
PIR IFRS 8	63
<b>Total</b>	<b>3,305</b>

