To the Graduate Council:

I am submitting herewith a dissertation written by Gwendolyn Richardson Pate entitled "A Test of the Theory of Management's Preferences for Accounting Standards: Evidence from FASB Statement No. 94." I have examined the final copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, with a major in Business Administration.

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A TEST OF THE THEORY OF MANAGEMENT'S PREFERENCES FOR ACCOUNTING STANDARDS: EVIDENCE FROM FASB STATEMENT NO. 94

A Dissertation

Presented for the

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Degree

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ABSTRACT

The primary objective of this study is to examine the motivations of managers in the accounting standard setting process through the joint consideration of political and economic consequences theories. Prior lobbying studies have used direct economic consequences models derived from the positive theory of Watts and Zimmerman (1978). The major premise underlying the design of this study is the inadequacy of these models in determining the decision to lobby and the position choice decision made by corporate managers. In particular, the positive theory does not adequately explain the existence of lobbying by managers who are not directly affected by a proposed accounting standard. This study introduces the multi-period political aspects of these decisions by considering the past lobbying behavior of managers.

The research objectives are accomplished within the context of lobbying on SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." The SFAS No. 94 lobbyists and companies with unconsolidated finance-related subsidiaries comprised the sample of 230 used in the study. These companies were segregated into groups based on a lobbying frequency classification. Financial data were collected

from COMPUSTAT, annual reports, proxy statements, and various Moody's Manuals. Hypotheses were developed concerning differences between the lobbying frequency groups. These hypotheses were tested by using the univariate Wilcoxon-Mann-Whitney test and a chi-square test. Additional hypotheses were generated to test extant lobbying theories. For the tests of these hypotheses, logit models were developed and tested.

The major conclusions of the study indicate the existence of significant differences in corporate characteristics between the frequent lobbyists and the infrequent lobbyists. In addition, frequent lobbyists tended to select different position choices from the infrequent lobbyists. These results imply that some firms may have a policy of lobbying, i.e. some managers will lobby even if the proposed standard does not appear to directly affect them. For these firms, only the position choice decision needs to be made. Therefore, the two decisions may not be independent. The research findings may have implications for the FASB's assessment of the economic consequences of proposed accounting standards.

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CHAPTER 1

INTRODUCTION

In the United States the process of setting financial accounting standards has been delegated to the private sector, the Financial Accounting Standards Board (FASB), while enforcement largely resides in the public sector with the Securities and Exchange Commission (SEC). A political environment exists in which the FASB's responsibility for establishing reporting standards depends critically on its ability to secure the confidence of Congress, the SEC, and private sector organizations affected by SEC reporting requirements. The political environment of standard-setting helps explain the FASB's procedures, particularly its attention to due process. This attention results in opportunities to communicate with the FASB at various stages in a standard's development. Invitations to comment issued by the Board inevitably lead to lobbying. In the past ten years, the accounting literature has speculated about the motives of various participants in lobbying before the FASB.

Lobbying activities are generally thought to provide a basis for predicting the economic consequences of a proposed change in accounting policy. Theories developed in this area attempt to explain both the decision to lobby and the position (oppose or support) taken by those who choose to lobby. Tests of these theories are part of a larger effort to develop a comprehensive theory of accounting method choice.

Watts and Zimmerman (1978) advanced one of the first theories to explain lobbying behavior within an accounting context. They suggested that the effect of a proposed accounting standard on management's wealth would explain position choice. Their positive theory argues that a manager's utility is affected by a change in accounting standards when that change results in a modification to the reported financial statements.

Another theory that attempts to explain lobbying behavior is based on a voting model developed by Anthony Downs (1957) and may be termed a theory of political decision making. This theory focuses directly on the decision to lobby. As such, it also views corporate managers as self-interested utility maximizers, but in addition to the utility effects of the change in the accounting standard itself, it posits other considerations. These considerations include a manager's perceived ability

to influence both the outcome of the standard-setting process and the continuance of the existing standard-setting process.

To date, studies of lobbying behavior in the accounting standard-setting process have provided mixed results. These conflicting results have been caused by both methodological problems and the lack of a well-developed model of management's role in the accounting choice and standard-setting process. Yet, Kelly (1983) likened the status of this line of research to the initial development of efficient markets research, in which an interplay between empirical studies and conceptual foundations led to steady progress. More recently, in a theoretical paper focusing on the nature of those who lobby, Lindahl (1987) acknowledges that research in this area is difficult and finds that important issues have been overlooked. He further asserts that by taking note of some of these issues, future empirical work may yield even richer insights.

Prior to 1987, lobbying studies had primarily focused on either position choice or participation choice using models developed from the Watts and Zimmerman (WZ) theory. Saemann (1987) examined both choices using the pension issue. She used the WZ model for position choice, but she also surveyed firms that had chosen <u>not</u> to lobby in an attempt to test the Downs theory as applied to participation

choice. Although she had hypothesized that a manager would first take a position on a proposed accounting change and then decide whether or not to file a comment letter, her results suggested that a manager's position choice was dependent upon participation choice. In other words, a manager may first decide whether to file a comment letter and then determine what position to take. While a difference in ordering may not affect the relationships between position choice and agency variables, it would have design implications. In particular, if a manager's position choice is dependent upon the decision to lobby, it would be necessary to control for participation choice when examining position choice models.

Objective of the Study

The primary objective of the study is to examine the motivations of management in the accounting standard setting process. Joint consideration of the political motivation of the Downs theory and the economic consequences motivation of the Watts and Zimmerman positive theory leads to a hypothesis that systematic differences exist within the group of firms that lobby on a particular accounting standard. These differences may help to explain why Saemann found that the decision to lobby may precede the position

choice decision. To test this hypothesis, this study explores a different grouping of firms--a grouping that has not been used in any prior study. Firms are divided into those that appear to regularly file comment letters on major pronouncements and those that do not.

Differences within the group of lobbyists would have possible implications for accounting standard setters. For example, King and O'Keefe (1986) assert that comment letters provide the FASB with three types of information. First, the importance of the proposed standard to affected firms may be reflected by the number of comment letters, the positions taken, and the intensity of those positions. Second, the FASB may gain insight into the reasons why a standard is opposed or supported. Third, information useful for assessing the economic consequences of the standard may be gained if lobbyists describe the actions they will take if the standard is passed. Yet, if differences exist within the group of lobbyists due to the presence of a political motivation for lobbying rather than a pure economic consequences motivation, then the assessment of those economic consequences may not be as straightforward as it would appear.

A secondary objective is to derive a better test of the variables derived from existing theory, particularly those used in prior lobbying studies, such as variables that

attempt to capture the agency costs of debt. This objective is achieved in two ways--by use of a new variable measurement for leverage and through the selection of the lobbying issue used in the study.

Both research objectives are accomplished within the context of lobbying on the Exposure Draft for Statement of Financial Accounting Standards (SFAS) No. 94, "Consolidation of All Majority-Owned Subsidiaries." The following section provides details about this standard, a general discussion of the financial statement effects of an unconsolidated subsidiary, and the motivation for the use of this standard in the study.

Background and Use of SFAS No. 94 in the Study

Background of SFAS No. 94

The FASB issued SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries," on October 30, 1987. The standard amended Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," by eliminating the "nonhomogeneity exception" which allowed many majority-owned subsidiaries to be reported in the consolidated financial statements using the equity method when their operations were significantly different from those of the parent. The nonhomogeneity exception had become the basis used to

exclude from consolidation the greatest number of majority-owned subsidiaries. These excluded subsidiaries had commonly been finance related, real estate, or foreign subsidiaries. Finance related subsidiaries include credit, insurance, leasing, and banking subsidiaries of manufacturing and merchandising enterprises. Thus, SFAS No. 94 represents the FASB's continuing attempt to address the issue of "off-balance-sheet financing" begun with the leasing and pension pronouncements.

Because SFAS No. 94 represents a proposed change that does *not* affect the determination of net income, it might at first glance be considered primarily a "cosmetic" mandated change. While it would seem that sophisticated users of financial statements could perform a pro-forma consolidation from the disclosures required by Accounting Principles Board Opinion No. 18, Mohr (1988) found some key deficiencies in financial statement disclosure practice. Indeed, the FASB expressed its concern about the same issue in its basis for conclusions of SFAS No. 94: "...transactions between affiliates and intercompany receivables and payables often make it unlikely that 'do-it-yourself' consolidation can adequately approximate debt-equity ratios in consolidated financial statements provided by the enterprises themselves" (para. 40).

In addition, some analysts in the financial press expressed concerns with the proposal. Lee J. Seidler of Bear, Stearns and Company predicted that consolidation would lower rates of return on assets and damage debt/equity ratios (Randall, 1987). It was further stated that "Bear, Stearns expects companies will sell or otherwise dispose of interests in these subsidiaries (p. 14)."

Preparers also expressed concerns with the proposal. The FASB received 232 comment letters in response to the SFAS No. 94 Exposure Draft. In these letters managers who opposed the standard outnumbered those who supported it by an almost two-to-one margin (Larsen, 1987). Perhaps the following discussion of the financial statement effects of having an unconsolidated subsidiary will help to explain why many managers were opposed to the issuance of SFAS No. 94.

Financial Statement Effects of a Separate Subsidiary

Livnat and Sondhi (1986) theoretically derive the effects of consolidation of finance subsidiaries on the financial ratios debt-to-equity and return on assets. They demonstrate that an understatement of both assets and liabilities occurs in the equity method balance sheet of the parent because only the net assets of the subsidiary are shown as an asset and no subsidiary liabilities are reported. Through the use of Statistical Decomposition

Analysis, they test and confirm the assertion that the balance sheet of the parent after formation of an unconsolidated finance subsidiary is more stable than the balance sheet prior to formation. Balance sheet stability is defined in terms of a change in the proportions of its various components. The authors conclude that this greater stability results in a reduction of the probability of exceeding limits imposed by bond restrictions in the form of financial ratios.

Benis (1979) investigated the consolidation policy decision by using ratio analysis. The study computed the current ratio, debt-to-equity ratio, and return on assets for twenty-one firms over a two year period. The ratios were compared after being computed using both the equity and full consolidation methods of accounting for finance subsidiaries. While current ratio comparisons provided mixed results, comparisons of both remaining ratios revealed improvements when the equity method was used. The effects on these ratios may have affected the decision to apply the nonhomogeneity exception allowed by ARB No. 51.

Other ratios may be affected by the manner in which a corporation reports the income from its unconsolidated subsidiary. In their study of twenty-five finance subsidiaries, Burnett, King and Lembke (1979) found at least six different approaches to reporting the income from these

subsidiaries. Five of these consisted of variations of the equity method while the sixth approach was full consolidation. The variations of the equity method are:

A. Equity in the net income of a finance subsidiary is included in revenues in the consolidated income statement.

B. Equity in the net income of a finance subsidiary is included in "other income" above tax expense in the consolidated income statement.

C. Equity in the net income of a finance subsidiary is shown separately and below net income for consolidated continuing operations.

D. Equity in the pretax income of a finance subsidiary is reported in consolidated revenues, with the finance company's tax expense included in consolidated tax expense.

E. Equity in the pretax income of a finance subsidiary is reflected as a reduction in consolidated interest expense, with the finance company's tax expense included in consolidated tax expense.

The authors found that these varying presentations had effects on the coverage of fixed charges ratio, the pretax profit margin, and the income tax rate. The most dramatic effect occurred in the difference between full consolidation and method E above on the coverage of fixed charges ratio computed for a hypothetical company. The consolidated value for this ratio was 3.86 while the ratio value using method E to report the subsidiary was 11.00. The Burnett et al. study illustrates that although net income remains the same whether using the equity method or consolidation, the

details of the income statement are not consistent across reporting firms.

While no prior study has specifically explored the effects of a firm's consolidation policy on the statement of cash flows, there would appear to be some impact. Rue and Tosh (1987) state that certain classification differences may result which could be significant to some financial statement users. For example, the transfer of receivables from a parent to the subsidiary will increase cash flow from operations for the parent. But if the receivables take several years to be collected, it will take several years for the cash from operations to reconcile with what was reported. Furthermore, if the finance subsidiary has borrowed to purchase the parent's receivables, the cash flow to the economic entity results from a financing activity but will appear to come from operating activities.

Motivation for the Use of SFAS No. 94

All of the prior lobbying studies used mandated changes which affected the determination of net income. Because the implementation of SFAS No. 94 does not affect net income, the existence of lobbying behavior directed at this issue may provide an extension to extant lobbying theories. Specifically, relating the agency variables used in prior studies to the lobbying on this issue may better capture the

bonding and monitoring costs that comprise the agency costs of debt.

Research Methodology

The methodology used in this study consists of the identification of firms with unconsolidated finance related subsidiaries, an analysis of the submissions made to the FASB by those firms that lobbied on SFAS No. 94, and the application and testing of both the Watts and Zimmerman (1978) positive theory and the Downs (1957) political theory. Logit models are developed to test both the decision to lobby made by those firms with unconsolidated subsidiaries and the position choice taken by those firms that lobbied on this issue. Quantitative data representing the variables of the models are collected from Standard and Poor's Compustat Industrial Files (Compustat), various Moody's Investors Service manuals, as well as from 10-K reports and annual reports.

Lobbying on the proposed standard in the form of filing comment letters occurred during the first part of 1987. Financial data from 1985 and 1986 have been averaged and used in the study for two reasons. First, firm managers may have anticipated the passage of this standard and made some preliminary adjustments to offset the effects of compliance.

Second, some possible measurement error may be reduced if 1986 were, for some unknown reason, an atypical year.

To define the group of firms that regularly lobby on major pronouncements, the FASB provided the names of companies that filed comment letters on twelve exposure drafts relating to ten recent major pronouncements. A list of these exposure drafts appears in Appendix A.

Contributions of the Study

As previously stated, lobbying studies are part of a larger effort to understand accounting method choice. Yet the results of studies in this area have provided mixed results at best. The jointly maintained hypotheses in these prior studies are:

1. Managers maximize their own wealth; and
2. Firm lobbying is undertaken as part of management's wealth maximization effort (King and O'Keefe, 1986).

In other words, lobbying takes place when a proposed standard is perceived to have economic consequences. This study hypothesizes that an important factor has not been considered in these prior studies, namely consideration of a politically motivated long run participation value. The omission of this factor may have contributed to the mixed results of prior studies. The presence of this omitted factor may explain why, for some managers, the decision to

lobby is made before a position is decided upon. It may also explain why lobbying occurs even when there are no apparent direct economic consequences to the lobbying firm. Therefore, this study contributes to the accounting literature through its joint consideration of the positive theory of managerial lobbying behavior and the theory of political decision making. The linkage of the two theories occurs through the consideration of participation choice over time.

To the extent that the study replicates the methodology of prior studies but uses a proposed standard that had no income statement effects, the study contributes to the generalizability of the extant positive theory. Use of SFAS No. 94 with its seemingly "cosmetic" financial statement effects provides a more refined test of the bonding and monitoring costs associated with the agency costs of debt.

The use of variables that are new to studies in a lobbying context comprises an additional contribution of the study. The construction of a new variable (DEBT) represents a refined measurement of the agency costs of debt. Prior studies have used the debt-to-equity ratio as a proxy for these costs. The public debt/total debt variable has also not been used in any prior lobbying study.

Limitations of the Study

The study has several limitations. For the hypotheses testing of the decision to lobby, subjects chosen for the study include all firms that were identified as having unconsolidated finance related subsidiaries. Once identified the subjects were categorized as lobbyists or nonlobbyists based upon comment letters filed with the FASB. For the hypotheses testing of the position choice decision, subjects included all those companies that were identified as having filed comment letters on the consolidation issue. These subjects were categorized as supporting or opposing the FASB's new requirements. The subjects therefore self-selected into the groups. Due to the lack of random assignment of subjects into groups or even the random selection of subjects, threats to internal validity should be recognized.

Whenever proxies must be chosen to represent constructs, possible problems with reliability and validity arise. Reliability does not generally pose a problem because the measures of corporate attributes come from audited financial statements. However, construct validity, or the ability of a proxy to measure the construct it is intended to measure (convergent validity) and only that construct (discriminant validity), may still be of concern.

Finally, when modeling human behavior, the possibility exists that the models will be under- or over-specified. If this applies to the models used in the study, the power of the study has been reduced.

Organization of the Study

This chapter presented an introduction to the dissertation research study. Chapter 2 offers a review of research related to the study along with a discussion of the theoretical support for this research project. Chapter 3 provides a detailed description of the research methodology including the hypotheses to be tested. The data analysis and its results are described in Chapter 4. Chapter 5 presents the conclusions drawn from this study and discusses the implications of these conclusions.

CHAPTER 2

LITERATURE REVIEW

This chapter presents a review of research related to the present study. Lobbying studies may be considered a subset of the accounting choice literature, which is based upon the consideration of economic consequences. Accordingly, this chapter begins with a comprehensive review of the lobbying literature followed by a review of selected related studies within the accounting choice literature.

Lobbying Studies

The lobbying studies reviewed in this section are organized by subject matter. Within each topic, the studies are arranged chronologically.

Inflation Accounting

Watts and Zimmerman (1978), in the first published lobbying study, attempted to develop a theory describing management's motivation to engage in lobbying activities and to provide evidence on the factors that may influence

management's position choice on a proposed accounting standard. These factors included taxes, regulation, management compensation plans, bookkeeping costs and lobbying costs. The factors were combined into a corporate lobbying model which predicted that large firms that would experience a reduction in reported earnings due to a proposed standard would lobby in favor of the proposal. These large firms would do so because lowering earnings would result in benefits in the form of lower taxes, political goodwill, and regulatory relaxations. Other smaller firms would lobby and oppose the standard if additional bookkeeping costs justified the cost of lobbying because the expected benefits would be lower than the expected costs due to the standard.

The study considered lobbying positions on the discussion memorandum (DM) of general price-level adjustments, with 33 companies opposing and 18 supporting the change. To predict position choice, a discriminant function was estimated based on bonus payments, political costs, and tax effects. Firm size emerged as the only statistically significant variable. The authors concluded that their empirical results were consistent with their theory.

A replication of the Watts and Zimmerman inflation accounting lobbying study appeared in 1984 by McKee, Bell,

and Boatsman. These authors contested the validity of the WZ (1978) results primarily due to inappropriate statistical procedures. They argued that the existence of categorical predictor variables precluded the use of multiple discriminant analysis. They advocated use of a jackknife holdout procedure. In addition, they posited that lobbying positions taken in response to an Exposure Draft (ED) would be clearer than positions taken in response to a Discussion Memorandum because the DM is a "neutral" document in which the FASB generally does not take a firm position. After correcting the statistical procedure and using the ED responses, McKee et al. (1984) replicated the WZ study and concluded that the theory's classificatory power deteriorated significantly.

Interest Capitalization

Dhaliwal (1982) studied the effect of certain economic factors on the lobbying behavior of firms that submitted comment letters on the DM of SFAS No. 34, "Capitalization of Interest Costs." Dhaliwal theorized that political cost considerations and agency variables would explain position choice on this issue. Firms with higher leverage were expected to support capitalization while larger firms were expected to oppose capitalization. Dhaliwal's sample included 30 firms that opposed capitalization of interest

costs and 14 firms that opposed expensing of interest costs. Results of univariate tests and multiple discriminant analysis indicated statistically significant differences for the debt variable, with more highly levered firms opposing expensing.

Lasater (1982) also examined the decision to lobby and the position choice taken by managers who filed comment letters on SFAS No. 34. He used financial statement proxies for debt covenant costs, income tax effects, administrative compliance costs, political costs, and management compensation effects. His sample was divided into three groups: supported, did not lobby, and opposed. Logit models were used to separately predict position choice and participation choice. The debt-to-equity ratio proxy for debt covenant costs was the only individually significant factor in the position choice model, while the proxy for political costs was the only individually significant factor in the model of the decision to lobby. Based on these findings, Lasater concluded that the determinants of position choice and participation choice differ. He also concluded that his results provided support for the Watts and Zimmerman (1978) model.

Foreign Currency Translations

Firms that lobbied on SFAS No. 8 and SFAS No. 52, which both addressed accounting for foreign currency translation, were studied by Kelly (1982, 1985) and Griffin (1982, 1983). Kelly (1982) used agency theory constructs to explain management's opposition to the exposure draft for SFAS No. 8 and subsequent financing or operating decisions made to overcome the impact of the accounting change. Kelly's first hypothesis was that the two types of reactions would be related. The variables she used included proxies for incentive compensation, leverage, political costs, management's percentage of ownership, and the potential financial statement effect.

Hypotheses testing on Kelly's sample of 52 firms indicated no statistically significant relationship between the two reactions. The hypothesized corporate attributes were found to be associated with the manager's decision to lobby except for the proxy for the effect of SFAS No. 8 on the financial statements. Kelly concluded that a manager's decision to lobby may not be indicative of the proposal's impact on the financing or operating activities of the company the manager represents.

Using a different sample of firms, Griffin's 1982 study used different proxies for firm size and the financial statement effect of the proposed standard. However, his

results were consistent with those of Kelly (1982). Taken together, their findings suggest that the decision to lobby is associated with corporate attribute proxies for leverage position and firm size, but no association was found between the decision to lobby and corporate attribute proxies for a proposal's effect on the financial statements.

Kelly (1985) extended her previous study by using an expanded sample which included all firms that were forced to comply with the new standard. In this study, Kelly used a matched pairs design to control for firm size and she used a different proxy for the effect of SFAS No. 8 on the financial statements. The results indicated that after controlling for firm size and the magnitude of the potential effect, only management ownership was significant in explaining the motivation to lobby due to an expected income effect. Leverage was not significant for this study. Attributing this finding to the matched pairs design which controlled for firm size, Kelly concluded that future tests of agency hypotheses should be aware of the possible confounding effects of firm size.

Griffin (1983) extended his 1982 study by examining lobbying on SFAS No. 52. He used the same five corporate attribute variables from his earlier study, but he also included a variable for the impact of the accounting change on reported income. Results differed somewhat from his

prior study on SFAS No. 8. For those who lobbied on SFAS No. 52, leverage position was not as significant as it was in the earlier study. In addition, firm profitability was significant for those who lobbied on SFAS No. 52, but not for those who lobbied on SFAS No. 8. These differences suggest that a manager's perception of the costs associated with the two issues were not the same. The findings from Griffin (1983) provide support for the existence of a relationship between the decision to lobby and economic consequences associated with a proposed accounting change, however, the relationship may not be consistent between accounting issues or over time.

Pension Accounting

Francis (1987) analyzed lobbying on the FASB's 1982 Preliminary Views (PV) which first advocated a radical change in the accounting for defined benefit pension plans. Since the majority of respondents opposed PV (298 out of 319 corporate respondents), no hypotheses were offered concerning position choice. Instead the study addressed whether the potential for adverse financial statement consequences was associated with the decision to lobby in opposition to the proposed views. In general, lobbying firms were hypothesized to be larger and to have a

relatively larger pro forma negative impact on financial statements, independent of firm size.

Francis created variables to measure the impact of PV on both the balance sheet and the income statement. These variables, along with a size variable, were measured for the opposing lobbyists that had data on both the Compustat tape and the FASB 36 Tape of pension disclosures. The data restrictions resulted in 218 companies. In addition 582 nonlobbyists were identified from the same data restricted population. Empirical tests included both univariate and ANOVA tests as well as a multivariate logit analysis. Results indicated that potentially adverse financial statement effects are cross-sectionally independent of firm size and that both firm size and the potential for adverse consequences explain the decision to lobby.

Saemann (1987) also studied lobbying on the pension accounting issue, but she used the views of those companies that responded to the exposure draft. Her study provided a replication of prior research by examining the relationship between corporate attributes and manager position and participation choices. The study also used the political decison making theory of Downs (1957) to examine the relationship between a manager's stated expectations of the corporate costs associated with the ED and position/participation choices. In addition, the study

examined the relationship between manager perceptions of the FASB and the decision to lobby. Saemann also expanded the sample frame used in prior studies by surveying a random subset of firm managers who did not lobby on the pension accounting ED.

Saemann's findings suggest that on this issue, manager position and participation choices are not independent because comment letter filers tended to oppose the accounting change. Firm size and firm leverage were significant corporate attributes in the models of position and participation choices. In addition, her variables for stated manager cost expectations and perceptions of the FASB were related to the decision to lobby.

Accounting Choice Studies

Accounting choice research has been reviewed by Ball and Foster (1982), Holthausen and Leftwich (1983) and Kelly (1983). This body of literature primarily focuses on the identification of economic incentives that are associated with management's choice of accounting methods. Because lobbying also reveals a preference for specific accounting methods, the incentive to lobby is likely to be similar to that underlying the choice of accounting policies. Accordingly, in this section selected studies that offer

contributions to the present study are reviewed from this body of literature.

Accounting by Oil and Gas Producers

Dhaliwal (1980) extended the work of Watts and Zimmerman (1978) by examining the capital structure of the firm as a determinant of management's attitude towards accounting standards. He argued that the statistically significant size variable found in the WZ (1978) study could have been acting as a surrogate for variables which were omitted from the study. Dhaliwal contended that firms with large amounts of debt in their capital structure would lobby in support of a proposed accounting standard that would increase reported earnings and/or equity. These same firms would oppose any proposed standard that would decrease earnings or net tangible assets or that would cause fluctuations in reported earnings. Managers would behave in this manner because debt issues typically contain restrictive covenants which are often tied to earnings to prevent the debtor from unilaterally altering the credit risk. As a firm's leverage increases, the probability of technical default as a result of a change in accounting standards would also increase.

Dhaliwal (1980) tested his hypothesis by comparing the debt-to-equity ratios of a sample of oil and gas firms that

used the successful efforts method of accounting for exploratory and developmental costs with a sample of firms that used the full cost method. Results of the statistical tests confirmed his hypothesis. Dhaliwal (1980) measured the firm's debt-to-equity ratio by "dividing long-term debt by total equity" (p. 82, note 4). However, this measure of the firm's financial leverage may have been confounded by the firm's choice of accounting method (successful efforts vs. full cost).

King and O'Keefe (1986) conducted a study to determine if trading by insiders of firms that lobbied on the oil and gas accounting issue was consistent with their lobbying positions. They also compared the lobbyists' trading activities with the insider trading activities of non-lobbyists.

The researchers found that, on average, insiders of full cost lobbyists were net sellers and successful efforts lobbyists were net buyers, while non-lobbyists took opposite positions. Their results support the hypothesis that lobbying activity is correlated with management's expected wealth. The results are also consistent with the contention that comment letters to the FASB have information value, because they found that insiders traded on their personal account in the same direction that their firms lobbied.

Income Strategy and Accounting Method Choice

Zmijewski and Hagerman (1981) examined the effect of a firm's political visibility and income strategy on the corporate manager's decision to lobby. Four proxies (firm size, systematic risk, industry concentration and capital intensity) were used to measure political visibility. The researchers operationalized income strategy by examining the choices for inventory procedures, depreciation methods, investment tax credit methods, and the amortization period for past service pension costs. They classified the various combinations of choices along a continuum from most income increasing choices to most income decreasing choices.

Zmijewski and Hagerman hypothesized that firms with extreme strategies would be more likely to lobby because they would have less ability to counteract the effects of a mandated change. To test their hypothesis, they compared the Watts and Zimmerman (1978) sample of unregulated firms that filed comment letters on the inflation accounting issue with a random sample of 300 unregulated firms listed on the CRSP tape.

Results of comparing the two samples on the four political visibility factors and the income strategies confirmed their hypothesis that extreme income strategy followers were more likely to lobby. They also found that lobbyists tended to be larger firms, however they did not

find evidence to support the existence of a relationship between firm risk, industry concentration or capital intensity, and a manager's decision to lobby.

Summary

The above review of the literature illustrates the theoretical extensions, methodological improvements, and refinement of variable measurements that have characterized the body of lobbying studies to date. In addition certain studies from the accounting method choice literature which have provided variable contributions and theoretical justification for the present study were reviewed. Table 1 presents an overview of the findings of these studies.

The findings of the lobbying studies provide support for the theory relating the expected economic consequences of an accounting proposal to the decision to lobby and to the preference for (or against) a particular proposal. However, certain aspects of the findings of the various studies have been inconsistent. In addition, all of the prior studies addressed issues that had an impact on reported net income. The present study seeks to extend the generalizability of the results of these prior studies by addressing an issue, the consolidation of all majority-owned subsidiaries, that had its primary effect on the balance sheet rather than on the income statement. Furthermore,

Table 1. Summary of Prior Lobbying Studies

Topic/Issue	Dependent Variable(s)*	Sample Size	Significant Variables	Comments
Inflation Accounting				
Watts and Zimmerman (1978)	POS	51	SIZE	SIZE proxies for political costs.
McKee et al. (1984)	POS	51	SIZE	Corrects statistics and concludes W&Z's power deteriorates.
Interest Capitalization				
Dhaliwal (1982)	POS	44	DEBT/EQUITY	Uses agency theory to add leverage as an explanatory variable.
Lasater (1982)	POS/LOB	129/210	DEBT/EQUITY SIZE	D/E only significant for POS; SIZE for LOB.
Foreign Currency				
Kelly (1982)	LOB	52	COMPENSATION MGTOWN, SIZE DEBT/EQUITY	Fails to find a relationship between LOB and operating changes.
Griffin (1982)	LOB	598	DEBT/EQUITY SIZE	Uses 119 lobbyists and 479 non-lobbyists.

*POS=Position Choice and LOB=Lobbying Choice

Table 1 (continued)

Topic/Issue	Dependent Variable(s)*	Sample Size	Significant Variables	Comments
Griffin (1983)	LOB	452	SIZE	Measure of SIZE based on firm profitability; D/E not significant.
Kelly (1985)	LOB	170	MGTOWN	Controls for SIZE by matching
Pensions				
Francis (1987)	LOB	800	SIZE DEBT/EXPENSE	DEBT/EXPENSE proxies for financial statement effects.
Saemann (1987)	LOB/POS	257/117	SIZE DEBT/EQUITY MGT PERCEPTIONS	Only study to survey nonlobbyist positions.
Oil and Gas Accounting				
Dhaliwal (1980)	POS	113	DEBT/EQUITY	Applies capital structure hypothesis to oil and gas issue.
Income Strategy				
Zmijewski and Hagerman (1981)	LOB	351	SIZE INCOME STRATEGY	Compares W&Z sample to random sample; finds extreme strategy predicts LOB.

*POS=Position Choice and LOB=Lobbying Choice

this study provides consideration of theories from the political science area in conjunction with positive theories developed within the accounting literature to explain some of the inconsistent results of these prior studies. The following theoretical support section presents a discussion of these theories.

Theoretical Support

The Positive Theory of Managerial Lobbying Behavior

Economic consequences theories view corporate managers as self-interested utility maximizers. Therefore, a manager's position choice and decision to lobby on a proposed accounting standard are assumed to be driven by the effect of the proposed change on the manager's expected utility. According to agency theory (see Jensen and Meckling [1976]), a manager's utility is affected by a change in the value of the firm due to the existence of contracts between the managers and various owners and lenders. The economic effects of an accounting change are assumed to be derived from contracting costs associated with debt covenants, management and other employee compensation contracts, and monitoring costs associated with consumer groups, competitors, and government regulatory agencies. The magnitude of the effect of an accounting change on these

contracting and monitoring costs is expected to be determined in part by certain attributes of the corporation, such as firm size and leverage position.

A manager's position choice and lobbying decision may be represented in functional form as:

$$D_i = fn\ (c_1, c_2, \ldots c_k), \qquad (1.0)$$

where D_i denotes an individual manager's binary position choice or lobbying decision on an accounting proposal and c_k denotes the corporate attributes used to proxy for the hypothesized contracting and monitoring costs. Equation 1.0 represents the basic model that has been used in prior lobbying studies.

The Theory of Political Decision Making

Downs (1957) developed a positive economic model to explain political decision making that may be adapted to describe a manager's decision to lobby. Some similarities exist between this theory and the positive theory described in the previous section because both theories use economic models. For example, the Downs model is also based on the premise that every individual is a self-interested utility maximizer. Both theories hold that managers will evaluate the expected marginal effect of a proposed accounting change on their expected utility. Finally, both theories expect managers to make a cost versus benefit analysis as part of

the decision process. However, the theory of political decison making utilizes additional considerations of a manager's perceptions of various actions in reaching the decision.

In the Downs model, a manager will consider three factors in a single period setting (Sutton, 1984). First, a manager may evaluate the expected marginal effect of the proposed accounting change on his or her expected utility. Next, this expected marginal effect may be discounted by the manager's perceived ability to influence the standard-setting outcome. Finally, a manager may choose to lobby only if the joint consideration of the first two factors is greater than the costs of lobbying. The costs of lobbying include the time and effort required to research the accounting proposal, to determine its effects on the corporate financial statements, to write the comment letter, and so forth.

The functional form of the above model as adapted to standard-setting and abstracted from Gaa (1988) is:

$$R_m = P_m(B_{m(i)}+B_m) - ((V_m + I_m) - V_i) + D_m \qquad (2.0)$$

where R_m = the utility of a given action by manager m,
B_m = differential direct benefit to m from the success of m's most preferred alternative over his less preferred alternative
$B_{m(i)}$ = indirect benefits to m
P_m = probability that m's vote makes a difference in bringing about B_m
V_m = cost to m of lobbying
V_i = cost to investors, i, of lobbying
I_m = cost to m of obtaining information
D_m = psychic benefits to m of lobbying

In extending the model to a multiperiod setting, Downs argued that an individual may lobby even if the short-term benefits from doing so do not exceed the costs. This action is attributed to "long-run participation value" (LRPV)[1], which may be interpreted to mean that a manager may prefer the existing standard-setting process (the FASB) to some unknown alternative (possibly the public sector) which may be more costly. Therefore, the LRPV may be driven by economic consequences. In addition, the effect of the LRPV on the utility of the manager may be weighted by the perceived probability of affecting the continuance of the FASB by lobbying. Perfunctory lobbying may also occur if managers believe that lobbying will help to create a presence at the FASB and thus increase the chance that the

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[1]In Equation 2.0 above, the LRPV is a component of the D_m variable.

FASB will listen on future issues of possibly greater importance.

Summary

The positive theory of Watts and Zimmerman predicts both a manager's lobbying decision and position decision using financial characteristics that proxy for the economic consequences of a proposed accounting standard. However, the positive theory alone fails to adequately explain the existence of lobbying by those managers whose companies are seemingly "unaffected" by a proposed standard primarily due to its short-term orientation.

The political theory, as adapted from Downs and later extended by Gaa, predicts the lobbying decision and provides a possible explanation for the existence of lobbying efforts by "unaffected" managers. The presence of the LRPV factor implies indirect economic consequences in the long-run. Therefore, even if a particular proposed accounting standard does not directly affect a company in the short-run, that firm's manager may choose to lobby because of these indirect economic consequences attributable to the LRPV.

Joint consideration of the positive theory and the political theory suggests that all standards have potential economic consequences, either directly or indirectly (through LRPV). Yet, some managers choose *not* to lobby.

For these managers the costs of lobbying may outweigh the benefits.

In conclusion, both the positive theory and the political theory exhibit similarities. The two theories differ on the motivations that are assumed to drive a manager to lobby on a proposed accounting standard. Managers directly affected by a proposed standard are driven to lobby by a short-term focus on economic consequences. Managers that are not as directly affected may choose to lobby nevertheless as a result of a more long-term focus on economic consequences. The significance of these differences in orientation becomes important if it is assumed that the FASB considers lobbying activities in its assessment of the economic consequences that a proposed standard will have on affected constituents. If the motivation for lobbying is not a purely straightforward result of the economic effect that the proposal will have on a firm, then the assessment of economic consequences by the FASB may be unreliable. This study attempts to assess the extent of politically motivated lobbying by corporate managers. Hypotheses relating to this objective are developed in the next chapter along with a description of the research methodology used to test these hypotheses.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

This chapter begins with the development of the research hypotheses based upon the previous discussion of theoretical support. A description of the research methodology used to test the developed hypotheses follows.

Development of Hypotheses

One criticism of prior lobbying research is that it ignores the multiperiod orientation of lobbying. Amershi et al. (1982, p. 20) suggest that lobbying may be better characterized as a political process with multiperiod gaming strategies. Therefore, single-issue/single-period lobbying models may fail to fully capture the lobbying environment. This implies that a firm's lobbying position on any single issue may not necessarily reflect obvious self-interest. Rather, the aforementioned long run participation value or building a presence at the FASB may be operating as the primary incentive to lobby.

If these multiperiod incentives exist, they may be manifested by the existence of a corporate policy of lobbying on pronouncements. A preliminary review of the comment letters filed in response to the ED on SFAS No. 94 suggested that such a policy may be operating. The possible existence of this type of policy would lend support to the Saemann (1987) finding that the decision to lobby may precede the position choice decision.

As discussed previously, differences within the group of lobbyists would have possible implications for accounting standard setters. This study attempted to test for the possible existence of these differences by dividing the sample of companies into two groups: firms that appear to regularly file comment letters on major pronouncements and firms that do not. This dichotomy provided a link between the positive theory of managerial behavior and the theory of political decision making and led to the two major hypotheses of the study (all hypotheses are stated in the alternative form):

H_A1: The corporate characteristics of firms that frequently lobby on pronouncements differ from those of firms that infrequently lobby on pronouncements.

As an extension of the first hypothesis, interest is focused upon possible differences between the position choices of the frequent lobbyists versus the position

choices of the infrequent lobbyists. In this study, the position taken on SFAS No. 94 is of primary interest. Therefore, from the group of all companies that had been subdivided based upon frequency of lobbying activities, the SFAS No. 94 lobbyists were extracted. The use of only these companies allowed a test of the second major hypothesis:

> H_A2: The probable position choice of firms that frequently lobby on pronouncements differs from that of firms that infrequently lobby on pronouncements.

The remaining hypotheses for the study relate to the agency variable model which uses corporate characteristics to explain both position and participation choice. In all of these, the participation choice models use all companies in the study while the models for position choice focus on the SFAS No. 94 lobbyists only.

The corporate attributes used as proxies are derived from Watts and Zimmerman (1978, 1986), though other researchers have refined this set. Their 1986 theory essentially posits three main hypotheses: a size hypothesis, a bonus plan hypothesis, and a debt/equity hypothesis. Size is used to proxy for political costs while the existence of bonus plans and the magnitude of the debt-to-equity ratio proxy for monitoring and contracting costs associated with management compensation and debt covenants.

Restrictive covenants have been used in debt agreements to reduce a manager's ability to effect wealth transfers between debt and equity holders (Smith and Warner, 1979). These covenants generally use financial variables and set maximum limits for both leverage and dividend distributions. Leverage limitations are usually of two types: limits on long term debt to total assets, and limits on the interest coverage ratio (Daley and Vigeland, 1983). In addition Kalay (1979) found that firms with high debt-to-equity ratios were closer to technical default on their debt covenants. This motivated the following hypotheses:

H_A3: The greater a firm's leverage, the more likely a firm's manager will lobby.

H_A4: The greater a firm's leverage, the less likely a firm's manager will support SFAS No. 94.

In investigating the stock price changes associated with Accounting Principles Board Opinions 16 and 17, Leftwich (1981) examined differences between debt covenants of both public issues and private issues. He hypothesized that public issues are more costly to renegotiate than private placements due to higher default, redemption, and renegotiation costs. Public issues generally require a minimum of a two-thirds vote by debtholders to relax most restrictions (Watts and Zimmerman, 1986). A preliminary review of comment letters suggested that the implementation

of SFAS No. 94 would result in technical defaults on outstanding debt which would require renegotiation. Renegotiating public debt issues would likely result in greater costs compared to the renegotiation costs of private debt. In fact, Zinbarg (1975) argues that lower renegotiation costs constitute one of the major advantages of private debt issues. This suggested the following hypotheses:

H_A5: The greater the amount of a firm's public debt relative to its private debt, the more likely a firm's manager will lobby.

H_A6: The greater the amount of a firm's public debt relative to its private debt, the less likely a firm's manager will support SFAS No. 94.

Kelly (1985) used the percentage ownership of management as a corporate attribute to explain lobbying behavior on foreign currency translations. Justification for the use of this variable came from the agency theory of Jensen and Meckling (1976). Agency costs are, among other things, a decreasing function of the relative share of equity owned by a manager. The lower the percentage of a firm that a manager owns, the greater the incentive to expend resources to guarantee that certain actions which harm the principal's interests are not taken. These are monitoring and bonding costs which are additional elements of agency costs. The writing of debt covenant agreements is

an example of such a cost. In their discussion of the implementation of SFAS No. 94, some respondents indicated a concern with these types of costs. Therefore, the following hypotheses have been tested:

H_A7: The greater management's proportional ownership of the firm, the less likely a firm's manager will lobby.

H_A8: The greater management's proportional ownership of the firm, the more likely a firm's manager will support SFAS No. 94.

All of the prior lobbying studies have tested a hypothesis related to political costs. Various measurements of firm size have been used to proxy for these political costs. It is generally agreed, however, that size is a very "noisy" proxy. Ball and Foster (1982) point out that size has been used to proxy for many different and competing constructs. As a result, they assert that cogent arguments should accompany the use of this variable as a proxy for a particular construct. Most of the arguments advanced for size as a proxy for political costs state that large firms have an incentive to report lower earnings. To report higher earnings increases the risk of some type of political regulation. Implementation of SFAS No. 94 does not change reported earnings, therefore, size has not been used in this study as a proxy for political costs in the traditional sense. Instead, size is used as a proxy for the

consideration of lobbying costs vs. benefits as derived by the following arguments.

Sutton (1984) draws upon Downs (1957) and Olson (1971) to argue that lobbying will be concentrated among those who will be most affected by a proposed accounting standard, notably preparers as opposed to users. Lobbyists are also likely to be *larger* preparers due to the free-rider problem that exists because accounting standards are public goods (Lindahl, 1987). Like-minded nonlobbyists may enjoy the benefits of a lobbyist's efforts but do not share in the costs of such lobbying. Lobbyists therefore bear full costs but receive only a share of total benefits. This situation leads to the likelihood that lobbyists will be large firms for whom the proportion of benefits obtained from lobbying will be large enough to exceed lobbying costs. This discussion suggested the following hypothesis:

H_A9: The larger a firm, the more likely a firm's manager will lobby.[2]

Figure 1 presents an overview of the research design. The bottom portion of the figure portrays the traditional positive theory design. The top portion shows how consideration of the political theory impacts the traditional design. The linkage between the two theories

[2]The theory is silent as to the effects of size on position choice. Therefore, no position choice hypothesis is offered.

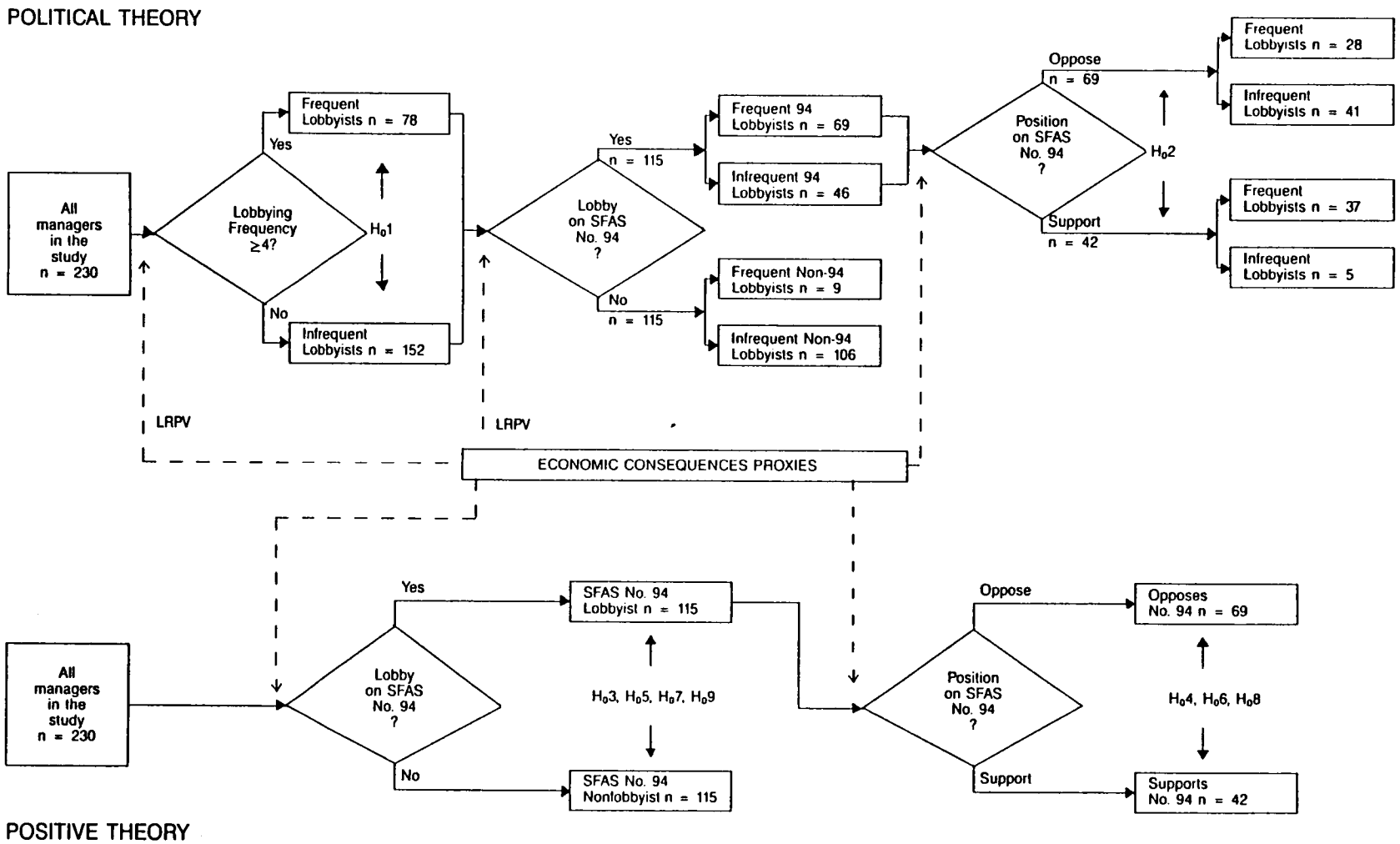

Figure 1. Overview of the Research Design

arises from the use of economic consequences proxies. The linkage is viable because both theories are based upon economic models as noted in the theory development section of the previous chapter.

As indicated in the figure, hypothesis one pertains to the differences between firms grouped according to lobbying frequency while hypothesis two relates to the differences in their position choice. Hypotheses three, five, seven and nine concern the decision to lobby on the consolidation issue. Hypotheses four, six and eight apply to the position choice decision.

The next section outlines the research methodology used to test the above hypotheses for the study. Topics presented in this section include: (1) definition of the dependent variables, (2) definition of the independent variables, (3) specification of the models, (4) description of the sample, (5) description of the data collection procedures, and (6) description of the statistical techniques employed to analyze the data.

Research Methodology

Dependent Variables

For the model of lobbying behavior, the dichotomous dependent variable LOBBY has been coded 1 if the manager

filed a comment letter on the Exposure Draft for SFAS No. 94 and 0 if not. For all companies in the study, the determination of this variable was based upon a submission index of the companies that filed comment letters obtained from the FASB.

For the model of participation choice, the dichotomous dependent variable POSITION has been coded 1 if the manager expressed support for the FASB's position on SFAS No. 94 and 0 if the manager expressed opposition to the standard. The determination of this variable was based upon a tally of the position choices expressed in the actual comment letters, copies of which were obtained from the FASB. Of the 126 comment letters filed and used in the study, two clearly expressed no preference, while the position choice of two others could not be clearly ascertained. These four were eliminated from the position choice portion of the study as the total number was considered too small to create a separate "neutral" category.

Independent Variables

Proxy variables for the theoretical constructs detailed in the hypotheses development section were constructed for use in the statistical models of lobbying choice and position choice. A description of each of these independent variables follows.

Leverage. For the tests of hypotheses three and four leverage has been defined as debt-to-assets and coded as LEV in the models. While the debt-to-equity ratio has been most commonly used in prior studies as a measurement of leverage, the Smith and Warner (1979) study of debt covenant agreements stated that a frequently used restriction involved limits on debt-to-assets. A second reason for the selection of debt-to-assets rather than debt-to-equity for the present study is that a few of the companies in the sample had negative amounts of equity. This made the debt-to-equity ratio negative and not as easy to interpret as debt-to-assets.

As previously mentioned, Kalay (1979) found that firms with higher leverage were closer to their debt covenant constraints. One would suspect that these firms would be more concerned with the possible costs of renegotiating various debt covenant agreements than would firms with lower leverage who are farther away from violating debt agreements. The second leverage measure (DEBT) represents a possible refinement of the construct for which the leverage measure proxies. It attempts to capture the magnitude of these agency costs of debt. In discussing these costs Leftwich (1981) states that the maximum reduction in the value of the firm is the lowest of the cost of: (1) renegotiation, (2) debt redemption, (3) loan default, or (4)

changing production, financing or investing decisions to avoid violating the covenants. These are admittedly difficult costs to measure. This study focuses on the development of a proxy to measure renegotiation costs. The selection of this particular aspect of the agency costs of debt was influenced by the possibility of technical defaults resulting from compliance with the provisions of SFAS No. 94 mentioned in some of the comment letters. Renegotiation costs are defined to include not only the out-of-pocket costs associated with drawing up a revised loan agreement, but also any extra interest payments the lender demands as a price for renegotiation (Leftwich, 1981, p. 8). These increased interest payments may arise if interest rates have risen since the original debt was issued.

Measurement of this variable involves first calculating an interest expense differential on public debt issues with stated interest rates below the average current interest rate defined by bond rating category. This represents the difference between interest expense calculated using the stated interest rate versus a current interest rate. Then the present value of this interest differential is computed using the opportunity cost of debt for the discount rate and the time to maturity for the number of periods. The opportunity cost of debt is defined as the yield-to-maturity for the specific debt issue multiplied by 1 minus the

corporate marginal tax rate. The method of computing the DEBT variable is shown in Figure 2.

Public Debt/Total Debt. The variable PUBDEBT is used to test hypotheses five and six regarding management's concern with the higher costs of renegotiating public versus private debt agreements. PUBDEBT is measured as the book value of public debt divided by the book value of total debt of the consolidated entity. Public debt is defined as debt that has been rated by Moody's Investors Service. None of the previous lobbying studies have investigated this variable as a possible determinant of managerial position choice or participation choice, though Leftwich (1981) used the variable in an investigation of stock price effects.

Percentage of Management Ownership. To test hypotheses seven and eight, the variable MGTOWN will be defined as the percentage of a firm's common stock owned by directors and key officers as a group. The measurement of this variable has been used in prior studies, notably by Kelly (1985).

Firm Size. Prior studies have generally used variations of two measures for firm size--sales or assets. Firm size as measured by sales was chosen for the test of hypothesis nine. The variable SIZE has been measured as 1986 sales deflated by the total sales of all COMPUSTAT firms within the same four digit SIC industry for 1986 (McKee et al., 1984).

For each debt issue j of company k:

I_S = Stated interest rate of debt j

I_C = Current interest rate[a] of debt j

FV = Face value of debt j

For each j, if $I_C > I_S$, then:

$Diff_K$ = Sum of change in interest payments

$$= \Sigma((I_C*FV)-(I_S*FV))$$

And,

$$DEBT = \Sigma\ Diff_K*((1-(1/(1+i)^n))/i)$$

where:

$$i = (YTM_j*(1-MTR))/2^b$$

YTM = Yield to Maturity
MTR = Marginal Tax Rate (46% for 1986)

$$n = (M_j-1986)*2$$

M_j = maturity date for debt j

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[a]Current Interest Rate is defined as the 12/31/86 average corporate bond yield by bond rating class from Moody's Bond Survey.

[b]Adjustment assuming semi-annual interest payments.

Figure 2. Computation of DEBT Variable

Specification of Models

The mathematical specification for the model used in the hypotheses testing for participation choice is:

$$\ln [p_i/(1-p_i)] = \Sigma \beta_j X_{ij}$$ [3]

where p_i = probability of lobbying for company i
β_j = parameter estimates for the j independent variables.
X_{ij} = independent variable values for company i.

A similar model will be used to test the dependent variable of position choice. In this second model p_i is defined as the position choice probability for company i. The independent variables, the X_{ij}s, are the same for this model with the exception of the exclusion of the SIZE variable for reasons mentioned in the hypotheses development section.

Sample Used in the Study

As previously stated, the primary objective of the study is to examine the motivations of management in the accounting standard setting process. Because SFAS No. 94 is the focus of this study, the sample includes all companies that filed a comment letter on this issue and/or all companies identified as having unconsolidated finance-related subsidiaries. These companies were included along

[3]Although p_i implies a number *between* 0 and 1, this study uses p_i = 0 or 1.

with the comment letter filers because they comprise the group that intuitively would seem to have been most directly affected by the proposed standard and would therefore appear to have a stronger motivation to present their views to the FASB.

Upon request, the FASB provided copies of the comment letters filed on the exposure draft for SFAS No. 94. Those comment letter filers identified as "industry" respondents (as opposed to "public accounting", "academic", etc. respondents) comprise the group of 125 lobbyists for the study. Firms with unconsolidated finance subidiaries were identified by Heian and Thies (1989) in a National Automated Accounting Research System (NAARS) search. To expand this initial sample of 182 firms to include those companies with finance-related subsidiaries (including leasing, insurance and banking subsidiaries as well as the finance or credit subsidiaries) a similar NAARS search was conducted. This search also served to further validate the Heian and Thies results. The subsequent search produced an additional 60 companies with finance-related subsidiaries. Throughout the remainder of the study the term "finance-related subsidiaries" refers to finance, leasing, insurance, and banking subsidiaries collectively.

To conduct the tests of the two main hypotheses of the study, all companies in the sample were divided into two

main groups: those that regularly lobby on major pronouncements and those that do not. To arrive at this distinction, the FASB provided the names of companies that filed comment letters on twelve exposure drafts relating to ten recent major pronouncements. A list of these exposure drafts appears in Appendix A. The analysis of the data received from the FASB along with the decision rule used to make the distinction between the two groups will be discussed in detail in the next chapter.

Data Collection Procedures

The data needed to conduct the research was dependent in part upon the timing of the lobbying that occurred on SFAS No. 94. The exposure draft, issued in December of 1986, had a comment letter deadline of April 14, 1987. The final standard was issued on October 30, 1987. Lobbying on the proposed standard in the form of filing comment letters occurred during the first few months of 1987. Therefore, financial data from 1986 was of primary importance. However, data from 1985 and 1986 have been averaged and used in the study for two reasons. First, firm managers may have anticipated the passage of this standard and made some preliminary adjustments to offset the effects of compliance. Second, some possible measurement error may be reduced if 1986 were, for some unknown reason, an atypical year.

COMPUSTAT was used as a data source for several of the financial variables, notably the measure of size and the leverage measure. *Moody's Manuals* provided the data for the public debt variable while 10-K reports and proxy statements served as the source for the management ownership percentage variable.[4] Annual reports were also consulted to ascertain the specific types of finance-related subsidiaries and to reconcile any differences between the COMPUSTAT numbers and those found in the *Moody's Manuals*.

Data needed for the construction of the variable measuring the magnitude of the agency costs of debt were collected primarily from the January, 1987, issue of *Moody's Bond Record* which contains bond statistics for December, 1986. To ascertain the coding for the two dependent variables, participation or lobbying choice and position choice, the comment letters of companies that filed with the FASB were used.

Data Analysis

Testing of the major hypotheses. For the test of H_A1, univariate tests were conducted on each independent variable

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[4]Stock ownership disclosures for key officers and directors are required by Part II of Form 10-K, but may be incorporated by reference to a definite proxy statement filed by the company which contains similar disclosures as required in Regulation 14A of the 1934 Securities Exchange Act.

to ascertain if there were systematic differences between the two lobbyist groups. A Kolmogorov D statistic was computed to assess the normality of the distributions of each independent variable. Because the distributions were not normal, the student's t-test could not be used for the hypotheses testing. Instead, the nonparametric Wilcoxon-Mann-Whitney test was utilized.[5]

Although the student's t-test is a more powerful test, the Wilcoxon-Mann-Whitney has a practical advantage with respect to outliers. Because this technique tests a hypothesis on the rank sum of the observations in the two groups as opposed to the arithemetic mean used by the student's t-test, the possible confounding effect of an outlier becomes somewhat nullified (Iman and Conover, 1983).

For the test of H_A2, a 2 x 2 chi-square analysis was performed. This analysis was used to assess the existence of significant differences between the two groups of lobbyists in supporting or opposing SFAS No. 94.

Logistic regression. For tests of the remaining hypotheses, both the model of manager participation choice and the model of manager position choice have been analyzed by the use of logit analysis. Logit analysis is frequently

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[5]The power of the Wilcoxon-Mann-Whitney test is approximately 95% of that of the student's t-test (Gibbons, 1976).

used when the dependent variable is dichotomous. It does not make some of the distributional assumptions that ordinary least squares estimation uses. It develops asymptotically efficient estimates of coefficients and standard errors using maximum likelihood estimation. Maximum likelihood estimation is concerned with selecting parameter estimates that imply the highest probability or likelihood of having obtained the observed dependent variable (Aldrich and Nelson, 1984).

Prior to the logit analysis of the models, a correlation analysis was conducted to ascertain if multicollinearity among the independent variables existed. Multicollinearity occurs when an independent variable is nearly a linear combination of another independent variable in the model. This situation causes both instability of the model estimates and high standard errors. The COLLIN option in the SAS GLM (general linear models) procedure provides diagnostics for detecting multicollinearity using the approach of Belsley, Kuh and Welsch (1980). This procedure was utilized in the study.

The SAS LOGIST procedure (SAS Institute Inc., 1986) was used in the logit analysis. The procedure generates a likelihood ratio statistic to test both the fit of the overall models and the joint significance of all variables in the models. The test statistic is equal to minus two

times the log of the likelihood ratio which is distributed as a chi-square with k-1 degrees of freedom, where k = the number of independent variables (McKelvey and Zavoina, 1975). This likelihood ratio statistic is analagous to the F statistic in ordinary least squares regression. The SAS LOGIST procedure also produced Wald chi-square statistics which are analagous to the t-test in ordinary least squares regression. These statistics were used to test the significance of the estimated coefficients of the independent variables.

In addition to the above, the goodness of fit of the overall model can be evaluated by concordance (Harrell, 1988, p. 273). This procedure examines all possible pairs in the sample in which one pair member has an actual dependent variable equal to zero and the other pair member has an actual dependent variable equal to one. If the pair member having an actual value of one also has the larger predicted probability based on logit estimates, then that pair is said to be concordant. The SAS LOGIST procedure also provides a concordance statistic.

The logit models of lobbying and position choice were first estimated using all appropriate companies in the study following the methodology of prior research. Comparisons were then drawn to these prior lobbying studies. Next the lobbying choice and position choice models were re-estimated

separately for the group of frequent lobbyists and for the group of infrequent lobbyists. The outcome of these analyses were compared to the previous models and the implications were discussed.

In addition, an assessment was made of the classification accuracy of the models as a check on the validity of the models. Because the model of lobbying choice utilized all 230 subjects, a holdout sample of 30 companies was randomly selected from among all of the companies by use of a random number table. The logit models were estimated using the 200 remaining observations to derive coefficient values. These values were used to compute a lobbying probability for each company in the holdout sample as follows:

(1) $z = \Sigma \beta_j X_{ij}$

where β_j = coefficients for the j independent variables derived from the estimation sample.
X_{ij} = independent variable values for company i of the holdout sample.

(2) $p_i = e^z / (1 + e^z)$

where p_i = probability of lobbying for company i
e = the base of the natural logarithm.

The probabilities of the companies in the holdout sample were compared to a cutoff probability of 0.50.[6] If the lobbying probability of a holdout company exceeded the cutoff probability, then that company was classified as a lobbyist, otherwise it was predicted to be a nonlobbyist. After predicting the lobbying choice of the holdout companies, results were compared to the actual choice. The number of correctly classified observations divided by the total number of observations provided a measure of classification accuracy.

The position choice models were subjected to a similar classification accuracy assessment. As the lobbyists with discernible position choices numbered 111, the randomly selected holdout sample numbered 18. Therefore, the remaining 93 companies formed the model estimation sample. The procedure followed the same steps as outlined above except p_i was defined as the probability of supporting consolidation for company i. In addition, because of the unequal number of supporters versus opposers, the cutoff

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[6]The cutoff probability equals that of a random prediction model (50% accuracy). Given that there were equal numbers of lobbyists and nonlobbyists in the study, the same cutoff probability would be selected based upon a naive rule that all firms are nonlobbyists.

probability of 0.543 was used as the criterion for classification accuracy assessment.[7]

Summary

This chapter presented the development of the research hypotheses and provided a description of the research methodology employed in the tests of those hypotheses. The main hypotheses of the study concern the possible existence of differences between frequent lobbyists and infrequent lobbyists in terms of corporate characteristics and position choice on accounting standards. The other hypotheses of the study concern tests of the positive theory of managers' choices within the context of accounting standard-setting. These hypotheses provide a means of duplicating the methodology of prior research for comparison purposes. The resulting conclusions may provide contributions to the emerging body of lobbying literature. The following chapter discloses the results of the analyses detailed above that were performed to test the research hypotheses.

[7]Using a formula for unequal groups suggested by Hair, Anderson, Tatham and Grablowsky (1984), the cutoff probability is equal to a weighted average of the group centroids computed as:

$$(n^b * z^a) + (n^a * z^b) / (n^a + n^b)$$

where z = centroid probability for groups a and b
n = the number of subjects for groups a and b

CHAPTER 4

RESULTS

This chapter reports the results of the data analysis used to test the research hypotheses generated in the previous chapter. The first section describes the sample of companies used in the study. Because one of the major contributions of the study is to distinguish among the companies based on the frequency of their lobbying efforts, the second section describes the determination of the cutoff point used to segregate the companies for the data analysis. The third section presents the results of the tests of hypotheses one and two, the primary focus of the study. Section four examines the results of the logit analyses for both the model of lobbying choice and the model of position choice used in testing hypotheses three through nine. Section five describes how the results of the aforementioned logit analyses differ when the effect of the lobbying frequency of the companies is also considered.

The Sample of Companies

The FASB's index to submissions for the Exposure Draft "Consolidation of All Majority-owned Subsidiaries" listed 232 comment letters filed. The index displays the assigned comment letter number, the name of the person submitting the comment letter, their affiliation, and an occupational category. The occupational categories assigned by the FASB include industry, public accounting, academe, banking, government, securities, and other. Of the 232 comment letters, 138 were identified as "industry." Table 2 presents a reconciliation between these 138 industry respondents and the 111 comment letter filers used in the study.[8]

The companies with finance subsidiaries identified by Heian and Theis for their 1989 study numbered 182. A subsequent NAARS search added 60 companies with finance-related subsidiaries. Table 3 reports the reconciliation between these companies, the SFAS No. 94 lobbyists and the final 230 companies used in the study.

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[8]For the position choice models in the study the 111 respondents with clear position choices were used. For the model of lobbying choice, the four companies with unclear or no position choices were added to form the group of lobbyists because the dependent variable for this model did not rely on knowing position choice. This resulted in 115 SFAS No. 94 lobbyists used for those models.

Table 2. Reconciliation of Industry Respondents to the Exposure Draft for SFAS No. 94

Number of Industry Respondents Identified in the FASB Submission Index		138
Less:	Number of Representational Organization Industry Respondents[a]	(10)
	Subtotal	128
Less:	Number of Industry Respondents of Foreign Companies	(2)
	Subtotal	126
Less:	Number of Industry Respondents with Incomplete Data	(11)
	Subtotal	115
Less:	Number of Industry Respondents with Uncertain or No Preference Stated	(4)
	Total Industry Respondents in the Sample	111

[a]The Financial Executives Institute is an example of a representational organization.

Table 3. Reconciliation of Companies with Finance-Related Subsidiaries and SFAS No. 94 Lobbyists Used in the Study

Number of Companies with Finance Subsidiaries Identified by Heian and Theis (1989)		182
Add:	Number of Companies with Finance-Related Subsidiaries Identified by a NAARS search	60
	Subtotal	242
Less:	Number of Companies Eliminated from Sample due to Insufficient Data	(76)
	Subtotal	166
Add:	Number of SFAS No. 94 Lobbyists with Complete Data	115
	Subtotal	281
Less:	Number of Companies with Finance-Related Subsidiaries that Also Lobbied[a]	(51)
	Total Number of Companies in the Sample	230

[a]This adjustment prevented double counting of these companies

Determination of Lobbying Frequency

To determine lobbying frequency, SFAS Numbers 76 through 102 were examined. These statements cover a period of approximately eight years. Of the 27 statements, 11 were selected because they covered topics of a somewhat broad or universal nature that would affect a variety of companies. Excluded were industry-specific statements and relatively minor amendments to existing pronouncements. A total of 13 Exposure Drafts was issued on the 11 selected pronouncements. The titles of these EDs are shown in Appendix A. The FASB provided lists of the comment letters received in response to each of these EDs. For each company, the total number of comment letters filed with the FASB was counted.[9] For the companies in this study, the total ranged from zero to 13. Table 4 presents simple statistics and a frequency chart for this variable (TOTAL). Based on these results, a cutoff point equal to the median plus one standard deviation was used to classify the companies in the study into groups based on lobbying frequency. This resulted in TOTAL=4 as the cutoff point. Because of the arbitrary nature of using such a decision

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[9]Mergers affected only two companies in the study. To avoid double counting for those merged companies, the filing of a comment letter by both pre-merged companies on issues earlier than SFAS No. 94 was considered as one filing.

Table 4. Descriptive Statistics and Frequency Chart for the Variable TOTAL: n=230

Statistic	Value
Mean	2.92208
Standard Deviation	3.34574
Median	1.00000

TOTAL		FREQ	%	CUM %
0	**********	84	36.52	36.52
1	**********	38	16.52	53.04
2	******	17	7.39	60.43
3	*****	13	5.65	66.08
4	****	12	5.22	71.30
5	*****	13	5.65	76.95
6	*****	13	5.65	82.60
7	***	8	3.48	86.08
8	***	8	3.48	89.57
9	**	7	3.04	92.61
10	**	7	3.04	95.65
11	*	3	1.30	96.96
12	*	4	1.74	98.70
13	*	3	1.30	100.00

20 40 60 80

FREQUENCY

rule to determine the cutoff point, sensitivity analyses were conducted. The hypotheses testing procedures were duplicated using various cutoff points for TOTAL, and the results were unchanged.[10]

Results of Tests of the Major Hypotheses

Hypothesis One: Independent Variable Group Differences

The first hypothesis of the study states:

H_A1: The corporate characteristics of firms that frequently lobby on pronouncements differ from those of firms that infrequently lobby on pronouncements.

The independent variables previously discussed comprise the characteristics selected for the univariate analysis conducted to test for the existence of differences between the two groups. Table 5 presents simple statistics for each independent variable by group.

Before testing this hypothesis, a test for normality of the distributions of each independent variable was performed. Because the sample size for each of the two groups was greater than 50, a Kolomogorov D statistic was computed to test the null hypothesis that the data values comprise a random sample from a normal distribution. These

[10]Cutoff points of TOTAL=2 and TOTAL=3 were used to classify the companies into groups for the sensitivity analysis.

Table 5. Means and (Standard Deviations) of the Independent Variables for Frequent Lobbyists and Infrequent Lobbyists

Variables	Frequent Lobbyists (N = 78)	Infrequent Lobbyists (N = 152)
Debt-to-Assets Ratio (LEV)	0.6117 (0.1187)	0.5904 (0.1546)
Renegotiation Cost of Debt (DEBT)	0.0222 (0.0264)	0.0055 (0.0135)
Public Debt to Total Debt (PUBDEBT)	0.5781 (0.2581)	0.2761 (0.2949)
% of Management Ownership (MGTOWN)	0.0262 (0.0598)	0.1449 (0.1940)
Firm Size (SIZE)	0.2016 (0.1923)	0.1806 (0.2181)

results, reported in Table 6, indicate that the measure of leverage for the infrequent lobbyists is the only variable with a normal distribution (p=0.15). The distributions of the remaining variables are not normal; therefore the testing of hypothesis one utilized the nonparametric two-sample Wilcoxon-Mann-Whitney test.

Table 7 presents the results of the univariate nonparametric test of this hypothesis. As noted by the p-values for the test statistic Z for each variable, the groups exhibit statistically significant differences for all variables except the leverage measure (debt-to-total-assets ratio).[11]

In general, the frequent lobbyists are larger firms with greater proportions of public debt relative to private debt and with a smaller percentage of the firm owned by officers and directors as a group. In addition, the frequent lobbyists generally face larger renegotiation costs of debt. In terms of the measurement of leverage, however,

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[11]Tests of hypothesis one were repeated for various subgroups of the frequent versus infrequent lobbyists with virtually identical results as those reported in Table 6. For example, for only those companies that had unconsolidated finance-related subsidiaries, significant differences existed between frequent and infrequent lobbyists for SIZE (p=0.0133), MGTOWN (p=0.0001), PUBDEBT (p=0.0001), and DEBT (p=0.0001) with LEV remaining insignificant (p=0.7756).

Table 6. Summary of Tests on the Normality of Independent Variables for Frequent Lobbyists and (Infrequent Lobbyists)

Variables	Skewness[a]	Kurtosis[b]	Kolmogorov's D	P-value
Debt-to-Assets Ratio (LEV)	0.7670 (-0.0668)	0.5823 (-0.0544)	0.1426 (0.0353)	0.01 (0.15)
Renegotiation Cost of Debt (DEBT)	1.1329 (3.6139)	-0.0167 (15.2320)	0.2428 (0.3421)	0.01 (0.01)
Public Debt to Total Debt (PUBDEBT)	-0.4851 (0.8134)	-0.5946 (-0.4738)	0.1288 (0.1938)	0.01 (0.01)
% of Management Ownership (MGTOWN)	4.1331 (1.6948)	19.7878 (2.3226)	0.3494 (0.2393)	0.01 (0.01)
Firm Size (SIZE)	1.3178 (1.5299)	1.6650 (1.6458)	0.1571 (0.2041)	0.01 (0.01)

[a]A skewness of 0 represents a symmetrical distribution.

[b]A value of 3 for kurtosis indicates normal peakedness.

Table 7. Results of the Wilcoxon-Mann-Whitney Tests of Hypothesis One

Variables	Frequent Lobbyists (N = 78) Mean Rank	Frequent Lobbyists (N = 78) Rank Sum	Infrequent Lobbyists (N = 152) Mean Rank	Infrequent Lobbyists (N = 152) Rank Sum	Test Statistic (Z)	P Value
Debt-to-Assets Ratio (LEV)	120.12	9369.0	113.13	17196.0	0.7525	0.4517
Renogotiation Cost of Debt (DEBT)	158.28	12346.0	93.55	14219.0	7.4390	0.0000
Public Debt to Total Debt (PUBDEBT)	157.92	12318.0	93.73	14247.0	6.9787	0.0000
% of Management Ownership (MGTOWN)	70.35	5487.0	138.67	21078.0	-7.3714	0.0000
Firm Size (SIZE)	128.87	10052.0	109.44	16744.0	2.0892	0.0367

The finding that frequent lobbyists own a significantly lower percentage of stock could result if the managerial labor market acts as a sufficient disciplining mechanism for reducing agency conflicts of interest (Fama, 1980). If this occurs, managers owning less of the firm would be concerned with the influence of accounting standards on their human capital values.

If significant differences exist between frequent lobbyists and infrequent lobbyists, the two groups may also differ on their position choices. The following section describes the results of testing this hypothesis.

Hypothesis Two: Position Choice Differences

The second major hypothesis of the study states:

H_A2: The probable position choice of firms that frequently lobby on pronouncements differs from that of firms that infrequently lobby on pronouncements.

These differences may exist due to differing motivations to lobby. The group characterized as infrequent lobbyists would appear to lobby and take positions based on the direct economic consequences of the proposed standard. Although the group characterized as frequent lobbyists may also be concerned with economic consequences, there may be those that would choose to lobby for more politically motivated reasons, as previously discussed in the theoretical support section of the study. This may be particularly true for the

no statistically significant differences exist between the frequent lobbyists and the infrequent lobbyists.

The results presented above suggest that companies that lobby frequently are intrinsically different from those companies that rarely participate in the accounting standard setting process. The finding that frequent lobbyists are larger firms is not surprising. Financial accounting standards are public goods. This implies that, even if the differential benefits to a company of a particular accounting standard are large, the benefits of lobbying to influence a favored alternative could not be fully appropriated by that company alone. However, larger firms may reap a larger share of the benefits relative to their costs than do smaller firms, many of whom may be content to be a "free rider." Larger firms may also enjoy economies of scale for the costs of lobbying.

The findings that frequent lobbyists have higher amounts of public debt relative to private debt and face higher renegotiation costs may also relate to the existence of debt covenant agreements for public debt. Debt covenant agreements are usually expressed in terms of maintaining certain financial ratios. Therefore, companies with larger amounts of public debt would tend to exhibit increased concerns with any changes in accounting standards that may affect these agreements.

lobbying that occurred on SFAS No. 94 because the effects on the balance sheet would be negative or neutral at best for the majority of companies with unconsolidated finance-related subsidiaries.

Table 8 presents the results of the chi-square analysis for the test of this hypothesis. Because the response variable was position choice, the analysis used the 111 subjects that filed comment letters on SFAS No. 94 for which position choice could be ascertained. The Pearson chi-square results indicate that the two groups characterized by lobbying frequency differ significantly on position choice. In particular, the results imply that the managers of companies that regularly participate in the standard-setting process are less likely to oppose the FASB's position than are the managers of companies that rarely participate in the process. While the analysis cannot detect the true motivations of these managers, the significance of the results suggests that these motivations may be different. Given the perceived negative effects of SFAS No. 94, if a purely direct economic consequences motivation were the only motivation present that would lead to the filing of a comment letter, the differences would probably not exist.

Only 49 of the 111 SFAS No. 94 lobbyists disclosed the existence of a finance-related unconsolidated subsidiary. The remaining 62 lobbyists either had no subsidiaries of

Table 8. Results of the Chi-Square Analysis of Hypothesis Two for the SFAS No. 94 Lobbyists

Table of Position Choice by Lobbyist Group

Position Choice	Lobbyist Group: Frequent	Lobbyist Group: Infrequent	Total
Oppose	28	41	69
Support	37	5	42
Total	65	46	111

Chi-Square (1 d.f.) = 24.29

P-Value = 0.000

these types or the subsidiaries were not material enough to be separately disclosed in the financial statements. To ascertain if an association exists between the presence or absence of a finance-related subsidiary and group membership based on lobbying frequency, a chi-square analysis was performed, and the results are presented in Table 9. The analysis reveals a marginally significant association ($p=0.07$). This indicates that the existence of a finance-related subsidiary did not appear to drive whether companies lobbied on other issues frequently enough to be considered a frequent lobbyist (as defined in this research). The fact that the association is weak, but not totally insignificant, may indicate only that there is some other reason relating to the existence of unconsolidated subsidiaries that drives lobbying frequency.[12]

Because a weak association exists between the presence or absence of unconsolidated finance-related subsidiaries and lobbying frequency group membership, two subgroups of the SFAS No. 94 lobbyists were formed and separate analyses were made. Table 10 presents the results of a chi-square analysis using only the 49 lobbyists with unconsolidated finance-related subsidiaries. These results indicate that a

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[12]For example, <u>size</u> may be the driver. Larger companies may be more likely to lobby and also be more likely to have unconsolidated subsidiaries.

Table 9. Results of the Chi-Square Analysis to Test for the Association between Lobbying Frequency and the Existence of Unconsolidated Finance-Related Subsidiaries

Table of Existence of Finance-Related Subsidiaries by Lobbyist Group

Finance-Related Subsidiaries	Lobbyist Group: Frequent	Lobbyist Group: Infrequent	Total
Present	24	25	49
Absent	41	21	62
Total	65	46	111

Chi-Square (1 d.f.) = 3.29

P-Value = 0.07

Table 10. Results of the Chi-Square Analysis of Hypothesis Two for the SFAS No. 94 Lobbyists with Unconsolidated Finance-Related Subsidiaries

Table of Position Choice by Lobbyist Group

Position Choice	Lobbyist Group: Frequent	Lobbyist Group: Infrequent	Total
Oppose	16	24	40
Support	8	1	9
Total	24	25	49

Chi-Square (1 d.f.) = 6.88

P-Value = 0.009

significant difference (p=0.009) in position choice still exists between the group of frequent lobbyists and the group of infrequent lobbyists. Because the cell for the infrequent lobbyists who supported the FASB's position contains only one company, the validity of the chi-square may be questioned. However, the p-value is very significant and the chi-square is fairly robust. As a further check, the analysis was repeated after shifting one of the companies from the frequent lobbyist supporters to the small cell. The resulting p-value of 0.04 is still significant.

As a corollary to the above analysis, the 62 companies without unconsolidated finance-related subsidiaries may be considered a somewhat homogenous group regarding position choice on this issue even though their motivations for lobbying may be less obvious. Therefore, a similar chi-square analysis for differences between frequent and infrequent lobbyists on position choice for these 62 companies was conducted; the results are reported in Table 11. For this subgroup of companies the analysis once again indicates significant differences. Companies without unconsolidated finance-related subsidiaries should be less directly affected by the requirements of SFAS No. 94. Yet the infrequent lobbyists within this group still opposed the standard by about a four-to-one margin. This may be partially explained by the existence of asymmetric

Table 11. Results of the Chi-Square Analysis of Hypothesis Two for the SFAS No. 94 Lobbyists without Unconsolidated Finance-Related Subsidiaries

Table of Position Choice by Lobbyist Group

Position Choice	Lobbyist Group: Frequent	Lobbyist Group: Infrequent	Total
Oppose	12	17	29
Support	29	4	33
Total	41	21	62

Chi-Square (1 d.f.) = 14.90

P-Value = 0.000

incentives for managers to lobby, as explained by Gaa (1988, p. 132):

> . . . if a specific standard benefits them, the personal benefit resulting to them from its promulgation is likely to be intangible and diffuse, while the private cost to them of a standard which does not benefit them is likely to be specific and concrete. Thus they would be more likely to respond negatively to exposure drafts they oppose, than positively to those they support.

Summary. The findings of hypothesis two indicate that the position choice of the frequent lobbyists differs significantly from that of the infrequent lobbyists. The frequent lobbyists are more likely to support the FASB's position while the infrequent lobbyists are more likely to take opposing positions. These results remained the same even after considering the presence or absence of an unconsolidated finance-related subsidiary. The findings may be due to asymmetric incentives to lobby as suggested by Gaa (1988) in the above quotation. Gaa appears to assume a short-run direct economic consequences rationale for lobbying. While this rationale may be true for the infrequent lobbyists, it does not necessarily explain why some managers lobby when there are no apparent direct economic consequences (either good or bad). The fact that significantly fewer of the frequent lobbyists opposed the FASB's position on this issue seems to indicate the existence of a long-run motivation for lobbying (LRPV). In

other words, managers lobby not only when economic consequences are immediately at stake, but also because there may be long-run economic consequences to them.

To summarize the results of both of the study's major hypotheses, the following statements can be made. Frequent lobbyists have significantly different characteristics than infrequent lobbyists. They are generally larger with greater proportions of public debt relative to private debt and smaller percentages of management ownership. Frequent lobbyists also face larger renegotiation costs of debt. The positions the frequent lobbyists take in the accounting standard-setting process also differ significantly from the positions taken by the infrequent lobbyists. Results indicate that frequent lobbyists were more in line with the FASB's position. These differences imply that corporate managers are not as homogeneous a group as studies to date suggest. Positive theories based upon direct economic consequences considerations may not adequately explain the choices made by managers in the accounting standard-setting process. Some managers may be motivated more by political considerations than by short-run direct economic consequences considerations.

Logit Analysis of the Models

To compare the results of this study on the SFAS No. 94 issue with those of other studies in the lobbying literature, both the model of lobbying choice and the model of position choice were initially estimated without segregating the companies into the frequent versus infrequent lobbying categories. Subsequent sections describe (1) certain model selection procedures undertaken, (2) the results of the univariate analysis of the independent variables dichotomized by lobbying decision and by position choice, and (3) the fitting of the logit models to the data.

Model Selection Procedures

Correlation Analysis. Prior to assessing the results of the logit models of lobbying choice and position choice, correlations among the independent variables were examined. Tables 12 and 13 contain the Pearson correlation coefficients for all companies in the study (both lobbyists and nonlobbyists) and for only the SFAS No. 94 lobbyists, respectively. The first group represents the subjects used in the lobbying choice models, while the second group represents the subjects used in the position choice models. These correlations were analyzed to detect any possible multicollinearities.

Table 12. Correlations Between Independent Variables for All Companies in the Study---N = 230

	DEBT	MGTOWN	PUBDEBT	LEV	SIZE
DEBT	1.000				
MGTOWN	-0.284	1.000			
PUBDEBT	0.522	-0.344	1.000		
LEV	0.119	0.051	0.056	1.000	
SIZE	-0.138	-0.139	0.056	-0.040	1.000

Table 13. Correlations Between Independent Variables for the Group of SFAS No. 94 Lobbyists---N = 111

	DEBT	MGTOWN	PUBDEBT	LEV	SIZE
DEBT	1.000				
MGTOWN	-0.273	1.000			
PUBDEBT	0.580	-0.330	1.000		
LEV	0.120	0.095	-0.025	1.000	
SIZE	-0.277	0.014	-0.104	-0.070	1.000

In correlation analysis, the researcher should investigate for multicollinearity if a correlation of 0.50 or more is observed (Karson, 1982). Table 12 indicates that for all companies in the study, a correlation of 0.522 exists between the ratio of public debt to total debt (PUBDEBT) and the variable measuring renegotiation costs of debt (DEBT). A correlation of 0.580 exists for the SFAS No. 94 lobbyists, as shown in Table 13. No other correlations greater than 0.344 exist for either group.

The COLLIN procedure in SAS provides diagnostics for detecting multicollinearity using the approach of Belsley, Kuh and Welsch (1980). The procedure produces a diagnostic called a condition number that provides a measure of the potential sensitivity of the solution of a linear system of equations to changes in the elements of the linear system (Belsley et al., 1980, p. 103). Computation of the condition number is based on multiplying the maximal eigenvalue of a matrix (A) by the maximal eigenvalue of the inverse of the matrix (A^{-1}). For the group including all companies, the maximum value of the six condition numbers reported by the COLLIN option is 11.91. For the group including only the SFAS No. 94 lobbyists, the maximum value is 13.03. According to Belsley et al. (1980, p.105), an empirically determined rule of thumb shows that moderate to strong relations are associated with condition numbers of 30

to 100. Therefore, multicollinearity problems are considered negligible in this study.

Lobbying Choice Models

Univariate analysis of lobbying choice group. Before estimating the logit model of lobbying choice, univariate tests were conducted to ascertain if significant differences exist between lobbyists and nonlobbyists. Once again, an investigation of the normality of the distributions of the independent variables for the lobbyists and the nonlobbyists revealed that only the measure of leverage (LEV) for the nonlobbyist group could be considered normal. Therefore, the univariate testing utilized the nonparametric Wilcoxon-Mann-Whitney statistic. Table 14 reports simple descriptive statistics for the two groups while Table 15 displays the results of the univariate analysis.

The results indicate that lobbyists have higher amounts of public debt relative to private debt, higher debt renegotiation costs and lower percentages of the firm owned by managers and directors as a group. In addition, the lobbyists tend to be larger than the nonlobbyists ($p=0.0545$). In terms of leverage, however, the two groups exhibit no significant differences. These findings are similar to those of prior studies in the area. For example, univariate results by Kelly (1982) indicated that lobbyists

Table 14. Means and (Standard Deviations) of the Independent Variables for SFAS No. 94 Lobbyists and Nonlobbyists

Variables	Lobbyists (N = 115)	Nonlobbyists (N = 115)
Debt-to-Assets Ratio (LEV)	0.6086 (0.1313)	0.5847 (0.1539)
Renegotiation Cost of Debt (DEBT)	0.0173 (0.0242)	0.0050 (0.0132)
Public Debt to Total Debt (PUBDEBT)	0.4738 (0.3033)	0.2832 (0.3018)
% of Management Ownership (MGTOWN)	0.0553 (0.1180)	0.1540 (0.1995)
Firm Size (SIZE)	0.2053 (0.2215)	0.1712 (0.1970)

Table 15. Results of the Wilcoxon-Mann-Whitney Univariate Tests for SFAS No. 94 Lobbyists versus Nonlobbyists

	Lobbyists (N = 115)		Nonlobbyists (N = 115)			
Variables	Mean Rank	Rank Sum	Mean Rank	Rank Sum	Test Statistic (Z)	P Value
Debt-to-Assets Ratio (LEV)	120.14	13816.0	110.86	12749.0	-1.0564	0.2908
Renegotiation Cost of Debt (DEBT)	139.60	16054.0	91.40	10511.0	-5.8497	0.0000
Public Debt to Total Debt (PUBDEBT)	136.10	15651.0	94.90	10914.0	-4.7293	0.0000
% of Management Ownership (MGTOWN)	89.21	10259.5	141.79	16305.5	5.9905	0.0000
Firm Size (SIZE)	123.93	14253.0	107.06	12312.0	-1.9225	0.0545

were significantly larger with lower management stock ownership percentages than nonlobbyists, but the differences in leverage were insignificant. Griffin (1983) also found a significant size difference and an insignificant leverage difference.

Logit analysis of lobbying choice. A multivariate logit analysis followed the univariate analysis of each independent variable. Logit models were estimated with lobbying choice as the dichotomous dependent variable.

Model I contains the five independent variables that were hypothesized to proxy for elements of a manager's motivation to lobby on SFAS No. 94. The estimation of this model by the logit procedure utilized all 230 companies included in the study. Of these, 115 filed comment letters and the remaining 115 did not. Table 16 displays the maximum likelihood parameter estimates, their standard errors, Wald chi-square statistics, and significance levels. In addition, the table includes the hypothesized signs of the parameter estimates for comparison purposes.

As indicated by these results, the overall model is significant at p=0.0001 and the signs of all of the parameter estimates are in the hypothesized directions. The measure of concordance for this model is 73.9%.[13] However,

[13]The closer the measure of concordance is to 100%, the better the overall fit of the model.

Table 16. Logit Analysis for Model I (Dependent Variable Indicates Lobbyists versus Nonlobbyists)

		Lobbyists (N = 115)	Nonlobbyists (N = 115)		
Variables	Expected Sign	Parameter Estimate	Standard Error	Chi-Square	P-Value
Debt-to-Assets Ratio (LEV)	+	1.0787	1.0453	1.0649	0.2908
Renegotiation Cost of Debt (DEBT)	+	23.9078	10.3978	5.2869	0.0215
Public Debt to Total Debt (PUBDEBT)	+	0.9021	0.5402	2.7889	0.0949
% of Management Ownership (MGTOWN)	-	-2.7911	1.1004	6.4339	0.0112
Firm Size (SIZE)	+	0.8010	0.6936	1.3335	0.2482

Model Chi-Square: 40.969 with 5 degrees of freedom (p=0.0001)

both the SIZE variable and the measure of leverage (LEV) using debt-to-total assets are not statistically significant.

As a further validation of the model, the classification accuracy of the model was assessed as described in the methodology section. The lobbying probability of each company was computed using the parameter estimates of the model. The resulting probabilities were compared to a cutoff probability of 0.50. Table 17 presents the classification results. The model correctly predicted 164 of the total 230 companies for a prediction accuracy rate of 71.3%. As Table 17 indicates, the model performed slightly better when classifying nonlobbyists. A t-statistic of 7.14 indicates that the overall accuracy rate is significantly better than that of a random prediction model (50% accuracy).[14]

The classification accuracies reported above may be overstated. Reclassification of the original sample may introduce bias because the same companies were used to develop the parameter estimates. To determine whether any

[14]The t-statistic (see Frank, Massy, and Morrison, 1965, p. 253) is calculated as:

$$t = (Q-P)/\sqrt{(P(1-P))/n}$$

where Q = percent correctly predicted by the model
P = percent correctly predicted by chance
n = sample size.

Table 17. Classification Accuracy Results for the Model of Lobbying Choice for All Companies in the Study

Table of Actual Choice by Predicted Choice

Actual	Predicted: Lobbyist	Predicted: Nonlobbyist	
Lobbyist	81	34	115
Nonlobbyist	32	83	115
Total	113	117	230

Percentage of All Companies Correctly Classified	71.3%*
Percentage of Actual Lobbyists Correctly Classified	70.4%*
Percentage of Actual Nonlobbyists Correctly Classified	72.2%*

*Significant at $p < 0.001$.

extreme bias exists, the model parameters were re-estimated after randomly selecting a holdout sample. The parameters developed from the estimation sample were then used to predict the outcomes of the holdout sample. The parameter estimates did not change appreciably in magnitude and the signs of the coefficients remained as before. The classification results are presented in Table 18.

The overall classification accuracy deteriorates somewhat (to 66.7%) but the t-statistic for comparison of the model results with those of a random model is still significant at p=0.05. To ascertain if these results are significantly lower than the earlier results using the full sample (71.3%), a t-statistic was calculated. The resulting statistic indicates that the difference is significant at p=0.10. The comparison suggests the possibility of some slight overfitting bias. However, the estimation sample model actually has a higher prediction accuracy for lobbyists than before, although the results are much worse for the nonlobbyists. In fact, the prediction accuracy for nonlobbyists is not significantly better than that of a random model (p=0.22). Overall, the overfitting bias does not appear to significantly alter the results. Therefore, the tests of the remaining hypotheses utilize the total sample lobbying model.

Table 18. Classification Accuracy Results for the Model of Lobbying Choice for the Holdout Sample

Table of Actual Choice by Predicted Choice

Actual	Predicted: Lobbyist	Predicted: Nonlobbyist	
Lobbyist	11	4	15
Nonlobbyist	6	9	15
Total	17	13	30

Percentage of All Companies Correctly Classified	66.7%*
Percentage of Actual Lobbyists Correctly Classified	73.3%*
Percentage of Actual Nonlobbyists Correctly Classified	60.0%

*Significant at $p < 0.05$.

Lobbying choice hypotheses. The insignificant parameter estimates for LEV and SIZE have implications for the testing of hypotheses three and nine of the study:

H_A3: The greater a firm's leverage risk, the more likely a firm's manager will lobby.

H_A9: The larger a firm, the more likely a firm's manager will lobby.

These hypotheses imply that the signs of the coefficients should be positive for the leverage variable (LEV), the related agency costs of debt variable (DEBT), and for the size variable (SIZE). However, due to this lack of statistical significance, the signs of the coefficients for LEV and SIZE may be unreliable. These results are not totally unexpected because the univariate tests indicated that the two groups are not significantly different on the leverage measure. Moreover, size was only marginally significant in the univariate analysis ($p=0.0545$).

Although the results indicate a failure to reject the null hypothesis for size, the leverage hypothesis can be tested using the agency costs of debt variable (DEBT), which was significant at $p=0.0215$. Because of the manner in which this variable was constructed, it may not be considered a pure leverage measure. In essence, the variable has greater values for those companies with larger amounts of low-interest rated debt relative to the current interest rate. It represents a refinement of the construct for which the

leverage measure is a surrogate. For example, Kelly (1982, p. 160) states:

> The expected costs for the impact of an accounting change on the firm's debt covenants are assumed greater for more highly levered firms . . . .

Therefore, the relationship between a manager's hypothesized decision to lobby and the DEBT variable should be the same as the relationship between this decision and the variable LEV. Consequently, hypothesis three was affirmed.

In related prior research, Griffin (1983) found weak results for his measures of size and leverage in a foreign currency translation lobbying study.[15] Kelly (1985) analyzed the same issue and also found insignificant results for leverage while controlling for size by using a matched-pairs design.[16] An insignificant leverage measure similarly

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[15]Griffin defined size as sales-to-assets and leverage as debt-to-equity. Univariate tests indicated p-values for size in the .06 to .08 range for three of the years of data utilized in the study. The p-values for the leverage measure ranged from .10 to .35. Griffin did not report the significance of the parameter estimates from his multiple discriminant analysis models due to violations of the assumption of equal covariance matrices.

[16]Kelly used debt-to-equity as the leverage measure. The p-values for this variable in the univariate tests ranged from .13 to .91. The significance of the leverage parameter estimate in the logit models ranged from .15 to .25.

occurred in the Lasater (1982) study of lobbying choice on the interest capitalization issue.[17]

For the present study, the lack of a significant size difference may be due to the sample selection procedures. The group of nonlobbyists was selected because the companies in it had unconsolidated finance-related subsidiaries. Companies that form these types of subsidiaries are likely to be larger companies than those that do not have them. The reason for the apparent sample homogeneity on the leverage measure (debt-to-assets) remains more elusive, though the same reasoning might apply.

Hypothesis five states:

> H_A5: The greater the amount of a firm's public debt relative to its private debt, the more likely a firm's manager will lobby.

Therefore, the sign of the coefficient for the ratio of public debt to total debt (PUBDEBT) should be positive. Public debt generally costs more to renegotiate than private debt in the event of a technical default. A company with high levels of public debt would be more likely to lobby than one with low levels. As the results indicate, the parameter estimate for this variable has the hypothesized

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[17]Lasater reported a t-statistic of -.6141 for the debt-to-equity ratio in his logit model of lobbying choice. However, this leverage ratio became a significant variable in the position choice models of Lasater's study.

sign and is marginally significant (p=0.0949). No prior lobbying study has used this variable to explain the lobbying decision. However, Leftwich (1981) incorporated the variable into a model of stock price effects and found the results to be marginally significant. The variable has some theoretical appeal and the results appear to indicate that it should be considered in future lobbying choice studies.

Finally, hypothesis seven states:

H_A7: The greater management's proportional ownership of the firm, the less likely a firm's manager will lobby.

Therefore, the expected sign of the coefficient for the variable representing the percentage of management ownership of the firm (MGTOWN) is negative. This variable in the model exhibits the predicted sign and is significant at p=0.0112. On the issue of consolidation of all majority-owned subsidiaries, managers who lobbied generally owned lower percentages of stock in their firms than did those managers who did not lobby.

Kelly (1982 and 1985) included this variable in both of her studies of the lobbying that occurred on the issue of foreign currency translation, specifically SFAS No. 8. In both cases the percentage of management ownership was a significant predictor of lobbying behavior. No other studies have included this variable. Initially, it might seem that this variable would have an inverse relationship

with size because in many instances, the larger the firm, the larger the number of outstanding shares of stock. This increased number of shares relative to smaller companies would possibly preclude a manager from owning a significant percentage of the firm. Therefore, this variable could be negatively correlated with size to the point of causing possible collinearity problems. However, Kelly (1985) controlled for firm size by using a matched-pairs design. Even then, the percentage of management ownership appeared to be the best indicator of lobbying behavior. The results of the present study provide additional evidence of the usefulness of this variable.

Summary. The preceding sections described the results of estimating a logit model to explain the lobbying decision of the group of managers in the study. The likelihood ratio statistic for the model indicated significance and the model was further validated by assessing its classification accuracy. The lack of significant parameter estimates for some of the independent variables (SIZE and LEV) resulted in a failure to reject the null hypotheses for those variables. For the independent variables with significant parameter estimates, results suggested that a manager's concern with the effects of consolidation on the firm's debt covenant agreements may have been a contributing factor in the decision to lobby. Additionally, managers who lobbied owned

a significantly lower percentage of their firms than did those managers who did not. Although size and leverage did not appear to materially impact the lobbying decision, the overall results were consistent with prior lobbying studies.

The following section presents a similar analysis for the position choice decision. The discussion begins with a univariate analysis followed by the multivariate logit analysis.

Position Choice Models

Univariate analysis of position choice group. For the 111 SFAS No. 94 lobbyists with discernible position choices, the independent variables for the supporting group and for the opposing group were analyzed for normality. Simple statistics are presented for each group in Table 19. At a significance level of 0.05, none of the independent variables exhibit a normal distribution for either group. Therefore, a nonparametric univariate analysis of the independent variables dichotimized by oppose versus support positions was conducted, and the results appear in Table 20.

These results indicate that supporters have higher debt renegotiation costs and lower percentages of the firm owned by managers and directors as a group. The two groups exhibit no significant differences in terms of leverage, size, and levels of public debt relative to private debt.

Table 19. Means and (Standard Deviations) of the Independent Variables for SFAS No. 94 Supporters and Opposers

Variables	Supporters (N = 42)	Opposers (N = 69)
Debt-to-Assets Ratio (LEV)	0.6300 (0.1317)	0.5957 (0.1278)
Renegotiation Cost of Debt (DEBT)	0.0222 (0.0248)	0.0149 (0.0242)
Public Debt to Total Debt (PUBDEBT)	0.5280 (0.2921)	0.4340 (0.3132)
% of Management Ownership (MGTOWN)	0.0258 (0.0463)	0.0724 (0.1430)
Firm Size (SIZE)	0.1696 (0.1721)	0.2177 (0.2448)

Table 20. Results of the Wilcoxon-Mann-Whitney Univariate Tests for Supporters versus Opposers

	Supporters (N = 42)		Opposers (N = 69)			
Variables	Mean Rank	Rank Sum	Mean Rank	Rank Sum	Test Statistic (Z)	P Value
Debt-to-Assets Ratio (LEV)	58.90	2474.0	54.23	3742.0	0.7388	0.4600
Renegotiation Cost of Debt (DEBT)	64.54	2710.5	50.80	3505.5	2.2087	0.0272
Public Debt to Total Debt (PUBDEBT)	61.98	2603.0	52.36	3613.0	1.5247	0.1273
% of Management Ownership (MGTOWN)	46.83	1967.0	61.58	4249.0	-2.3380	0.0194
Firm Size (SIZE)	53.51	2247.5	57.51	3968.5	-0.6324	0.5271

However, for this sample, the supporters are slightly smaller firms with higher amounts of leverage and of public debt to private debt. Direct comparisons of these results with those of prior research could not be readily made. The significant debt renegotiation cost variable is new to the study. While Kelly (1982) used the percentage of manager ownership variable, the model she used was a lobbying choice model rather than a position choice model. Neither Lasater (1982) nor Seamann (1987) used that variable in their position choice models.

Logit analysis of position choice. Model II contains the four independent variables hypothesized to proxy for a manager's motivation to express a position on SFAS No. 94. These are the same independent variables used in the lobbying choice models except for the omission of the SIZE variable due to the lack of an *a priori* reason to believe that size impacts position choice. The estimation of this model by the logit procedure utilized the 111 lobbyists with discernible position choices. Of these, 42 supported consolidation while the remaining 69 opposed it. Table 21 summarizes the results of fitting the data to the logit model of position choice.

As indicated by these results, the overall model is marginally significant ($p=0.0747$), and the signs of all of the parameter estimates are not in the hypothesized

Table 21. Logit Analysis for Model II (Dependent Variable Indicates Supporters versus Opposers)

Variables	Expected Sign	Parameter Estimate	Standard Error	Chi-Square	P-Value
		Supporters (N = 42)	Opposers (N = 69)		
Debt-to-Assets Ratio (LEV)	-	2.3710	1.6509	2.0627	0.1509
Renegotiation Cost of Debt (DEBT)	-	2.4987	10.0837	0.0614	0.8043
Public Debt to Total Debt (PUBDEBT)	-	0.5103	0.8579	0.3539	0.5519
% of Management Ownership (MGTOWN)	+	-4.7393	3.0322	2.4429	0.1181

Model Chi-Square: 8.507 with 4 degrees of freedom (p=0.0747)

directions. The measure of concordance for this model is 64.7%. In addition, none of the individual variables is statistically significant. These results support a preliminary conclusion that the model does not provide a good fit for the data on the position choice of the SFAS No. 94 lobbyists.

To further test the model, the classification accuracy was determined utilizing the same methodology employed in the lobbying model assessment. The results, reported in Table 22, indicate that the full sample position choice model does not perform significantly better than a random prediction model (53.0% accuracy) or a naive rule that all managers oppose the issue (62.2% accuracy). At a significance level of 0.10, the model performs better than a random model in classifying the group of managers opposed to SFAS No. 94, but not as good as a naive rule.

Once again, due to the possibility of overfitting bias, a holdout sample analysis was performed, and the results are reported in Table 23. The overall classification accuracy improved to 66.7%, contrary to expectations. While this performance was significantly better ($p=0.02$) than that of the full model and also better ($p=0.002$) than that of a random chance model, it was not a significant improvement over the naive rule ($p=0.15$). In addition, the estimation model exhibited diametrically opposed results in classifying

Table 22. Classification Accuracy Results for the Model of Position Choice for All Lobbyists in the Study

Table of Actual Choice by Predicted Choice

Actual	Predicted: Supports	Predicted: Opposes	Total
Supports	21	21	42
Opposes	27	42	69
Total	48	63	111

Percentage of All Companies Correctly Classified	56.8%
Percentage of Actual Supporters Correctly Classified	50.0%
Percentage of Actual Opposers Correctly Classified	60.9%*

*Significant at $p < 0.10$.

Table 23. Classification Accuracy for the Model of Position Choice for the Holdout Sample

Table of Actual Choice by Predicted Choice

Actual	Predicted: Supports	Predicted: Opposes	
Supports	1	6	7
Opposes	0	11	11
Total	1	17	18

Percentage of All Companies Correctly Classified	66.7%*
Percentage of Actual Supporters Correctly Classified	14.3%**
Percentage of Actual Opposers Correctly Classified	100.0%***

*Significantly better than random chance at $p < 0.002$.
**Significantly worse than random chance at $p < 0.02$.
***Highly significant--t-statistic cannot be computed as division by zero is undefined.

the two groups, with a total success rate (100%) for classifying opposers, and an inadequate rate (14.3%) for classifying supporters. In general, it may be concluded that the model does not fit the data.

Reasons for the poor performance of the position choice model were explored. Although the collinearity diagnostics indicated no severe multicollinearity problems, the correlation analysis indicated a high correlation between the ratio of public debt to private debt (PUBDEBT) and the DEBT variable measuring the renegotiation costs of debt. Therefore, Model III was estimated after eliminating only the DEBT variable, and Model IV was estimated after eliminating only the PUBDEBT variable. The results of fitting these two models are shown in Table 24. The parameter estimates and standard errors did not change appreciably in the two versions of the position choice model. This suggests that multicollinearity was not severe enough to cause problems with the models. In addition, the reported likelihood ratio chi-square statistic revealed that both Models III and IV were significant at $p=0.043$ and $p=0.038$, respectively. However, only the management ownership percentage variable exhibited even marginal significance in Model III ($p=0.095$). Model IV exhibited no significant variables. While all of the signs were in the opposite direction, the variables are insignificant.

Table 24. Logit Analysis for Position Choice Model III and (Model IV)

Variables	Expected Sign	Supporters (N = 42) Parameter Estimate	Supporters (N = 42) Standard Error	Opposers (N = 69) Chi-Square	P-Value
Debt-to-Assets Ratio (LEV)	-	2.2610 (2.4405)	1.6324 (1.6280)	1.9184 (2.2470)	0.1660 (0.1339)
% of Management Ownership (MGTOWN)	+	-5.0403 (-4.8347)	3.0215 (3.0276)	2.7827 (2.5500)	0.0953 (0.1103)
Public Debt to Total Debt (PUBDEBT)	-	N/A (0.6287)	N/A (0.7127)	N/A (0.7782)	N/A (0.3777)
Renegotiation Cost of Debt (DEBT)	-	5.8661 (N/A)	8.3600 (N/A)	0.4924 (N/A)	0.4829 (N/A)

Model III Chi-Square: 8.152 with 3 degrees of freedom (p=0.0430)

(Model IV Chi-Square): 8.445 with 3 degrees of freedom (p=0.0377)

Therefore, reliance may not be placed on the signs of the coefficients.

Position choice hypotheses. Although the reduced models appear to provide a better overall fit to the data, the lack of significant parameter estimates results in a failure to reject the null hypotheses for position choice with the possible exception of hypothesis eight using the MGTOWN variable at p=0.095:

> H_A8: The greater management's proportional ownership of the firm, the more likely a firm's manager will support SFAS No. 94.

The theory implies that a manager with lower levels of ownership would incur higher agency costs and would be more likely to oppose a standard that might cause technical violations of debt covenants. Therefore, the expected sign of the coefficient for the MGTOWN variable is positive. As revealed in Table 24, the sign of MGTOWN is negative, indicating that the managers who filed supporting comment letters own a smaller percentage of the firm than do those managers who filed comment letters opposing the standard. A possible explanation for this result might be that as management's proportional ownership decreases, changes in the value of the firm have less of an impact on their individual wealth.

The only other lobbying studies that used the percentage of management ownership variable were the two by

Kelly (1982 and 1985). In both studies, the variable was significant and in the hypothesized direction. However, neither study focused on the position choice decision, although Kelly (1982) discusses the fact that all of the lobbyists in her study were opposed to the foreign currency translation standard. Therefore, definitive conclusions about the direction of this proxy for agency costs within the context of a position choice model cannot be made.

Summary. The preceding section described the analysis of the logit model of position choice as applied to the SFAS No. 94 lobbyists in the study. The likelihood ratio statistic for the model indicates marginal significance. In addition, none of the independent variables is individually significant. The poor fit of the model precluded testing of the position choice hypotheses for the study. A reduced model exhibited significance, with the percentage of management ownership as the only significant variable (though only at p=0.10). In terms of testing the hypothesis of position choice as it relates to management ownership, the variable exhibited a sign opposite to the hypothesized one. Therefore, the hypothesis was rejected.

Although the results were not totally as expected, the relatively few prior studies of position choice have also failed to model this decision adequately. The Saemann (1987) position choice model on the pension issue lacked

significance. The position choice model specified in the Lasater (1982) study was statistically significant, but only one of the seven independent variables (leverage) was significant.

The following section presents an analysis of the logit models after reclassifying the companies according to lobbying frequency. The results are contrasted with those obtained above and the implications are considered.

Logit Analysis Considering Lobbying Frequency

One of the main suppositions of this study concerns possible differences between firms that regularly participate in the accounting standard-setting process and those that rarely or never participate. The outcome of the empirical testing indicates the existence of significant differences. This would seem to imply that differences may exist concerning manager motivations to lobby, with the frequent lobbyists driven more by political motivations and the infrequent lobbyists driven more by direct economic consequences considerations. Therefore, the following section presents the results of estimating the logit models of lobbying choice separately by lobbying frequency group.

The Lobbying Choice Model

Of the total sample of 230 companies, 78 were classified as frequent lobbyists and the remaining 152 were classified as infrequent lobbyists. The logit lobbying choice model was estimated separately for each group with Model V for the frequent lobbyists and Model VI for the infrequent lobbyists. Results are presented in Table 25. While the lobbying model using all 230 companies (Model I) provided a good fit to the data (significance level of 0.0001), the same model applied to the frequent lobbyists shows a serious amount of deterioration. None of the individual independent variables have significance and the likelihood ratio chi-square statistic indicates a poor fit ($p=0.7117$). On the other hand, the model applied to the infrequent lobbyists exhibits a better fit ($p=0.0869$). Additionally, the size variable is marginally significant and its parameter estimate exhibits the hypothesized sign.

Given that economic consequences theories drive model formulation, it was expected that the model would explain lobbying choice better for the infrequent lobbyists than for the frequent lobbyists. Although neither model appeared to be as good as the combined model for explaining lobbying choice, the marked differences between Model V and Model VI suggest that differing motivations for lobbying may exist.

Table 25. Logit Analysis for Lobbying Choice Model V and (Model VI)

	Model V Frequent Lobbyists N = 78* (Model VI Infrequent Lobbyists N = 152**)				
Variables	Expected Sign	Parameter Estimate	Standard Error	Chi-Square	P-Value
Debt-to-Assets Ratio (LEV)	+	-1.5307 (1.4132)	2.7349 (1.2717)	0.3133 (1.2350)	0.5757 (0.2664)
% of Management Ownership (MGTOWN)	-	2.2906 (-1.7685)	6.8851 (1.2032)	0.1107 (2.1604)	0.7394 (0.1416)
Public Debt to Total Debt (PUBDEBT)	+	0.0329 (-0.2515)	1.5917 (0.6997)	0.0004 (0.1292)	0.9835 (0.7193)
Renegotiation Cost of Debt (DEBT)	+	12.4998 (17.7538)	20.5853 (14.4135)	0.3687 (1.5172)	0.5437 (0.2180)
Firm Size (SIZE)	+	-2.0833 (1.3231)	1.7339 (0.8133)	1.4435 (2.6462)	0.2296 (0.1038)

*69 lobbyists and 9 nonlobbyists

**46 lobbyists and 106 nonlobbyists

Model V Chi-Square: 2.920 with 5 degrees of freedom (p=0.7117)
(Model VI Chi-Square): 9.614 with 5 degrees of freedom (p=0.0869)

The Position Choice Model

Given that the model of position choice using all of the SFAS No. 94 lobbyists exhibited only marginal significance, segregating the lobbyists according to lobbying frequency and re-estimating the model would probably also result in marginal significance at best. Nevertheless, the 111 lobbyists were segregated by lobbying frequency, which resulted in 65 companies classified as frequent lobbyists and 46 classified as infrequent lobbyists. As anticipated, logit analysis by lobbying frequency groups indicated both models were insignificant ($p=0.7797$ for the frequent lobbyists and $p=0.3829$ for the infrequent lobbyists). On the surface, the wide differences between the groups seems to mirror the results found in the analysis of the lobbying choice model. However, any conclusions drawn from observing insignificant results may not be valid.

Summary and Conclusions

This chapter has presented the results of the data analyses. The findings of hypothesis one indicate that the corporate characteristics of frequent lobbyists are significantly different from those of infrequent lobbyists. Specifically, the frequent lobbyists are larger firms with greater proportions of public debt relative to private debt

and with a smaller percentage of the firm owned by officers and directors as a group. In addition, hypothesis two demonstrated that the frequent lobbyists were more likely to support the FASB's position on SFAS No. 94 than were the infrequent lobbyists. Taken together, the major hypotheses suggest that economic consequences theories do not adequately explain the choices made by managers in the accounting standard-setting process. Some managers may be motivated more by political considerations than by economic consequences considerations.

As in prior studies, models for both the lobbying choice decision and the position choice decision were estimated using corporate characteristics. The models were used to test the hypotheses generated from the positive theory. For the lobbying decision, tests appeared to confirm the theory. Higher levels of public debt versus private debt and of renegotiation costs were associated with the decision to lobby. Lower percentages of management ownership were similarly associated. For the position choice decision, an insignificant model precluded the testing of the positive theory hypotheses.

Finally, the dichotomy of lobbying frequency classification was applied to the lobbying choice and position choice models. The results indicate that the

models perform better for the infrequent lobbyists than for the frequent lobbyists.

Chapter 5 discusses the implications of the above findings within the context of the accounting standard-setting process. In addition, the final chapter includes a discussion of the limitations of the study and recommendations for future research.

CHAPTER 5

SUMMARY AND CONCLUSIONS

This chapter contains the major conclusions of the study along with a discussion of the implications of these findings, a summary of the study's methodology, an analysis of the study's limitations, and recommendations for future research in the area.

Objectives and Major Conclusions of the Study

The primary objective of this study is to examine the motivations of managers in the accounting standard setting process through the joint consideration of political and economic consequences theories. Although managers comprise only one group of participants in accounting standard setting, understanding the motivations for their actions is important because they have the ability to counteract the effects of a proposed standard through the reallocation of resources within their firms. To this end, prior lobbying studies have attempted to model these decisions using

economic consequences theories. The major premise underlying the design of the present study is the inadequacy of these models in determining the decisions made by managers in the standard setting process. In particular, the positive theories do not adequately explain the existence of lobbying by managers who are not directly affected by a proposed accounting standard. The study introduces the multi-period political aspects of these decisions by delineating between those managers who frequently lobby and those who do not. A major conclusion of the study results from this delineation:

> (1) Significant differences in corporate characteristics exist between the frequent lobbyists and infrequent lobbyists.

Frequent lobbyists are generally larger companies with greater proportions of public debt relative to private debt and with a smaller percentage of the firm owned by officers and directors as a group. This finding confirms the political theories which maintain that lobbyists are larger because they can appropriate a larger share of the benefits of lobbying relative to their costs of lobbying. They are also less likely to be "free-riders" than are small companies. In addition, lobbying frequency may be associated with greater amounts of public debt and larger debt renegotiation costs because the debt covenant agreements are usually written in terms of financial

characteristics. Therefore, companies with these debt covenant agreements would express more concern with changes in accounting standards than would companies with relatively less public debt.

The association between lobbying frequency and a smaller percentage of management ownership may exist if the managerial labor market functions as a disciplining mechanism (Fama, 1980). The managerial labor market may utilize signals provided by the value of a firm's stock. To the extent that changes in accounting standards affect the value of the firm, managers may be more inclined to lobby to influence the outcome of the standard-setting process.

The existence of these differences between the frequent lobbyists and the infrequent lobbyists may imply a difference in focus on economic consequences. The political theory suggests that managers of companies that are not directly affected by a proposed standard may be driven to lobby by the consideration of long-term economic consequences as manifested by the existence of long run participation value (LRPV). If these political motivations drive the decisions of a particular group of managers in the standard-setting process, then the economic consequences models should not perform as well in identifying the decisions (both lobbying and position choices) made by the frequent lobbyist group. The results of this study for the

lobbying choice decision tend to confirm this conjecture. When the firms in the study were segregated by lobbying frequency, the economic consequences model provided a good fit for the infrequent lobbyists and a poor fit for the frequent lobbyists. Due to the poor fit of the overall model for the position choice decision, the results for position choice are not as definitive but tend to show the same general trend.

Given that the frequent lobbyists have significantly different financial characteristics than do the infrequent lobbyists, the two groups may also differ on position choice. The second major conclusion of the study concerns the existence of these differences:

> (2) Frequent lobbyists tend to select different position choices from the infrequent lobbyists.

The two groups responded differently in terms of the positions taken on SFAS No. 94. Frequent lobbyists were more likely to support the FASB's position on this issue than were infrequent lobbyists. The results remained the same when the groups were subdivided based upon the presence or absence of unconsolidated finance-related subsidiaries. This conclusion implies that the past pattern of lobbying activities should be considered by the FASB as they guage support for their proposals. If frequent lobbyists choose to lobby for political reasons (LRPV), they may react

differently to a proposed standard than would the infrequent lobbyists who choose to lobby because the standard directly affects them. To the extent that such politically motivated lobbying occurs, the FASB's assessment of the direct economic consequences of a proposed standard becomes more difficult to make.

The major conclusions above may also provide an explanation for the finding by Saemann (1987) concerning the lack of independence between the lobbying decision and the position choice decision. Saemann speculated that, for the managers on the pension issue, the decision to lobby seemed to precede the position choice decision. This could, in fact, be the case if the lobbying decision is more politically motivated and these political motivations also impact the position choice decision. For those companies that have established a policy of responding to invitations to comment, the only decision that needs to be made is position choice. For these companies, if there are negligible direct adverse economic consequences of the proposed standard, the position choice selected is more likely to be different from the choice made by an infrequent lobbyist who is directly affected by the standard. The results of this study may be interpreted as providing support for this sequence of events. In fact, given this decision sequencing, it is not surprising that the lobbying

choice models performed as hypothesized while the position choice results were less clear. These results imply that economic consequences theories appear to be stronger drivers of position choice than of lobbying choice.

Other Conclusions and Implications

For the decision to lobby, the study provides support for the corporate characteristic proxies suggested by extant lobbying theories. As hypothesized in the study, both higher levels of public debt versus private debt and of renegotiation costs were associated with the decision to lobby. Lower percentages of management ownership were similarly associated. However, there was no significant association between size and the lobbying decision in this study. Although prior studies documented a significant size effect, the lack of a size effect in this study may be due to the definition of size used in the study. The measure of size used sales deflated by the total sales of all COMPUSTAT firms within the same four digit SIC industry. Deflating the sales figure removes some of the variability that exists in this measure in other lobbying studies. Only McKee et al. (1984) used the same measure of size. While that study did document a significant size effect, the sample size was

much smaller than in this study. A larger sample size tends to decrease variability.

For the position choice decision, the theories do not perform as well. Only the percentage of management ownership was slightly significant in the models, but the sign was opposite from the hypothesized direction. The model may have been under-specified to the point of reducing the model's power to discriminate. A somewhat related alternative explanation for the poor results might be that the model was not contextually specific enough.

The new variable constructed to measure the renegotiation costs of debt appears to be a significant variable in the model of the lobbying decision. The DEBT variable exhibited a statistically significant parameter estimate in the lobbying choice model and was therefore used in the test of the hypothesis concerning leverage. The construction of this variable provides an initial step in refining the proxy measurement for the construct of agency costs of debt. As previously discussed, a measurement of renegotiation costs comprises one small part of these agency costs. Testing of the variable in the context of other lobbying studies is needed to validate the results found in this study.

Implications

Accounting standard setting operates within a self-regulated political environment. If the position choices of managers are of interest to these policy makers as part of their assessment of the economic consequences of proposed standards, then the findings of the study should be useful. Frequent lobbyists may lobby before the FASB for political reasons as opposed to direct economic consequences grounds. Knowledge of the likely comments of those who do *not* participate in standard setting could be potentially useful to policy makers, particularly if the comments of those who *do* respond are predisposed toward a particular viewpoint. Therefore, models of the kind examined in lobbying studies may be beneficial in identifying those likely to submit comment letters and the nature of those comments. As Griffin (1983, p. 137) states, this ". . . could aid, and ultimately make more efficient, the standard setters' research process."

The conclusions discussed above result from accomplishing the study's major objectives. The following section presents a brief review of the research methodology used to accomplish these objectives.

Review of the Research Methodology

To accomplish the objectives of the study, 230 companies were identified as SFAS No. 94 lobbyists and/or companies with unconsolidated finance-related subsidiaries. The sample companies were segregated into groups based on a lobbying frequency classification. COMPUSTAT, annual reports, proxy statements, and various Moody's Manuals were used to collect the financial data of these companies.

Hypotheses were developed concerning differences between the lobbying frequency groups. These hypotheses (H_A1 and H_A2) were tested by using the univariate Wilcoxon-Mann-Whitney test and a chi-square test. Additional hypotheses were generated to test extant lobbying theories. For the tests of these hypotheses (H_A3 through H_A9), models of lobbying choice and position choice were developed and tested for overall significance, classification accuracy, and significance of the individual parameter estimates. The models were re-estimated for the groups based on lobbying frequency and the results were compared to the models for the entire unsegregated sample. An overview of the methodology appears in Figure 1 on page 45.

Limitations of the Study

The design of the study utilized all the members of two particular groups, the SFAS No. 94 lobbyists and all companies identified as having finance-related subsidiaries. The intersection of these two groups was not large enough for adequate statistical testing purposes. This form of sample selection precluded random assignment of subjects into groups. Therefore, threats to internal validity must be recognized. With a pseudoexperimental design, such as the static-group comparison used in this study, possible sources of invalidity include selection, history, maturation and regression (Huck, Cormier, and Bounds, 1974). With the possible exception of regression, these threats to internal validity could exist. Threats to internal validity affect the ability to infer cause and effect. However, using all defined members of some subpopulations (for example, all companies affected by SFAS No. 94) may still allow for some inferences if the group is considered to be representative of expectations of how companies might behave on other accounting issues. If the purpose of using the data from this defined group is to develop models which will help to discriminate or predict group membership, then the threats to internal validity may be mitigated somewhat.

Problems with validity may arise whenever proxies must be chosen to represent theoretical constructs. Construct validity, or the ability of a proxy to measure the construct it is intended to measure (convergent validity) and only that construct (discriminant validity), may be of concern in this study as in all prior lobbying studies. The construction of the new variable (DEBT) in the study represented an ongoing attempt to address this issue within the body of lobbying studies. Nevertheless, the results are limited to the extent that the chosen variables represent their intended constructs.

Finally, as previously mentioned, the models used in the study may be under-specified. There may be an important variable that has not been included in the models. Because the lobbying literature is in a relatively early stage of development, the theories developed in this area are not complete enough to rule out this possibility. It is intuitively obvious that a variable measuring past lobbying frequency would be a strong predictor of future lobbying behavior. This was controlled for in the study by dividing the companies on the basis of this variable. However, other possible omitted variables may exist.

Recommendations for Future Research

An extension of the study is to see if the position choice differences by frequency class hold true on other issues, particularly ones where most companies probably opposed the FASB position. Similar findings on other issues would lend support to the inclusion of variables measuring politically motivated constructs in future lobbying studies. A proxy for long-run participation value is an example of a non-economic consequences motivated variable. This variable could possibly be measured by contributions to the Financial Accounting Foundation, which oversees the FASB's operations.

Regarding the consolidation of all majority-owned subsidiaries, an interesting extension would be to see what kind of operating changes were made by the companies classified as infrequent lobbyists versus those classified as frequent lobbyists. For example, in their 1988 annual report, the Coca-Cola Company reported reducing their ownership interest in Columbia Pictures Entertainment, Inc. to 49%. In addition, they formed Coca-Cola Enterprises, Inc. (CCE), and transfered to it the operating assets of substantially all company-owned bottling companies. They then sold shares of CCE to the public and reduced their ownership interest to 49%. In the present study, the Coca-Cola Company is classified as an infrequent lobbyist opposed to the requirements of SFAS No. 94. To date, only Kelly

(1982) has tried to determine if compliance with new accounting standards resulted in changes in financing or operating activities. A questionnaire was used to make the determination rather than gathering data from the annual reports.

Within the realm of lobbying studies, comment letters are a relatively low-cost form of lobbying. Presentations at public hearing are a more costly form of lobbying. A possible related study could apply the lobbying theories to those companies making presentations across issues and over time. This would also introduce a multi-period orientation to the lobbying literature, the lack of which was criticized by Amershi et al. (1982).

The results of the current study provide a link between political theories of lobbying and the more traditionally used positive theories of lobbying which are based on direct economic consequences considerations. These results suggest that political considerations should be included when modeling lobbying decision choices. The inclusion of variables that proxy for such political considerations would enrich extant theories of lobbying behavior and would deepen the understanding of managers' motivations in the accounting standard setting process.

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APPENDIXES

APPENDIX A

Exposure Drafts Used to Determine Lobbying Frequency

SFAS No.	Exposure Draft Title	Issue Date
76	Extinguishment of Debt and the Off-setting of Restricted Assets against Related Debt	10/82
	Extinguishment of Debt	07/83
80	Accounting for Futures Contracts	07/84
81	Disclosure of Postretirement Health Care and Life Insurance Benefits	07/84
84	Induced Conversions of Convertible Debt--an Amendment of APB Opinion No. 26	12/84
85	Yield Test for Determining Whether a Convertible Security is a Common Stock Equivalent--an Amendment of APB Opinion No. 15	12/84
87	Employers' Accounting for Pensions	03/85
88	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits	06/85
89	Financial Reporting and Changing Prices: Current Cost Information	12/84
	Financial Reporting and Changing Prices	09/86
94	Consolidation of All Majority-Owned Subsidiaries	12/86
95	Statement of Cash Flows	07/86
96	Accounting for Income Taxes	09/86

APPENDIX B

Names of Companies Used in the Study

AAR Corporation
AMCA International Ltd.
AM International Inc.
AMR Corporation
Abbott Laboratories*
Aetna Life Insurance Co*
Agway Inc.
Alcan Aluminum Ltd.*
Allegheny International
Allen Group
Allied Products
Aluminum Company of America*
Amerada Hess Corp*
American Express*
American General Corp
Ameritech*
AT&T*
Ametek*
Amoco Corp*
Ampco-Pittsburgh Corp
Ashland Oil Co*
Atlantic Richfield
Atlantic City Electric Co*
Baldwin Piano & Organ Co*
Basic American Md
Baxter Travenol Laboratories
Bell & Howell Co
Bell Atlantic Corp*
Bell Canada Enterprises
Bellsouth Corp*
Beneficial Corp*
Blount Inc
Borg-Warner Corp*
CIGNA Corp*
CPC International Inc*
CSX Corp*
Caterpillar Tractor Co*
Centel Corp
Centex Corp*
Champion Home Builders Co
Chevron Corp*
Chrysler Corp*
Cincinnati Milacron Inc
Clark Equipment Co
Clayton Homes Inc
Coastal Corp
Coca-Cola Company*
Collins Industries Inc*
Columbia Gas System Inc*
Commercial Metals Co
Conagra Inc*
Con Edison Co of New York*
Contel Corp
Control Data Corp
Corning Glass Works*
Cubic Corp
Cummins Engine Co Inc
Dana Corp*
Deere & Co*
Delmarva Power*
Diebold Inc
Dillard Dept Stores
Disney (Walt) Productions*
Dow Chemical Co*
Dravo Corp
Dresser Industries Inc
Du Pont*
Duke Power Co*
EG&G Inc
Eaton Corp*
Ecolab
Emerson Electric Co*
Exxon Corp*
FMC Corp
FPL Group Inc*
Fairchild Industries Inc
Federal Signal Corp
Federated Dept Stores Inc
Figgie International
Fleetwood Enterprises
Fleming Companies Inc
Fluor Corp*

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*SFAS No. 94 Lobbyist

APPENDIX B (continued)

Ford Motor Co*
Forest City Enterprises Inc
Fruehauf Corp
Fuqua Industries Inc*
GTE Corp*
General Datacomm Inds Inc
General Dynamics Corp
General Electric Co*
General Homes Corp*
General Mills Inc*
General Motors Corp*
Gen Physics
Gerber Products Co*
Greyhound Corp*
Grumman Corp*
Guardsman Chemicals Inc*
Gulf States Utilities Co*
HCC Ind
Halliburton Co
Harnischfeger Corp
Harris Corp
Health-Mor Inc
Heck's Inc
Hercules Inc*
Hesston Corp
Hewlett Packard*
Hickory Furniture Co
Honeywell Inc
Household International*
ITT Corp*
Illinois Tool Works Inc
Ingersoll-Rand Co
Inland Steel Industries
Integrated Resources Inc
Intermark Inc
IBM Corp*
Iowa-Illinois Gas & Electric*
Jacobson Stores Inc
K Mart Corp*
Kaiser Aluminum & Chemical*
Kansas Gas & Electric
Kerr-McGee Corp*
Kimberly-Clark Corp*
LSB Industries Inc
Lane Telecomm
Limited Inc
Litton Industries Inc
Lockheed Corp
Lone Star Industries Inc
Macy (R H) & Co
Marriott Corp*
McCormick & Co Inc*
McDonnell Douglas Corp*
Measurex Corp
Mediq Inc
Mercantile Stores Co Inc
Meredith Corp
Minnesota Mining & Mfg*
Mitchell Energy
Mobil Corp*
Motorola Inc*
NCR Corp
Nalco Chemical Co
National Medical Enterprises
National Semiconductor
Navistar International Corp*
NICOR*
Nordstrom Inc
Norstan Inc
Norton Co*
Nynex Corp*
Oakwood Homes
Occidental Petroleum Corp
Ogden Corp
Otter Tail Power Co*
Owens-Illinois
PACCAR Inc
Pacific Lighting Corp
Pacific Telecomm
Pacific Telesis Group*
Pacificorp*
Paradyne Corp
Penney (J C) Co*
Penwalt Corp*
Petrie Stores Corp
Philip Morris*

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*SFAS No. 94 Lobbyist

Phillips Petroleum Co*
Pitney-Bowes Inc
Pizza Inn Inc
Ponderosa Inc
Portec Inc
Potomac Electric Power Co*
Prime Computer Inc*
Primark Corp*
Public Service Co of New Hamp
Public Service Electric & Gas*
Pulte Home Corp*
Raymond Corp
Raytheon Corp
Reynolds & Reynolds
Rockwell International Co
Rohr Industries
Ryland Group Inc
Sara Lee Corp*
Sears Roebuck and Co*
Singer Co*
Smith (A O) Corp*
Smithkline Beckman Corp*
Sonat Inc*
Southern California Edison*
Southern New England Telecomm
Southmark Corp*
Southwest Gas Corp*
Southwestern Bell Corp*
Square D Co
Standard Oil Co of Ohio*
Steego Corp
Sun Electric Corp
Sun Co Inc
Teledyne Inc
Temple-Inland Inc*
Tenneco Inc*
Texaco Inc*
Texas Industries Inc
Textron Inc*
Toro Co
Transamerica Corp*
Transco Energy Co*
Triad Systems
Triangle Industries
USX Corp*
Union Carbide Corp
Union Pacific Corp*
UNISYS Corp*
U S Home Corp*
U S Shelter Corp
U S West Inc*
United Technologies
Universal Health Services Inc
Unocal Corp*
Upjohn Co*
Valmont Industries Inc*
Wendy's International Inc
Westinghouse Electric Corp*
Weyerhaeuser Co*
Whirlpool Corp*
Winnebago Industries
Xerox Corp*

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*SFAS No. 94 Lobbyist

VITA

Gwendolyn Richardson Pate was born in Salzburg, Austria on December 3, 1954. She was valedictorian of the Class of 1973 at Union High School in Union, Mississippi. In September of 1973, she entered the University of Southern Mississippi and graduated with a bachelors degree in Music History and Literature in May of 1977. She received a Masters degree in Professional Accountancy with highest honors from the University of Southern Mississippi in August of 1981. Following a period of employment as an accountant for a home health agency, she accepted employment as an instructor of Accounting at the University of Southern Mississippi in January of 1983.

The author accepted a graduate teaching assistantship at the University of Tennessee, Knoxville, in the fall of 1986. She completed the requirements for the Ph.D. in Business Administration with a concentration in accounting in December of 1990 and participated in graduation ceremonies in May of 1991.

Ms. Pate is a CPA, a member of Phi Kappa Phi, Beta Alpha Psi, Beta Gamma Sigma, and the American Accounting Association. She is married to John F. Pate, Jr. and is currently employed as an Assistant Professor at the University of Southern Mississippi in Hattiesburg, Mississippi.