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Lobbying Activity in the Standards Setting Process: FASB Statement on Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions"

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**LOBBYING ACTIVITY IN THE STANDARDS SETTING PROCESS:
FASB STATEMENT ON FINANCIAL ACCOUNTING STANDARDS NO. 106,
"EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS"**

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FASB STATEMENT ON FINANCIAL ACCOUNTING STANDARDS NO. 106,
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OTHER THAN PENSIONS"**

**A dissertation submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy**

By

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CHAPTER 1
OVERVIEW OF THE STUDY

INTRODUCTION

Arthur R. Wyatt, a former member of the Financial Accounting Standards Board (FASB), stated (1977) that the FASB should be more aware of the economic consequences of proposed accounting standards so it can be prepared to meet opposition. Economic consequences arise from contracting and monitoring costs associated with contractual agreements (e.g., lending agreements) and political costs (e.g., taxation, regulation, and antitrust legislation) (Watts and Zimmerman, 1986). The FASB must anticipate concerns of its constituents about the economic consequences of accounting changes if it expects to build support for these changes (Saemann, 1987).

Recently, the FASB has been further criticized by various sources concerning the standards and the standards setting process (Chaney and Jeter, 1989; and Ihlanfeldt, 1991). There has been dissension over the economic consequences of several recent FASB exposure drafts and related standards. The FASB received many objections over the absence of practical considerations in FASB Statement No. 87, "Employers' Accounting for Pensions" (Wyatt, 1990). A related topic, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (OPEB) Statement No. 106

released in December of 1990, received much criticism during the comment period of the related exposure draft (FASB, 1990).

PURPOSE OF THE STUDY

The purpose of this study is to explain and classify the behavior of corporate managers¹ in the accounting standards setting process as it related to OPEB in order to provide insight for developing a more effective process. This study examined two decisions made by management: (1) the decision whether or not to participate in lobbying activities during the comment period of the OPEB exposure draft; and (2) the position taken on the OPEB exposure draft.

This study compared the results of surveys of two groups of corporate representatives-- those who filed written comments with the FASB on its exposure draft, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and a sample of corporate representatives who did not file comments on that exposure draft. The sample of nonfilers was selected from corporations that provide postretirement benefits other than pensions and are in industry categories similar to corporations whose representatives filed comment letters with the FASB. The

¹ In this study corporate managers are assumed to express the position of their employers in regard to proposed financial reporting standards.

results of the surveys were analyzed in an attempt to determine the reasons why the filers decided to lobby and the nonfilers decided not to lobby. The survey of nonfilers requested information as to the corporate position on the OPEB exposure draft; the position of filers was determined from their comment letters.

Differences in the position taken and differences in the decision to lobby between these two groups were then analyzed. Knowledge about the characteristics of lobbyists² in comparison with characteristics of nonlobbyists is intended to provide the FASB with information useful for increasing the participation in the accounting standards setting process. Corporate characteristics (such as firm size, leverage position, accounting method used for OPEB costs, and maturity of workforce) of firms whose representatives submitted comment letters to the FASB on OPEB were compared to the same corporate characteristics of firms whose representatives did not submit such letters.

The remainder of this chapter describes the accounting standards setting process, presents an overview of the OPEB issue, and identifies the contributions of this study.

² The terms "lobbyists" and "filers" are used interchangeably throughout this paper.

THE ACCOUNTING STANDARDS SETTING PROCESS

The Financial Accounting Standards Board is the standards setting agency for business and nongovernmental not-for-profit organizations. Although the FASB is not a government agency, much of its authority depends on the support of governmental bodies, such as the Securities and Exchange Commission. Private sector support for the FASB's accounting standards has come from the American Institute of Certified Public Accountants (AICPA). The AICPA's Code of Professional Ethics Rule 203 prohibits an auditor from stating that a client's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) when they do not comply with FASB pronouncements in all material respects. Since the FASB must rely on voluntary compliance rather than legislated compliance, it must operate in an environment characterized by an open due process system.

The FASB established formal communication channels as part of its due process procedures to allow constituents to participate in the standards setting process. Kelly-Newton (1980) stated that while the due process procedures allow for considerable input to the policy maker of the reactions of its constituents, it is important that these opinions are seen as substantively impacting the final standards in order to increase public acceptance of the FASB.

The open due process system includes lobbying in the form of comment letters and documents submitted to the FASB and oral presentations at public hearings held by the FASB. Respondents to the FASB's exposure drafts may be classified as investors and creditors, management, auditors, regulators, and the academic community (Mezias and Chung, 1989). This study investigates the participation of management in response to the OPEB exposure draft because corporate management is the largest class of financial statement preparers and users (Ihlanfeldt, 1991). Corporate management consistently submits the largest proportion of the comments the FASB receives on its proposals (Mezias and Chung, 1989; and Tandy and Wilburn, 1992).

The FASB's due process system begins when an issue is considered for placement on the Board's agenda. A task force is often appointed to work with the Board with the objective of providing input and direction for a project. The task force also assists in the preparation of a discussion memorandum (DM). Discussion memoranda are distributed to subscribers and made available to others. Written comments are solicited on each DM, and public hearings may also be scheduled. After evaluation of all written and oral comments, the FASB continues its deliberations on the subject of the DM. Issuance of an exposure draft of a proposed statement of financial accounting standards follows these deliberations if a

majority of the seven Board members agree on the wording of the exposure draft.³ Constituents are invited to respond to the exposure draft with written comments and by presenting oral comments during public hearings.

In establishing financial accounting standards, two basic premises of the FASB are that: (1) it should be responsive to the needs and viewpoints of the entire economic community, not just the public accounting profession, and (2) it should operate in full view of the public through a "due process" system that gives interested persons an opportunity to make their views known (Johnson and Solomons, 1984). Accounting standards are as much a product of political action as of careful logic or empirical findings (Horngren, 1973). Lobbying is an attempt to influence the standards setting body, in this case, the FASB. The decision to lobby is analogous to the decision to vote. Two main sources of uncertainty in the voting decision are the uncertainty about the benefits of voting and the uncertainty of the effect of a vote on the outcome of the election (Downs, 1957). Lobbyists face similar uncertainties in reaching the decision to lobby (Sutton, 1984).

³ As of the date of issuance of the OPEB exposure draft, February, 1989, a simple majority vote (4 of 7) was all that was required to approve an exposure draft. However, since that time a super majority (5 of 7) is required to approve any issuance.

The most effective way to influence the standards that dictate accounting practice is to participate in the formulation of these standards, according to Dennis Beresford (1990), who has been Chairman of the FASB since 1987. Therefore, the FASB has become the target of many pressures and efforts to influence change in the development of new standards. Considering the expected economic consequences of some proposed accounting standards, it is not surprising that interest groups become vocal and critical when new standards are being formulated.

Due process procedures of the FASB have definite political process characteristics and have been shown to be influenced by the lobbying activities of interested constituents (Mezias and Chung, 1989). Operation of a system of due process depends on the manner of involvement of the participants. This study provides information about how the corporate participants and non-participants perceive the system and their role in it by analyzing corporate characteristics. Knowledge about whether corporate representatives (i.e., managers) choose to participate in the standards setting process is important to understand the standards setting mechanism (Gavens, et al., 1989). Information about participation is useful to the FASB in assessing the effectiveness of its due process procedures. Additional knowledge provided by the present study of why corporate representatives do or do not participate in the

standards setting process allows the FASB greater insight useful for motivating broader participation and enhancing communication between the standards setting body and corporate managers.

Accounting standards affect resource allocation of corporations; hence, a mechanism is needed to enable standards setters to form expectations or predictions of the effect of proposed standards (Kelly, 1982). Managements' lobbying activities provide a basis for the FASB to predict the economic consequences of a proposed accounting standard. Lobbying efforts from its constituency can assist the FASB by helping to prevent standards that are unworkable in application or too costly (Tandy and Wilburn, 1992). Knowledge about lobbying positions can assist the FASB in assessing potential opposition to a standard, as well as assessing subsequent attempts to circumvent reporting requirements, to subvert the standard, and possibly, to discredit the policymaker (Kelly, 1985).

Wyatt (1990) stressed that neutrality is a crucial characteristic of the FASB, in order to maintain the perception that it is not an agent of any special interest group. Lobbying efforts and pressures by certain groups to have their views adopted is a vital part of the due process. The Board's modification of its position in reaction to such efforts does not necessarily support the conclusion that the Board is primarily political in nature. For its long run

survival the Board must continually reinforce its credibility. A policy of neutrality effectively applied helps the Board avoid becoming anyone's agent for social change. When some parties do not participate, the risk of the process becoming less neutral and more political increases by unduly reflecting the views of one or a few special interests (Wyatt, 1990).

The objective of this study is to provide information as to why a standard is favored or opposed. Some lobbyists describe the actions that they plan to take if the standard is passed (King and O'Keefe, 1986). The FASB can judge the importance of the proposed standard to affected firms by the number of lobbying comments, the position taken, and the intensity of the positions taken by the lobbyists.

The FASB conducts its activities under a precept that calls for "promulgating standards only when the expected benefits exceed the perceived costs," (FASB, 1992, p.1). The cost of compliance incurred by preparers should be less than the benefit to users having information they need to make prudent decisions. During the comment period for the OPEB exposure draft, the Financial Executives Research Foundation sponsored a field test conducted by Coopers & Lybrand. Coopers & Lybrand experimented with the proposed standards in an attempt to estimate the costs and feasibility of the exposure draft (FERF, 1989). Information about lobbying activities in the OPEB standards setting

process also assists the FASB in evaluating the cost/benefit issue.

**EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS**

The FASB issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," in December, 1990, which requires accrual accounting for the costs of postretirement benefits other than pensions.⁴ The Statement was the culmination of discussions that began in 1979 when the FASB added other postretirement benefits to its project on employers' accounting for pensions.

An exposure draft of a proposed statement was issued in 1979, "Disclosure of Pension and Other Postretirement Benefit Information" (FASB, 1979). Disclosure of the description of other postretirement benefits offered, accounting method used for these costs, and amount of these costs for the current period were proposed. Controversy and confusion over the exposure draft led the FASB to drop other postretirement disclosures from the final Statement No. 36 (FASB, 1980) issued in 1980 (Schwartz and Lorentz, 1986).

The FASB issued a discussion memorandum in 1981 which examined accounting for pensions and other postemployment

⁴ "This Statement is effective for fiscal years beginning after December 15, 1992, except that the application of this Statement to plans outside the United States and certain small, nonpublic employers is delayed to fiscal years beginning after December 15, 1994. The amendment of Opinion 12 is effective for fiscal years beginning after March 15, 1991." (FASB, 1990, p. 35.)

benefits (FASB, 1981). Types of benefits included in "other postemployment benefits" were identified as healthcare, tuition assistance, and legal services. Postemployment is defined as the period of time after termination (which includes the period before retirement) during which disability and other benefits may be provided, whereas postretirement is defined as the period after retirement. Postretirement healthcare and life insurance were reported by the FASB to be more significant than other benefits (FASB, 1981).

In 1982, the FASB issued a preliminary views document which proposed that postretirement healthcare and life insurance benefits be accrued over the period that the employee rendered service (FASB, 1982). Further study of the issue by the FASB and the publication of another discussion memorandum in 1983 followed (FASB, 1983). Measurement and transitional problems associated with other postemployment benefits were addressed by the memorandum.

The FASB separated other postemployment benefits from pensions in February, 1984. The other postemployment benefit issue had been overshadowed by the pension issue. The FASB believed the separation of these two issues would allow better identification and consideration of the problems (Schwartz and Lorentz, 1986).

Statement No. 81 was issued in November, 1984, requiring disclosure in the notes to the financial

statements of the postretirement healthcare and life insurance benefits costs, employees covered, accounting method, and funding policies (FASB, 1984). In April, 1987, Technical Bulletin 87-1 was issued to provide guidance to firms which voluntarily accrued postretirement benefits (FASB, 1987).

Currently, most firms treat OPEB as a part of their labor costs, accounting for them on a pay-as-you-go basis (Gerboth, 1988). However, the magnitude of OPEB has been increasing due to an increasing number of retirees, a longer life expectancy, rising healthcare costs, and a reduction in Medicare coverage as a proportion of the total cost of healthcare (Elnathan, 1989). Estimates by the Employee Benefit Research Institute project the national OPEB liability to be about \$280 billion (Thomas and Farmer, 1990). The rapidly increasing size of the OPEB liability and its potential impact on the reported financial condition of individual companies led the FASB to issue in February, 1989, an exposure draft of a proposed statement on OPEB intended to enhance the usefulness and integrity of the employers' financial statements (FASB, 1989). The proposed statement required employers to accrue the expected cost of postretirement benefits, during the service lives of employees anticipated to receive postretirement benefits other than pensions.

After considering written comments on the OPEB exposure draft and oral comments at public hearings held in New York City and in Washington, D.C., the FASB issued in December, 1990, its Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Statement No. 106 reporting requirements are similar to those required for pensions (FASB, 1985). Recognition of the actuarial present value of the OPEB obligation as a liability and the recognition of the cost of postretirement benefits is required. It is generally agreed that costs should be accrued over the employees' working years since the postretirement benefits are a form of deferred compensation. The measurement of these costs presents formidable problems (Gerboth, 1988).

Initial adoption of Statement No. 106 could result in a large increase in expenses and liabilities of organizations subject to the Statement. International Business Machines Corporation adopted Statement No. 106 in the first quarter of 1991, resulting in a charge of \$2.3 billion (Hooper and Berton, 1991). General Electric Company estimated the impact of the new statement to be a \$2.7 billion reduction in pretax profits; Lockheed disclosed the effect to be approximately a \$1 billion reduction in pretax profits (Hooper and Berton, 1991).

Potential increases in liabilities and reductions in net income caused the exposure draft to attract much

attention. The FASB received 463 comment letters and held five days of public hearings on the OPEB exposure draft during the comment period.

The objective of the due process used by the FASB is to build consensus for financial accounting standards (Kirk, 1981). Since the FASB functions in a political setting, the need to build consensus is critical (Hinckley, 1981). The FASB's OPEB accounting project was the object of protracted, and sometimes heated, lobbying efforts in the form of comment letters, presentations at public hearings, addresses, news editorials, and many personal contacts (Beresford, 1990).

CONTRIBUTIONS OF THE STUDY

This study examined the standards setting process for postretirement benefits other than pensions. A review of the literature revealed that studies of the accounting standards setting process have been conducted on a limited number of proposed accounting standards (Watts and Zimmerman, 1978; Hagerman and Zmijewski, 1979; Francis, 1987; Saemann, 1987; and Chung, 1990). However, no studies of both the position and decision to lobby on the OPEB issue were found. Since the OPEB accounting standard significantly changes the prevalent current practice of accounting for postretirement benefits on the pay-as-you-go basis, an examination of this issue appeared warranted.

Therefore, a study of the standards setting process for OPEB was expected to represent a significant contribution to the existing position choice and lobbying research body of knowledge.

A limitation of previous research is the omission of a variable representing the lobbying activities encouraged by a professional association or an industry association. Lobbying activities by professional associations are a large portion of all political activities (Mezias and Chung, 1989). An examination of the comment letters submitted to the FASB in response to the OPEB proposal revealed that professional and/or industry associations encouraged corporate managers to lobby. It appears that some lobbying activities which seem to be independent actions of corporate managers are initiated by professional associations and industry associations. This study addressed the issue by asking corporate managers if they were contacted by a professional association and/or industry association for the purpose of encouraging participation in lobbying activities for OPEB.

As discussed in Chapter 2, most previous research examined either the decision to lobby or the position taken on a proposed accounting standard. Saemann (1987) investigated both the position and the decision to lobby on the proposed statement on pensions. This study extends Saemann's research by examining the position and the

decision to lobby on the proposed statement on OPEB. Studying just the position taken on a proposed standard ignores a major segment of information generated by the lobbying process. Improved information is provided when the position and the decision to participate are both considered. A silent majority exists which does not participate (Beresford, 1990) and this study was undertaken in an effort to identify the factors that lead to a decision to participate or not.

ORGANIZATION OF THE STUDY

Chapter 2, "Review of the Literature," contains an overview of position choice research and lobbying participation choice research. Specific research studies are discussed. The rationale for the research hypotheses and the research methodology are developed and discussed in Chapter 3, "Research Methodology." This chapter also details the sample selection and data collection procedures, development of the research instrument, and the statistical techniques used to test each of the research hypotheses. Chapter 4, "Results of the Study," presents the data and analyzes the results of empirical tests. Chapter 5, "Summary, Conclusions, and Recommendations", includes the summary, conclusions, limitations of the study, and suggestions for future research.

CHAPTER 2
REVIEW OF THE LITERATURE

INTRODUCTION

The purpose of this chapter is to provide a brief review of the literature pertinent to the study. Two areas of research support this objective: position choice research and lobbying participation choice⁵ research. Position choice research is concerned with the identification of economic incentives that are associated with management's position taken on proposed accounting procedures. Lobbying participation choice research is a subset of position choice research. Lobbying refers to the actions which interested parties take to influence a rule-making body. Since lobbying may also reveal a preference for an accounting method, the underlying incentive to lobby should be similar to that of position choice (Francis, 1987). To understand the lobbying participation choice, position choice must also be examined to determine the economic impact of the proposed standard on the firm. The following sections summarize the relevant literature in position choice research and lobbying participation choice research.

⁵ The terms "lobbying" and "lobbying participation choice" are used interchangeably throughout this paper.

BACKGROUND

A number of researchers have tested models of managers' position and lobbying participation on various accounting issues (Watts and Zimmerman, 1978; Hagerman and Zmijewski, 1979; and Francis, 1987). These models were based on economic theories which assume that corporate managers are self-interested utility maximizers. A manager's position and lobbying participation on an accounting proposal are theorized to be driven by the proposal's influence on the manager's expected utility. The corporate manager is hypothesized to support an accounting proposal if the expected utility derived from its adoption is greater than the expected utility from alternatives. The manager is hypothesized to lobby on the proposal, regardless of his or her position, only if the proposal's expected effect on his or her utility is significant.

POSITION CHOICE RESEARCH

Previous position choice research examined the relationship between a manager's preferences on proposed accounting issues and corporate attributes. Results consistently identified firm size (measured by assets or sales) and leverage position to be significant predictors of management preferences on proposed accounting standards. Several of these previous studies which are important to the present research are discussed in the following paragraphs.

The reader should also review the related research by Hagerman and Zmijewski (1979), Dhaliwal (1980), Bowen, et al., (1981), McKee, et al., (1984), and Espahbodi, et al., (1991).

Watts and Zimmerman (1978) developed a model to investigate the relationship between selected corporate attributes and corporate managers' preferences regarding FASB Statement No. 33, "General Price Level Accounting" (FASB, 1974). By studying comment letters on the FASB's discussion memorandum on general price level accounting, they hypothesized that the position of a manager is related to firm size (measured by the firm's Fortune 500 rank in assets and sales⁶) and the expected effect of the proposed standard on the firm's earnings. As firm size increases, the firm's political visibility increases, as does the potential effects of a proposed standard on taxes and regulation (political costs) in relation to the effect on management compensation (private costs). Therefore, Watts and Zimmerman hypothesized that the manager of a large firm is more likely to support standards that decrease earnings (which results in lower political costs) and the manager of a small firm is more likely to support standards that increase earnings (which results in lower private costs). Their findings supported the hypothesis about firm size,

⁶ Watts and Zimmerman do not specify if assets and sales are reported as total or net.

which has since become known as the size hypothesis, and the effect of the statement on the firm's earnings.

Zmijewski and Hagerman (1981) studied a manager's portfolio of accounting procedure choices. The study examined inventory procedures, depreciation procedures, investment tax credit procedures, and amortization period for past service pension costs. Zmijewski and Hagerman developed 16 portfolios of accounting choices based on whether the choices were income-increasing or income-decreasing. Portfolio ranks (from income-decreasing to income-increasing) were then predicted using six corporate attributes: size (measured by the log of net sales), systematic risk (measured by beta), capital intensity (measured by gross fixed assets/sales), industry concentration (defined as the percentage of total industry sales made up by the top eight firms), presence of a bonus plan, and total debt/total assets ratio. Using probit analysis, a model was developed to predict management's choice of a portfolio. Results indicated that the presence of a bonus plan, the debt/assets ratio, and size are significant variables in the prediction of manager's accounting choice.

Holthausen and Leftwich (1983) reviewed research of the economic consequences of voluntary and mandatory choices of accounting procedures and standards. They pointed out that the economic consequences theories provide predictions about

the characteristics of firms that cause those firms to adopt specific accounting techniques. Holthausen and Leftwich (1983) identified two relationships between choices of accounting procedures and firm specific factors from previous research. These are firm size and leverage which were used as a proxy for political costs and for contracting and monitoring costs of debt agreements, respectively.

Saemann (1987) tested a model of position choice for the pension accounting issue. Probit analysis was used to test firm size (measured by total sales and book value of assets), labor intensity (measured by the number of employees per sales dollar), leverage (total debt/equity), and pension plan status (pension obligations/pension assets) for their significance in the managers' position choice. Results indicated that firm size and leverage were significant factors in the position choice.

LOBBYING PARTICIPATION CHOICE RESEARCH

Previous lobbying participation choice research examined the relationship between lobbying activities and corporate attributes. Results consistently identified firm size (measured by sales and assets) and leverage position to be significant predictors of management participation in lobbying activities for proposed accounting standards. Several of these studies which are important to the present research are discussed in the following paragraphs. The

reader should also review the related research by Bartlett (1973), Kelly (1982, 1983, and 1985), Morris (1986), and Gavens, et al., (1989).

Downs (1957) developed an economic model to explain political decision making behavior. The assumption of a self-interested utility maximizing individual is used in this model. Downs identified three factors on which an individual bases a decision to participate in voting activities. First, an individual considers the expected marginal effect of the proposed accounting change on the expected utility. Secondly, the individual's perceived ability to influence the policy outcome affects the expected benefits to be obtained by lobbying. Finally, an individual considers the costs of lobbying when making the decision whether or not to lobby.

Sutton (1984) applied Downs' voting model to the lobbying setting. According to Sutton, lobbying generates low returns because of the free-rider problem and the low probability of influencing the decision. Sutton concluded: (1) producers of financial statements are more likely to lobby than consumers of financial statements; and (2) large producers are more likely to lobby than small producers, due to the cost of lobbying.

Dhaliwal (1982) examined the positions of comment letters submitted in response to the FASB discussion memorandum on accounting for interest costs (FASB, 1975).

Dhaliwal hypothesized that firms with higher leverage ratios oppose accounting standards which decrease reported earnings or equity, or increase the volatility of reported earnings. Also tested were the size (in terms of assets) and bonus plan variables. The results of univariate tests, the Mann-Whitney U test and the chi-square goodness of fit test, did not find the size or bonus plan variables significant in predicting lobbying behavior. However, the results did support the significance of the leverage variable. Dhaliwal then performed discriminant analysis to determine the discriminatory power of the independent variables. The model was able to distinguish between the firms that opposed interest capitalization and those that opposed the expensing of interest by classifying 81.82 percent correctly.

Francis (1987) investigated lobbying activities on the FASB's Preliminary Views on "Employers' Accounting for Pensions and Other Postemployment Benefits." The author presented two hypotheses: (1) lobbying firms are expected to be larger (firm size measured by net sales); and (2) lobbying firms are expected to have a relatively larger pro forma negative impact on financial statements (larger pension liability and larger pension expense). Francis examined the variables size (net sales), leverage (net pension liability/assets), and a ratio of pension expense to pretax earnings. Univariate and multivariate tests were conducted using the Mann-Whitney U and logit procedures.

Univariate test results indicated that size (net sales), leverage, and the pension expense ratio were significantly different between lobbying and nonlobbying firms. A matched pairs design was also performed on 75 lobbying and 75 nonlobbying firms matched by size (net sales) and SIC code, with similar results. Francis concluded that both firm size, measured by net sales, leverage, and negative financial statement effects influence the decision to lobby.

Saemann (1987) developed and tested a model of lobbying participation choice for the pension accounting issue. A randomly selected sample of firms, including comment letter filers and nonfilers, was obtained and tested for significant factors between the groups. Probit analysis was used to test the following factors influencing lobbying participation choice; firm size (measured by total sales and book value of assets), labor intensity (measured by the number of employees per sales dollar), leverage (total debt/equity), pension plan status (pension obligations/pension assets), managers' cost expectations of the proposed standard, and managers' perceptions of the FASB. Results indicated that firm size, managers' cost expectations of the proposed standard, and managers' perceptions of the FASB were significant factors in lobbying participation choice.

Deakin (1989) investigated lobbying activity by the oil and gas industry over the discussion memorandum (FASB,

1975), exposure draft (FASB, 1977), and SEC appeal of the full cost accounting method (SEC, 1978). The oil and gas accounting debate began when the FASB was delegated to develop a uniform accounting method for the industry by the Energy Policy and Conservation Act of 1975. The related discussion memorandum and exposure draft, issued by the FASB, proposed the elimination of the full cost accounting method that had been used by many oil and gas firms. The FASB's decision was appealed to the SEC after the final statement was issued. Therefore, there were three different events where lobbying activity was undertaken. Deakin tested debt covenant costs, existence of bonus plans, the size of the operations subject to the accounting change (measured by expenditures on oil and gas activities), and regulation in a logit regression model. The models, one for each lobbying event, were significant in the prediction of a firm's decision to lobby. The logit classification models were consistently better than chance in predicting lobbying on these events. The model correctly classified 79.8 percent of the firms for the discussion memorandum, 82.2 percent of the firms for the exposure draft, and 76.3 percent of the firms for the SEC appeal.

SUMMARY

In summary, previous research investigated the relationship between various corporate attributes and managements' position and decision to lobby on a proposed standard. Results consistently identified firm size (as defined by assets and sales), impact of the proposed standard on the financial statements, and leverage position as significant factors in managements' position on a proposed standard. Research on the decision to lobby found firm size (measured by assets and sales), the impact of the proposed standard on the financial statements, and the leverage position to be significant factors. The important variables of selected empirical research studies are summarized in Table 2-1. Drawing from previous research this study develops and tests the hypotheses described in Chapter 3.

TABLE 2-1

Summary of Selected Empirical Research Results

Position Choice

<u>Study</u>	<u>Important Variables</u>
Watts and Zimmerman (1978)	Firm Size (assets and sales ⁷) Expected Effect of Proposed Standard on Firm's Earnings
Zmijewski and Hagerman (1981)	Firm Size (log of net sales) Existence of Bonus Plan Leverage (debt/assets)
Saemann (1987)	Firm Size (total sales and book value of assets) Leverage (debt/equity)

Lobbying Participation Choice

Dhaliwal (1982)	Leverage (debt/equity)
Francis (1987)	Firm Size (net sales) Leverage (net pension liability/assets) Financial Statement Effects (pension expense/pretax earnings)
Saemann (1987)	Firm Size (total sales and book value of assets) Managers' Cost Expectations Managers' Perceptions of FASB
Deakin (1989)	Debt Covenant Costs Existence of Bonus Plans Size of Operations (expenditures on oil and gas activities) Regulation

⁷ Assets and sales are not identified as total or net.

CHAPTER 3
RESEARCH METHODOLOGY

INTRODUCTION

In this dissertation, a corporate representative's position choice and lobbying participation choice models on the OPEB accounting issue are derived from positive accounting theory⁸ and Downs' model of political behavior. Initial recognition of the reported OPEB expense, OPEB liability, and footnote disclosures are required by Statement No. 106, issued in December, 1990, effective for fiscal years beginning after December 15, 1992, except that the application of this Statement to plans outside the United States and certain small, nonpublic employers is delayed to fiscal years beginning after December 15, 1994 (SFAS No. 106, p. 35). These changes are expected to result in real cash outflows (costs) as a result of changes in contractual arrangements such as debt covenants, management compensation arrangements, and union contracts. The position taken by a corporate representative is hypothesized to be related to expected changes in corporate political costs, leverage position, impact on the financial statements, and accounting method used for OPEB costs before the effective date of the proposed standard (Watts and

⁸ Positive accounting theory refers to accounting theory that attempts to explain and predict phenomena (Watts and Zimmerman, 1986).

Zimmerman, 1978; Zmijewski and Hagerman, 1981; Holthausen and Leftwich, 1983; and Saemann, 1987). The manager's lobbying participation choice is hypothesized to be related to encouragement by a professional association and/or industry association to participate in the standards setting process, impact on the financial statements, leverage position, and firm size (Dhaliwal, 1982; Kelly, 1982 and 1985; Francis, 1987; and Saemann, 1987).

This chapter formalizes the anticipated statistical relationships between corporate characteristics and encouragement by professional organizations and/or industry associations with corporate manager position choice and lobbying participation choice in the standards setting process of the OPEB exposure draft. Two sets of hypotheses are described, one set for position choice and one set for lobbying participation choice. The population, target population, and sample are identified, the research instrument is developed, and a description of the statistical methodology is presented.

DEVELOPMENT OF THE POSITION CHOICE HYPOTHESES

Initial adoption of the standard and accrual of the OPEB obligation was expected to result in an increase in liabilities and expenses for firms that used the pay-as-you-go method of accounting for postretirement benefits other than pension. Management chooses a position based on the

perceived effects of the proposed standard on the firm. The first set of hypotheses concerns the relationship between the position taken by a management representative on the OPEB exposure draft and the expected costs to the corporation employing the representative. The variables used to express these hypotheses are (1) firm size (measured by number of fulltime, nonseasonal employees), (2) maturity of the workforce (measured by the ratio of employees to retirees), (3) the debt to equity ratio (measured by the book value of debt before recognition of the OPEB liability divided by the book value of equity), and (4) the accounting method used for OPEB costs before the effective date of the proposed standard.

Prior research identified political costs, as measured by firm size (variously defined as total assets, net sales, or number of employees), as a significant variable in the position choice of a manager on proposed accounting standards (Watts and Zimmerman, 1978; Hagerman and Zmijewski, 1979; Zmijewski and Hagerman, 1981; Holthausen and Leftwich, 1983; and Saemann, 1987). As companies become larger they are more visible and therefore more subject to adverse wealth effects arising from political activities, such as taxation and antitrust regulation, and are more likely to favor proposed accounting standards that reduce income (Watts and Zimmerman, 1986). Initial accrual of OPEB requires recognition of past service costs that would

decrease reported income significantly for organizations with a mature workforce⁹ (FERF, 1989). Number of employees is a relevant measure of firm size since OPEB concerns employee benefits, and the FASB, in the OPEB exposure draft, has defined the size of a company by the number of employees. Management representatives of large companies, which are more politically visible than small companies, are expected to have favored the OPEB exposure draft. Hence, the first research hypothesis is:

H₁: The larger the number of employees, the more likely it is that the company representative reports having favored the OPEB exposure draft.

The impact of the exposure draft on a specific company depends on several factors, including the nature of the benefits provided, the demographic characteristics of the workforce, and the actuarial assumptions used to measure the expense and the obligation. According to the field test of the implementation of the standards proposed in the exposure draft of OPEB (FERF, 1989), the most important determinant of the impact of OPEB on a company is the maturity of the

⁹ The maturity of a company's workforce is defined in the Financial Executives Research Foundation's (FERF, 1989) study as the ratio of the number of active (as opposed to retired) employees to the number of retirees. The current study obtained the number of employees from the Compustat Tapes and the Moody's Corporate Manuals which report fulltime, nonseasonal employees. Therefore, although the FERG study uses the term active employees, the current study prefers the term fulltime employees.

workforce (i.e., the more retirees relative to the number of employees a company has, the greater impact there is on the reported liability, due to the large past service costs to be recognized). Based on the results of the field test, it is hypothesized that there is an inverse relationship between the maturity of a company's workforce and the management's position on the exposure draft:

H₂: The greater the maturity of a company's workforce, the less likely it is that the company representative reports having favored the OPEB exposure draft.

Previous research suggested that managers of firms which are highly leveraged (i.e., have a larger debt to equity ratio) oppose accounting changes which decrease reported earnings or increase the variability of reported earnings more often than firms which are not as highly leveraged (Zmijewski and Hagerman, 1981; Bowen, et al., 1981; Holthausen and Leftwich, 1983; and Saemann, 1987). The capital structure of a company impacts on the choice of accounting methods because of restrictive covenants contained in credit agreements. Accounting numbers are frequently used in debt contracts to stipulate restrictions on dividends, future debt, and working capital. An accounting change that lowers income decreases the book value of equity, increases the debt to equity ratio, and reduces retained earnings available for dividends. Tighter restrictions increase expected costs associated with

technical default and renegotiation (Kelly, 1982). Thus, it is hypothesized that highly leveraged companies are not as likely to favor OPEB because of the large liability to be recognized when the standard is initially adopted. Total book value of debt before recognition of the OPEB liability divided by total book value of equity is used to measure the leverage ratio. This leads to the following research hypothesis:

H₃: The greater the debt to equity ratio before recognition of the OPEB liability, the less likely it is that the company representative reports having favored the OPEB exposure draft.

Watts and Zimmerman (1978, 1979) stated that corporate managers select accounting methods that either reduce the cost or increase the benefits of regulations that affect the wealth of the firm because their self-interest is linked to this wealth. If a firm accrued OPEB costs before the proposed standard became effective, the manager was considered to be maximizing the utility with the accounting procedures used at that time. Thus, it is hypothesized that if a company accrued OPEB costs before the proposed standard became effective, the manager favored the OPEB exposure draft:

H₄: If the company accrued OPEB costs before the proposed standard became effective, the more likely it is that the company representative reports having favored the OPEB exposure draft.

DEVELOPMENT OF THE LOBBYING PARTICIPATION CHOICE HYPOTHESES

The second set of hypotheses concerns the decision, by management, of whether or not to participate in the accounting standards setting process. The variables used to express these hypotheses are (1) encouragement by a professional association and/or industry association to participate in the standards setting process, (2) firm size (measured by the number of employees), (3) maturity of the workforce (measured by the ratio of employees to retirees), and (4) the debt to equity ratio (measured by book value of debt before recognition of the OPEB liability divided by book value of equity).

Professional associations and industry associations appeal to their membership for assistance in lobbying for or against a proposed accounting standard. The Financial Executives Institute (FEI) requests its members to express their views on financial accounting and reporting issues by submitting their comment letters to the FASB (FEI, 1991). The rational behavior of managers brings them to join a group which acts collectively to provide benefits to the members (Olson, 1968). Therefore, contact by a professional and/or industry association to request the firm's participation in the lobbying activities for or against the proposed exposure draft on OPEB is hypothesized to be a significant variable in the decision to participate in

lobbying activities. This leads to the following research hypothesis:

H₅: If the company was encouraged by a professional or industry association to participate in lobbying activities for the OPEB exposure draft, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.

Previous research also found that larger firms are more likely to participate in lobbying activities than smaller firms, due to the cost of lobbying (Olson, 1968; Sutton, 1984; Morris, 1986; Francis, 1987; Saemann, 1987; Gavens, et al., 1989; and Deakin, 1989). Thus, it is hypothesized that larger firms are more likely to participate in lobbying activities on the OPEB exposure draft than smaller firms. Firm size is measured in terms of the number of employees. Hence, the research hypothesis is:

H₆: The larger the number of employees, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.

The more mature the workforce of a company, the greater the impact of the proposed OPEB standard on the financial statements of a company (FERF, 1989)¹⁰. The greater the impact of the proposed standard, the greater the costs that

¹⁰ The specific impact on the financial statements in the year of adoption is heavily dependent on the transition approach (FERF, 1989).

are incurred. As these costs increase, management's incentive to lobby against the proposed standard increases (Francis, 1987). This leads to the following hypothesis:

H₇: The greater the maturity of a company's workforce, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.

Previous research suggested that managers of companies with a larger debt to equity ratio (i.e., more highly leveraged) are more likely to participate in lobbying activities than companies with a smaller debt to equity ratio. Firms which are closer to the limits set by their debt covenants are hypothesized to be more concerned with the OPEB standard (because of the large liability to be recognized) than those firms which are not approaching limits set by debt covenants, and are, therefore, more likely to participate in lobbying activities. This leads to the following research hypothesis:

H₈: The greater the debt to equity ratio before recognition of the OPEB liability, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.

POPULATION, TARGET POPULATION, AND SAMPLE OF FIRMS

Statement No. 106 is applicable to all employers that provide postretirement benefits other than pensions to their employees. The Statement is effective for fiscal years

beginning after December 15, 1992, however, a delayed effective date (fiscal years beginning after December 15, 1994) is provided for plans outside the U.S. and employers that are nonpublic enterprises with no more than 500 plan participants. Ideally, a study of manager behavior in the accounting standards setting process for OPEB should include a random sample of all companies that provide postretirement benefits other than pensions. Because of the delayed effective date for small, nonpublic companies, and plans outside the U.S., the decision to lobby may not have been the same for these companies as it was for public companies and larger, nonpublic companies. Therefore, this study defines the target population to be comprised of companies that are subject to the December 15, 1992, effective date.

Identification of firms that provide postretirement benefits other than pensions was accomplished by searching the National Automated Accounting Research System (NAARS) database and the Disclosure Incorporated database. The present study identified 632 companies which provide postretirement benefits other than pensions. An unknown number of additional firms may exist that are not reported by these databases.

There were 463 letters filed with the FASB commenting on the OPEB exposure draft. These comment letters have been categorized by type of respondent (Table 3-1). Corporate representatives were found to be the largest group of

TABLE 3-1

Categorization of Respondents to the Exposure Draft

Investors and Creditors.....	44
Corporate Representatives.....	287
Insurance Companies.....	18
Auditors.....	12
Regulators and Government.....	19
Academic Community.....	6
Professional Associations.....	47
Other.....	30
Total	<u>463</u>

Industry Distribution of Corporate Representatives

Utility Companies.....	86
Industrial Companies.....	201
Total	<u>287</u>

respondents to the exposure draft, as was found in previous research (Mezias and Chung, 1989; and Tandy and Wilburn, 1992). The 287 firms in the target population whose representatives filed comment letters to the FASB on the OPEB exposure draft are listed in Appendix A.¹¹ The industry distribution of these firms is 201 (70.03%) industrial companies and 86 (29.97%) utility companies.

After removing those firms which responded to the OPEB exposure draft from the 632 firms identified in the databases, a working population of nonfilers was then selected from the remaining firms so as to match the industry distribution of the group of filers. This working population of nonfilers which is listed in Appendix B includes 337 firms-- 244 (72.40%) industrial companies and 93 (27.60%) utility companies. A test to determine if the industry distribution of the survey respondents reflects that of the population under study is necessary.

DEVELOPMENT OF THE RESEARCH INSTRUMENT

Questionnaires are used to provide information which cannot be obtained from any other source available to the researcher. One questionnaire (see Appendix C) was sent to the person who signed the comment letter that presented each firm's position on OPEB; a second questionnaire (see

¹¹ Due to a limited number of insurance companies, as identified in Table 3-1, they were eliminated from this study.

Appendix D) was sent to the Vice President of Finance, by name (identified by Moody's Corporate Manuals), of each firm in the nonfiler list. The questionnaires sent to those who responded to the FASB on the OPEB exposure draft requested information about the ratio of employees to retirees and whether or not professional associations and/or industry associations encouraged participation in the standards setting process for the exposure draft. The questionnaires sent to the firms that did not respond to the FASB on the OPEB exposure draft requested information about the management's position on OPEB, the ratio of employees to retirees, and whether or not professional and/or industry associations encouraged their firm's participation in the standards setting process for the exposure draft.

Survey

To increase the response rate, a cover letter which explains the purpose and importance of the study accompanied each questionnaire. The cover letters assured the respondents that their names and the names of their companies would be kept strictly confidential (see Appendices C & D). A second request was sent to those company representatives that had not responded within four weeks after the original survey was mailed. The second mailing also included a copy of the questionnaire.

The response rate is most likely a function of each questionnaire recipient's perceived importance of the project, and the length and overall appearance of the survey instrument (Babbie, 1990). The questionnaire for this study could be completed in less than ten minutes, as was demonstrated by a group of accounting graduate students at the University of Arkansas. However, the use of a questionnaire may introduce limitations resulting from possible nonresponse bias. Thus, comparisons were made between early respondents and late respondents (who are assumed to be representative of nonrespondents) to determine if there was a nonresponse bias (Oppenheim, 1966; Buzby, 1974; and Armstrong and Overton, 1977).

STATISTICAL METHODOLOGY

Both descriptive and inferential statistics were used to describe and evaluate the factors selected for this study. Dependent variables, independent variables, and statistical tests are discussed in following sections.

Dependent Variables

The dependent variables in this study are the corporate manager's position choice and lobbying participation choice on the OPEB exposure draft. Both dependent variables are binary. A manager's position choice is evaluated as either favoring or not favoring the OPEB exposure draft (1 denotes

favoring, 0 denotes not favoring). The evaluation of favoring or not favoring the OPEB exposure draft is based on the manager's agreement with the concept of accruing these costs, regardless of the manager's position on implementation issues. A manager's lobbying participation choice is identified as having participated in the standards setting process (1 denotes lobbying, 0 denotes no lobbying). Table 3-2 summarizes the coding and data sources for the dependent variables and independent variables discussed below.

Independent Variables

The independent variables for this study are specified as (1) firm size, (2) maturity of workforce, (3) leverage, (4) encouragement by a professional association and/or industry association, and (5) voluntary accrual of OPEB costs before the proposed standard became effective.

Firm size is measured using the corporate attribute of number of employees¹². The number of employees was obtained from the Standard & Poor's Compustat Tapes and from the Moody's Corporate Manuals for companies not reported by the Compustat Tapes.

Maturity of the workforce is defined as the ratio of the number of employees to the number of retirees. The

¹² The number of employees used in this study is defined as the number of fulltime, nonseasonal workers.

TABLE 3-2
DESCRIPTION OF VARIABLES

Variable	Variable Abbreviation	Coding	Data Source
Dependent:			
Position Choice	PC	1 = favor 0 = not favor	Survey or FASB
Lobbying Participation Choice	LPC	1 = lobbied 0 = did not lobby	FASB
Independent:			
Firm Size (Number of Employees)	EMP	actual number	Compustat or Moody's
Impact on Financial Statements (Maturity of Workforce)	MATURITY	<u># of employees</u> <u># of retirees</u>	Survey and Compustat or Moody's
Leverage Position (Debt/Equity)	DEBT	<u>Total BV Debt</u> <u>Total BV Equity</u>	NAARS, Compustat or Moody's
Accrual of OPEB	ACCRUE	1 = yes 0 = no	NAARS
Professional and/or In dustry Association Encouragement	ENCOURAGEMENT	1 = yes 0 = no	Survey

number of retirees was requested in the survey and the number of employees was obtained from the Compustat Tapes or Moody's Corporate Manuals.

A firm's leverage position is measured by the ratio of total book value of debt to total book value of equity. Total book value of debt and total book value of equity were obtained from the Compustat Tapes, NAARS, or Moody's Corporate Manuals.

The accounting method used for OPEB costs before the effective date of the proposed OPEB standard is measured as a dichotomous variable. A firm that accrued OPEB costs is coded "1" and a firm that used the alternative pay-as-you-go method for accounting for OPEB costs is coded "0". The accounting method used for OPEB costs was obtained from the NAARS database.

If the company representative was encouraged by a professional and/or industry association to participate in the standards setting process for the proposed OPEB accounting standard, this variable is coded "1"; if not, "0".

Descriptive Statistics and Univariate Statistical Tests

Selected descriptive statistics were calculated for each independent variable by industry. Univariate analysis of the independent variables was performed separately by

industry for (1) filers and nonfilers and (2) respondents favoring and not favoring the OPEB exposure draft.

Logistic Regression Analysis

Statistical models were developed to test the research hypotheses relating to position choice and to lobbying participation choice. The logistic regression procedures were performed separately for industrial companies and for utility companies. These symbolic models are¹³:

Model 1: Position Choice
PC = f(EMP, MATURITY, DEBT)

Model 2: Lobbying Participation Choice
LPC = f(EMP, MATURITY, DEBT)

Each model involves a dichotomous dependent variable, in general denoted as Y, which is associated with a parameter, P, that represents the probability of observing a response of Y equal to 1. The probability of this response, $P(Y_i = 1)$, depends on the values of the independent variables, so the linear probability model is expressed as:

$$P_i - P(Y_i = 1) = B_0 + \sum_{j=1}^K B_j X_{ij}$$

where i = index to denote the i th observation,
 $i = 1, \dots, n$,

n = number of observations,

¹³ As reported in Chapter 4, research hypotheses four and five cannot be tested; not enough companies indicated "yes for ACCRUE" or "yes for ENCOURAGEMENT" to test statistically the related research hypotheses.

- j = index to denote the jth independent variable, $j = 1, \dots, K$,
- B_j = the regression coefficients (including the intercept), and
- X_{ij} = the ith observation of the jth independent variable.

A difficulty with the linear probability model is that while P_i is constrained to be from zero to one, $B_0 + \sum B_j X_{ij}$ is not. Restricting $B_0 + \sum B_j X_{ij}$ to the interval from zero to one (since it is interpreted as a probability) imposes strict constraints upon the linear model. Furthermore, the change in the probability of Y being a linear function of the independent variables is "highly suspect" (Aldrich and Nelson, 1986).

For these reasons and because of assumptions associated with ordinary least squares regression, a nonlinear logistic regression model is preferred in this study. Logistic regression, rather than ordinary least squares, is the preferable method for modeling dichotomous accounting choices (Hagerman and Zmijewski, 1979; Amemiya, 1981; and Stone and Rasp, 1991). Hagerman and Zmijewski (1979) state that ordinary least squares (OLS) regression parameter estimates are inefficient for models with dichotomous response variables. Amemiya (1981) concluded that logit is preferable to OLS when the response variable is dichotomous and the sample size is large. Stone and Rasp (1991) found that even with small samples, logit is the preferable method

for modeling dichotomous accounting choices because OLS can result in higher misclassification rates, a number of meaningless probability estimates, and less powerful tests of parameter estimates.

The logistic regression model uses a maximum likelihood estimation technique and requires fewer and less rigid assumptions. When the dependent variable is binary, it is not normally distributed and logistic maximum likelihood estimators provide consistently more robust estimators (Press and Wilson, 1978; and Neter, et al., 1990).

Assumptions of the Logistic Regression Model

The logistic regression model is based on the following five assumptions (Aldrich and Nelson, 1986):

- (1) The dependent variable, Y , is binary.
- (2) Y is assumed to be dependent upon K observable variables X_j , $j = 1, \dots, K$. The probability that $Y=1$ is denoted by the parameter, P , and is expressed:

$$P = P(Y = 1 \mid X_1, \dots, X_K)$$

- (3) The relationship between Y and $\underline{X} = (X_1, \dots, X_K)$ is assumed to be nonlinear. This relationship is expressed by the logistic function or logit model:

$$P(Y = 1 | \underline{X}) = \exp(B_0 + \sum_{j=1}^K B_j X_{ij}) / [1 + \exp(B_0 + \sum_{j=1}^K B_j X_{ij})]$$

where B_j = regression coefficients (including the constant term), and

X_{ij} = observable independent variables.

- (4) All observations of Y are assumed to be statistically independent of each other, eliminating serial correlation.
- (5) No exact or near linear dependencies are assumed to exist among the set of independent variables.

The problem of multicollinearity is examined in Chapter 4. Multicollinearity among the independent variables reduces the ability of the multivariate analysis to identify significant variables (Davis and Cosenza, 1988). Multicollinearity which is serious enough to cause incorrect signs for regression coefficients or other symptoms of nonsensical regression was defined as "harmful multicollinearity" (Farrar and Glauber, 1967). Farrar and Glauber stated that there may be "acceptable" departures from orthogonality that can be distinguished from "harmful" degrees of multicollinearity. A rule of thumb for constraining bivariate correlations between explanatory variables to prevent harmful interdependence was to avoid bivariate correlation coefficients of greater than .8 (Farrar and Glauber, 1967). In addition, the variance

inflation factors are examined for indications of multicollinearity.

Interpretation of Logistic Regression Results

The objective of logit analysis is to measure statistically the relationship between the independent variables and the dependent variable. Likelihood equations in logistic regression are nonlinear in the parameters that are estimated. Hence, the maximum likelihood estimates of the coefficients are approximations produced through standard iterative algorithms (Aldrich and Nelson, 1986).

Tests of the performance of the model are calculated after convergence of the model is obtained. To test the overall significance of the model, a model likelihood ratio chi-square is calculated. The likelihood ratio statistic is computed as follows (Aldrich and Nelson, 1986):

$$c = -2 \ln (L0/L1)$$

where $L1$ = the value of the likelihood function for the full model, and

$L0$ = the maximum value of the likelihood function if all coefficients except the intercept are zero.

The number of independent variables included in the logistic regression model is the degrees of freedom for this chi-square statistic.

The dependent variable in logit analysis does not have separate mean and variance parameters, as in regression analysis, because these parameters are both functions of the

probability P_i . Therefore, there is no statistic in logit analysis with an interpretation similar to the coefficient of determination in regression analysis. Minimizing variance is not a sensible criterion with which to measure the model's adequacy (Aldrich and Nelson, 1986). Therefore, Aldrich and Nelson (1986) proposed a pseudo R^2 measure defined as:

$$\text{pseudo } R^2 = c / (n + c)$$

where c = the chi-square statistic defined above, and
 n = the sample size.

The pseudo R^2 measure ranges between zero and one. As pseudo R^2 approaches zero the quality of the model's fit decreases, and as it approaches one the quality of the model's fit increases. However, the pseudo R^2 measure does not adjust for an increasing number of independent variables. A correction for the degrees of freedom could be made, although there is little justification (Aldrich and Nelson, 1986). Although not universally accepted, the use of the pseudo R^2 as an indicator of the explanatory power of the model is used in the study, as has been done in previous lobbying participation choice research (Kelly, 1985; Francis, 1987; and Deakin, 1989).

The hypotheses were tested by interpreting the significance of the individual independent variables' logistic regression coefficients as determined from the t-statistic with degrees of freedom equal to the sample size

minus the number of model parameters. Aldrich and Nelson (1986) define the t-statistic as:

$$t_j = b_j / s_j$$

where t_j = the t-statistic for the jth parameter estimate,
 b_j = the jth parameter estimate, and
 s_j = the standard error of the jth parameter estimate.

SUMMARY

Previous research has supported the theory that there is a relationship between the economic consequences of an accounting proposal and the position and lobbying participation choices of a corporate manager. The current research examined the standards setting process for FASB Statement No. 106. A variable now thought to impact these choices, but omitted from previous research, is included in this study. Previous research is extended by including a variable representing the maturity of the workforce. The current study also extends previous research by studying a large group of nonfilers as well as filers. The results from this research provide additional evidence about corporate managers' behavior in the accounting standards setting process.

CHAPTER 4
RESULTS OF THE STUDY

INTRODUCTION

In this chapter the results of the data collection procedures, descriptive statistics, univariate analysis, and tests of the research hypotheses are presented and discussed. The statistical analyses used procedures developed by SPSS Incorporated (1990).

RESULTS OF THE SURVEY

A summary of the number of responses, percent response rates, and usable response rates by filers and nonfilers is presented in Table 4-1. Of the 195 usable responses, 124 had responded to the FASB's OPEB exposure draft (filers) and 71 had not responded to the FASB's OPEB exposure draft (nonfilers). A 43.21 percent usable response rate (124/287) was achieved for filers and a 21.07 percent usable response rate (71/337) was achieved for nonfilers. The percentages of industry respondents also are reported in Table 4-1.

Tests for Survey Nonresponse Bias

Since the response rate is less than 100 percent, the sample may be subject to nonresponse bias. Therefore, analyses were performed to determine the extent, if any, of that bias.

TABLE 4-1
NUMBER OF SURVEYS RETURNED

	Filers	Nonfilers
Population	287 (100.00%)	337 (100.00%)
Industrial	201 (70.03%)	244 (72.40%)
Utilities	86 (29.97%)	93 (27.60%)
Surveys Returned	153 (53.31%)	96 (28.49%)
Industrial	90 (58.82%)	69 (71.87%)
Utilities	63 (41.18%)	27 (28.13%)
Unusable Responses	29 (10.10%)	25 (7.42%)
Industrial	19 (65.52%)	19 (76.00%)
Utilities	10 (34.48%)	6 (24.00%)
Total Usable Responses	124 (43.21%)	71 (21.07%)
Industrial	71 (57.26%)	50 (70.42%)
Utilities	53 (42.74%)	21 (29.58%)

First, to determine if the industry distribution of survey respondents reflects that of the population under study, chi-square goodness of fit tests were performed. The results of these tests, reported in Table 4-2, suggest that the sample of filers does not appear to be representative of the target population ($p\text{-value}=.002$)--survey respondents included proportionally more utility companies. Thus, separate logistic regression models for industrial and utility companies were analyzed.

Additionally, possible nonresponse bias was investigated by examining differences between early and late respondents. These comparisons are based on the assertion that late respondents may be similar to nonrespondents. Table 4-3 presents the frequency distribution of the number of surveys received each week. Responses during the first three week period (161 responses) are considered early respondents; those received thereafter (34 responses) are considered late respondents.

The "early-late" hypotheses tested are that there is no difference between the means of selected variables for early and late respondents.¹⁴ The variables representing firm size (EMP) and leverage position (DEBT) were chosen because previous research has consistently identified these variables, and these were the only variables for which the

¹⁴ There was an insufficient number of responses in the late period (weeks 4-6) to analyze by industry.

TABLE 4-2
GOODNESS OF FIT TEST
FOR INDUSTRY DISTRIBUTION
BY FILERS AND NONFILERS

Companies	Filers ^a		Nonfilers ^b	
	Population	Respondents	Population	Respondents
Industrial	201	71	244	50
Utilities	86	53	93	21
Total	287	124	337	71

^a chi-square statistic for Filers = 9.646 (p-value =.002)

^b chi-square statistic for Nonfilers = .139 (p-value =.709)

TABLE 4-3
FREQUENCY DISTRIBUTION OF SURVEYS
RECEIVED EACH WEEK

Week of Collection Period	Number of Responses Received	
	Filers	Nonfilers
1	51	43
2	17	0
3	37	13
4	10	6
5	7	8
6	2	1
Total	124	71

data were available independent of the survey. An examination of Table 4-4 reveals that there are no significant differences. Therefore, nonresponse bias does not appear to be a problem.

Other Survey Results

Information obtained by the survey includes data to test the research hypotheses as well as other information such as: reasons for not participating in lobbying activities for OPEB, the professional and/or industry associations which encouraged companies to respond to the FASB on the OPEB issue, and lobbying activities on other FASB issues. Forty-five percent (32/71) of nonfilers stated that they did not believe commenting would affect FASB's final statement. One respondent stated: "It is futile to comment. The FASB is a self contained xenophobic bureaucracy issuing pronouncements without ever giving due consideration to its constituency." The FASB should be aware that the belief that commenting would have no affect on FASB's final statement was found to be the number one reason for not participating in lobbying activities for or against the OPEB exposure draft. Fourteen percent (10/71) of nonfilers answered that they agreed with the OPEB exposure draft and therefore did not respond-- which provides some support for Beresford's (1990) contention that there is a silent majority which agrees with the FASB and therefore does not respond.

TABLE 4-4
TESTS FOR NONRESPONSE BIAS

Variable ^a	FILERS				NONFILERS			
	Mean		t ^b	p-value ^c	Mean		t ^b	p-value ^c
	Early n=105	Late n=19			Early n=56	Late n=15		
EMP	32478.11	48646.58	.78	.44	7516.37	24155.07	1.25	.23
DEBT	2.80	2.02	-1.41	.16	1.93	3.51	1.39	.18

^a The variables denote the following:
EMP: the number of fulltime, nonseasonal workers.
DEBT: the total debt to total equity ratio.

^b Pooled or separate variance test used depending on equality of variances.

^c 2-tailed p-values.

Other respondents reported that they relied on the professional and/or industry associations to represent them in their lobbying efforts. Ninety-eight respondents identified the industry and/or professional association which encouraged their firms to respond to the FASB on the OPEB issue. Forty-three percent (42/98) identified the Financial Executives Institute (FEI), 24 percent (23/98) identified the Edison Electric Institute, 17 percent (17/98) identified the American Gas Association, and 5 percent (5/98) identified the American Mining Congress.

When asked about participation in lobbying activities regarding the FASB's exposure drafts, 63 percent (123/195) of respondents answered that they respond to the FASB's exposure draft only if the proposed standard is expected to have an effect (adverse or otherwise) on their company's financial statements. Twenty-one percent (41/195) stated that they never respond and 10 percent (19/195) replied that they always respond to the FASB's exposure drafts. The responses described above reveal that respondents to the FASB's exposure draft on OPEB were not representative of their constituency, but instead a select group. The FASB should be aware of the motivations of the firms participating in lobbying activities.

Summary Statistics

Table 4-5 presents summary statistics for the independent variables by industry. An analysis of these

TABLE 4-5
SUMMARY STATISTICS^a

Variable ^b	Mean	Standard Deviation	Minimum	Maximum	Median
Quantitative					
EMP					
Industrial	35161.26	84382.64	524	775099	14000
Utilities	11665.09	29420.87	504	201399	4619
DEBT					
Industrial	2.54	4.69	.19	43.49	1.47
Utilities	2.50	2.92	.15	20.72	1.75
MATURITY					
Industrial	28.09	126.44	.26	1332	5.50
Utilities	29.12	179.98	.33	1550	3.45
Qualitative					
	"YES"	"NO"			
ACCRUE					
Industrial	6	115			
Utilities	2	72			
ENCOURAGEMENT					
Industrial	54	67			
Utilities	47	27			

^a Industrial Companies n=121
Utility Companies n=74

^b The variables denote the following:
EMP: the number of fulltime, nonseasonal workers.
DEBT: the total debt to total equity ratio.
MATURITY: the number of fulltime, nonseasonal workers divided by the number of retirees.
ACCRUE: whether the company accrued the OPEB costs before the proposed standard became effective.
ENCOURAGEMENT: whether the company reported it was encouraged by a professional association or industry association to participate in lobbying activities for the OPEB exposure draft.

descriptive statistics reveals that the industrial companies are larger than the utility companies as measured by number of employees (EMP). Although the mean DEBT for industrial companies is similar to the mean DEBT for utility companies, the standard deviations and maximum values are quite different indicating that utility companies have a more uniform debt ratio industrywide than do industrial companies. Also, utility companies have a larger median DEBT (1.75) than industrial companies (1.47). The means of the MATURITY data reveal little difference between industrial companies (28.09) and utility (29.12) companies, however the medians are quite different and have reversed with industrial companies having a higher median (5.50) than utility companies (3.45). The following section further investigates these results.

This study found that most companies (187/195) account for OPEB costs on the pay-as-you-go basis, which supports previous research (Gerboth, 1988). Since very few respondents indicated that they accrued OPEB costs before the effective date of the proposed standard, the research hypothesis H_4 could not be investigated. Research hypothesis H_5 could not be examined because there were very few "yes" responses when the sample was divided into filers/nonfilers and favor/not favor. Thus, these variables are not included in subsequent tables.

DESCRIPTIVE STATISTICS AND UNIVARIATE TESTS

Table 4-6 presents selected descriptive statistics for industrial companies and reports the results of univariate tests of significance between means of the variables EMP, DEBT, and MATURITY for (1) filers and nonfilers and (2) companies that reported they favored the exposure draft and companies that reported they did not favor the exposure draft. Table 4-7 reports analogous information for utility companies. The results indicate that the only statistically significant difference occurs between the means of the variable EMP for filers and nonfilers of the industrial companies (p-value=.002). Industrial filers are larger (as measured by number of employees) than industrial nonfilers. Thus, position choice for both industrial and utility companies and lobbying participation choice of utility companies cannot be attributed to any of these variables, when considered individually.

ASSESSMENT OF MODEL ASSUMPTIONS

The assumptions underlying use of the logistic regression model are that the observations of the binary dependent variable are statistically independent, the relationship between the dependent variable and the observable independent variables is nonlinear, and the independent variables are not collinear.

TABLE 4-6

**DESCRIPTIVE STATISTICS FOR INDUSTRIAL COMPANIES
AND UNIVARIATE TESTS FOR INDEPENDENT VARIABLES^a**

Variable ^b	Mean	Standard Deviation	Minimum	Maximum	t ^c	p-value ^d
EMP						
Filers	52246.23	105192.51	900	775099	3.19	.002
Nonfilers	10900.62	24626.03	524	170000		
Favor	27131.38	42649.90	525	292000	-1.12	.267
Not Favor	51421.78	133313.93	524	775099		
DEBT						
Filers	2.73	5.42	.19	43.49	.55	.581
Nonfilers	2.28	3.42	.31	17.87		
Favor	2.83	5.58	.19	43.49	1.28	.202
Not Favor	1.96	1.75	.39	10.19		
MATURITY						
Filers	10.18	18.48	.26	132.72	-1.58	.121
Nonfilers	53.53	193.74	.33	1332.00		
Favor	34.40	152.61	.26	1332.00	1.07	.286
Not Favor	15.31	34.14	.78	179.90		

^a Filers n=71
 Nonfilers n=50
 Favor n=81
 Not Favor n=40

^b The variables denote the following:
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers
 divided by the number of retirees.

^c Pooled or separate variance test used depending on
 equality of variances.

^d 2-tailed p-values

TABLE 4-7

**DESCRIPTIVE STATISTICS FOR UTILITY COMPANIES
AND UNIVARIATE TESTS FOR INDEPENDENT VARIABLES^a**

Variable ^b	Mean	Standard Deviation	Minimum	Maximum	t ^c	p-value ^d
EMP						
Filers	11792.55	22007.64	679	47571	.04	.964
Nonfilers	11343.43	43588.63	504	201399		
Favor	12639.95	32386.38	504	201399	.91	.364
Not Favor	7830.67	12178.40	536	47571		
DEBT						
Filers	2.62	3.38	.15	20.72	.76	.447
Nonfilers	2.22	1.12	.46	5.12		
Favor	2.36	2.70	.15	20.72	-.84	.405
Not Favor	3.07	3.70	1.25	16.24		
MATURITY						
Filers	35.14	212.30	.33	1550.00	.71	.478
Nonfilers	13.91	26.50	1.70	116.20		
Favor	31.98	201.21	.33	1550.00	.51	.609
Not Favor	17.87	31.73	1.35	116.20		

^a Filers n=53
 Nonfilers n=21
 Favor n=59
 Not Favor n=15

^b The variables denote the following:
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers
 divided by the number of retirees.

^c Pooled or separate variance test used depending on
 equality of variances.

^d 2-tailed p-values

The assumption of independent observations of the binary dependent variable (position choice model or lobbying participation choice model) is satisfied because the position taken on the OPEB issue was an independent decision by the management of each firm. Similarly, the lobbying participation choice was also an independent decision.

Multicollinearity was analyzed by examining bivariate correlations. Table 4-8 presents the correlations between variables for the industrial companies and for the utility companies. The largest absolute value of the correlations between independent variables is .0590. These independent variables do not possess "harmful" levels of bivariate collinearity. In addition, the variance inflation factors (VIF) obtained for the full (ordinary least squares) regression models ranged from 1.004 to 1.205 indicating that a multicollinearity problem does not exist.

The largest correlation for the dependent variable lobbying participation choice (LPC) is with EMP (.2423). The dependent variable position choice (PC) has the largest absolute correlation with EMP (.1360).

RESULTS OF THE LOGISTIC REGRESSION PROCEDURE

Each research hypothesis was tested by examining the sign and significance of the parameter estimate associated with the variable appearing in the logistic regression model. The t-statistic for each variable represents a test

TABLE 4-8
CORRELATION COEFFICIENTS BY INDUSTRY

Variable ^a	EMP	DEBT	MATURITY
DEPENDENT			
PC	-.1360 ^b (.0662)	.0879 (-.0983)	.0713 (.0317)
LPC	.2423 (.0069)	.0470 (.0624)	-.1696 (.0535)
INDEPENDENT			
EMP	1.0000 (1.0000)	.0160 (.0509)	-.0590 (.0480)
DEBT		1.0000 (1.0000)	-.0423 (-.0580)

^a The variables denote the following:
 PC: position choice.
 LPC: lobbying participation choice.
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers
 divided by the number of retirees.

^b Of the two correlations shown, the top one is for
 industrial companies; the bottom for utility companies.

of the null hypothesis that the corresponding parameter equals zero. The results of the logistic regression analyses for the position choice model and the lobbying participation choice model are reported in the following sections.

THE POSITION CHOICE MODEL: INDUSTRIAL COMPANIES

Table 4-9 presents the parameter estimates, standard errors, and tests of significance for the industrial companies' position choice logistic regression model. An analysis of the studentized residuals does not reveal any outliers and an analysis of the leverage values indicates that there are no observations that have a large impact on the predicted values. This position choice model yields a nonsignificant chi-square statistic of 4.243 with 3 degrees of freedom (p-value=.2364). Consequently, as would be expected, the tests of individual coefficients are also not significant. The pseudo R^2 for this model is .5524.

Firm Size Hypothesis

The firm size research hypothesis (H_1) states that the larger the number of employees (EMP), the more likely it is that the company representative reports having favored the OPEB exposure draft. The logistic regression analysis does not support this statement (p-value=.8988). This result does not support the findings of Watts and Zimmerman (1978).

TABLE 4-9

**SUMMARY OF LOGISTIC REGRESSION
POSITION CHOICE MODEL FOR INDUSTRIAL COMPANIES^a**

Variable ^b	Expected Sign ^c	Parameter Estimate	Standard Error	t ^d	one-tail p-value
EMP	+	-.3400E-05	.2670E-05	-1.2743	.8988
DEBT	-	.0698	.0734	.9501	.8290
MATURITY	+	.0023	.0037	.6227	.2668
Constant		.6212	.2706		

^a Model chi-square = 4.243 with 3 degrees of freedom (p-value=.2364); None of the independent variables are significant at .05 level.

^b The variables denote the following:
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers divided by the number of retirees.

^c The expected signs denote the following:
 EMP(+): The larger the EMP variable, the more likely it is that the company representative reports having favored the OPEB exposure draft.
 DEBT(-): The greater the DEBT variable, the less likely it is that the company representative reports having favored the OPEB exposure draft.
 MATURITY(+): The greater the MATURITY variable (as the maturity of a workforce decreases, the MATURITY variable increases), the more likely it is that the company representative reports having favored the OPEB exposure draft.

^d The t-statistic is obtained as the square root of the wald statistic which is defined as the square of the parameter estimate divided by the standard error.

However, Saemann (1987) found firm size to be a statistically significant predictor of position choice only for nonfilers. Saemann (1987) concluded that the inconsistency between filers and nonfilers could be a result of filers having different position choice models than nonfilers. The inclusion of filers and nonfilers in the same model may be why the results were not statistically significant for the firm size hypothesis. Also, this study measures firm size as the number of fulltime, nonseasonal workers because it is the most relevant firm size measure for the OPEB issue where previous research has defined firm size in terms of assets and or sales.

Impact on Financial Statement Hypothesis

The impact on the financial statement research hypothesis (H_2) states that the greater the maturity of a company's workforce (MATURITY), the less likely it is that the company representative reports having favored the OPEB exposure draft.¹⁵ The logistic regression analysis does not support this statement (p-value=.2668). The insignificance of the maturity variable may be an indication

¹⁵ Although there is an inverse relationship between the maturity of a company's workforce and management's position on the OPEB exposure draft, the expected sign of the parameter estimate for the MATURITY variable is positive (+). Since MATURITY is defined as the number of fulltime, nonseasonal workers divided by the number of retirees, the MATURITY variable will become smaller as the maturity of the workforce increases.

that the more important effect of the OPEB exposure draft is the increase of the OPEB expense, which will be greater for companies with an immature workforce (since the accrual method results in a larger expense than does the pay-as-you-go method). The field study performed by Coopers & Lybrand for the Financial Executives Research Foundation (1989) demonstrated that the maturity of the workforce was the single predictor of the effect of the OPEB exposure draft on the companies they examined. The impact of the accrual of OPEB costs on the income statement may be more pronounced for companies with relatively few current retirees compared to expected retirees in the future¹⁶ because they are paying (and reporting as an expense) a fraction of the postretirement benefits earned by employees when using the pay-as-you-go method (Espahbodi, et al., 1991).

Leverage Position Hypothesis

The leverage position research hypothesis (H_3) states that the greater the debt to equity ratio before recognition of the OPEB liability, the less likely it is that the company representative reports having favored the OPEB exposure draft. The logistic regression analysis shows the variable DEBT is not significant (p -value=.8290). This result does not support the research hypothesis. The

¹⁶ Relatively few current retirees to employees (expected retirees) is defined as an "immature" workforce (with more than six active employees for every retiree) (FERF, 1989).

insignificance of the leverage position variable may be an indication of the relative unimportance of the balance sheet effect of the standard proposed in the OPEB exposure draft. A recent editorial on the OPEB issue encouraged managers to ignore the impact of the OPEB rule and concentrate on the financial statements without the accrual of OPEB, just as financial analysts have done (Petril, 1992).

THE POSITION CHOICE MODEL: UTILITY COMPANIES

Table 4-10 presents the parameter estimates, standard errors, and tests of significance for the utility companies' position choice logistic regression model. An analysis of the studentized residuals does not reveal any outliers and an analysis of the leverage values indicates that there are no observations that have a large impact on the predicted values. The utility companies' position choice model yields a nonsignificant chi-square statistic of 1.091 with 3 degrees of freedom (p -value=.7794). The pseudo R^2 is .4984. The results of the position choice model for utility companies are analogous to those obtained for the industrial companies. None of the research hypotheses were supported by the logistic analysis.

TABLE 4-10

**SUMMARY OF LOGISTIC REGRESSION
POSITION CHOICE MODEL FOR UTILITY COMPANIES^a**

Variable ^b	Expected Sign ^c	Parameter Estimate	Standard Error	t ^d	one-tail p-value
EMP	+	.8270E-05	.1563E-04	.5292	.2983
DEBT	-	-.0673	.0837	-.8039	.2107
MATURITY	+	.0004	.0022	.1985	.4214
Constant		1.4559	.3974		

^a Model chi-square = 1.091 with 3 degrees of freedom (p-value=.7794); None of the independent variables are significant at the .05 level.

^b The variables denote the following:
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers divided by the number of retirees.

^c The expected signs denote the following:
 EMP(+): The larger the EMP variable, the more likely it is that the company representative reports having favored the OPEB exposure draft.
 DEBT(-): The greater the DEBT variable, the less likely it is that the company representative reports having favored the OPEB exposure draft.
 MATURITY(+): The greater the MATURITY variable (as the maturity of a workforce decreases, the MATURITY variable increases), the more likely it is that the company representative reports having favored the OPEB exposure draft.

^d The t-statistic is obtained as the square root of the wald statistic which is defined as the square of the parameter estimate divided by the standard error.

SUMMARY: THE POSITION CHOICE MODEL

Neither the industrial companies' nor the utility companies' position choice model was significant.¹⁷ A possible explanation for the difference in results obtained in this research and previous research is that the proposed OPEB exposure draft's effect on the income statement was expected to be greater than its effect on the balance sheet.

Previous research has consistently found firm size, as measured by assets and by sales (see Table 2-1), to be a statistically significant factor in the position choice taken by a firm. In the present study, firm size is defined as the number of fulltime, nonseasonal workers since this number relates to OPEB expense and liability whereas assets and sales do not. Zmijewski and Hagerman (1981) studied a portfolio of accounting choices; Holthausen and Leftwich (1983) reviewed several accounting choice studies; and Saemann (1987) investigated the pension issue which affects more firms than the OPEB issue. Thus, it is possible that previous results may not generalize to other populations. The univariate results for the EMP, DEBT, and MATURITY variables are consistent with the logistic regression results (i.e., not significant).

¹⁷ As in previous research by Saemann (1987), the position choice model was also analyzed separately for filers and nonfilers. The results were similar to the results reported above, the model was not significant and neither were any independent variables.

**THE LOBBYING PARTICIPATION CHOICE MODEL:
INDUSTRIAL COMPANIES**

The parameter estimates, standard errors, and tests of significance for the logistic regression model for lobbying participation choice for industrial companies are reported in Table 4-11. An analysis of the studentized residuals identified one observation as an outlier which then was eliminated from the logistic regression analysis. An analysis of the leverage values indicates that there are no observations that have a large impact on the predicted values. The industrial companies' lobbying participation choice model yields a chi-square statistic of 52.109 with 3 degrees of freedom which is statistically significant (p -value $<.0001$). The pseudo R^2 for this model is .4869.

Firm Size Hypothesis

The firm size research hypothesis (H_6) states that the larger the number of employees (EMP), the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft. An examination of the results of the logistic regression model reveals that EMP is significant (p -value = .0001). Consistent with previous research (Francis (1987) and Saemann (1987)), which defined firm size in terms of assets and/or sales, this supports the research hypothesis that as firm size increases, the more likely it is that the company

TABLE 4-11

SUMMARY OF LOGISTIC REGRESSION
 LOBBYING PARTICIPATION CHOICE MODEL
 FOR INDUSTRIAL COMPANIES^a

Variable ^b	Expected Sign ^c	Parameter Estimate	Standard Error	t ^d	one-tail p-value
EMP	+	.0001	.2275E-04	4.5137	.0001
DEBT	+	.0017	.0526	.0332	.4870
MATURITY	-	-.0083	.0078	-1.0610	.1444
Constant		-1.1104	.3882		

^a Model chi-square = 52.109 with 3 degrees of freedom (p-value<.0001); EMP is the only significant variable.

^b The variables denote the following:
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers divided by the number of retirees.

^c The expected signs denote the following:
 EMP(+): The larger the EMP variable, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.
 DEBT(+): The greater the DEBT variable, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.
 MATURITY(-): The greater the MATURITY variable (as the maturity of a workforce decreases, the MATURITY variable increases), the less likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.

^d The t-statistic is obtained as the square root of the wald statistic which is defined as the square of the parameter estimate divided by the standard error.

representative participated in lobbying activities for the OPEB exposure draft.

Impact on Financial Statement Hypothesis

The impact on financial statement research hypothesis (H₇) states that the greater the maturity of a company's workforce (MATURITY), the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.¹⁸ The logistic regression analysis does not support this statement (p-value=.1444). The insignificant result may be explained by concern over the increase in expense for companies with an immature workforce rather than the financial statement effect for companies with a mature workforce. Companies with relatively few retirees to the number of employees¹⁹ (immature workforce) will be increasing their OPEB expense over the pay-as-you-go method. For firms using the pay-as-you-go method of accounting, the accrued expense (when the standard becomes effective) may be significantly more pronounced than the

¹⁸ Although there is an inverse relationship between the maturity of a company's workforce and management's position on the OPEB exposure draft, the expected sign of the parameter estimate for the MATURITY variable is positive (+). Since MATURITY is defined as the number of fulltime, nonseasonal workers divided by the number of retirees, the MATURITY variable will become smaller as the maturity of the workforce increases.

¹⁹ Relatively few retirees to the number of employees is defined as more than six active employees for every retiree by FERF (1989).

currently reported expense using the pay-as-you-go method (Espahbodi, et al., 1991).

Leverage Position Hypothesis

The leverage position research hypothesis (H_8) states that the greater the debt to equity ratio before recognition of the OPEB liability, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft. This variable, DEBT, was not found to be significant (p -value=.4870), thus the research hypothesis is not supported. This result does not support previous research by Dhaliwal (1982) or Francis (1987). The insignificant results for the leverage position variable may indicate that filers expected lesser importance of the balance sheet effect of the proposed standard compared to the income statement effect.

THE LOBBYING PARTICIPATION CHOICE MODEL: UTILITY COMPANIES

The parameter estimates, standard errors, and tests of significance for the logistic regression model for lobbying participation choice for utility companies' are reported in Table 4-12. An analysis of the studentized residuals does not reveal any outliers and an analysis of the leverage values indicates that there are no observations that have a large impact on the predicted values. The utility

TABLE 4-12

SUMMARY OF LOGISTIC REGRESSION
 LOBBYING PARTICIPATION CHOICE MODEL
 FOR UTILITY COMPANIES^a

Variable ^b	Expected Sign	Parameter Estimate	Standard Error	t ^d	one-tail p-value
EMP	+	-.7700E-07	.9048E-05	-.0085	.5034
DEBT	+	.0626	.1151	.5432	.2935
MATURITY	-	.0010	.0024	.4406	.6702
Constant		.7540	.3789		

^a Model chi-square = .629 with 3 degrees of freedom (p-value=.8897); None of the independent variables are significant at .05 level.

^b The variables denote the following:
 EMP: the number of fulltime, nonseasonal workers.
 DEBT: the total debt to total equity ratio.
 MATURITY: the number of fulltime, nonseasonal workers divided by the number of retirees.

^c The expected signs denote the following:
 EMP(+): The larger the EMP variable, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.
 DEBT(+): The greater the DEBT variable, the more likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.
 MATURITY(-): The greater the MATURITY variable (as the maturity of a workforce decreases, the MATURITY variable increases), the less likely it is that the company representative participated in lobbying activities for the OPEB exposure draft.

^d The t-statistic is obtained as the square root of the wald statistic which is defined as the square of the parameter estimate divided by the standard error.

nonsignificant chi-square statistic of .629 with 3 degrees of freedom (p-value=.8897). The pseudo R^2 for this model is .5422. The results of the lobbying participation choice model for utility companies are analogous to those obtained for the position choice models. None of the research hypotheses were supported by the logistic analysis.

SUMMARY: THE LOBBYING PARTICIPATION CHOICE MODEL

The number of employees (representing firm size) was found to be significant in the logistic regression analysis for industrial companies only. This result indicates that firm size is the most important factor in determining an industrial company's lobbying participation choice for the OPEB exposure draft. The larger the number of employees, the more likely it is that the industrial company's representative participated in lobbying activities for the OPEB exposure draft. This result is consistent with previous research which used various other surrogates to measure firm size.

None of the other research hypotheses were supported for either industrial companies or utility companies. The univariate results were consistent with the logistic regression analysis revealing only number of employees to be a significant factor in lobbying participation choice for industrial companies.

The difference in logistic analysis results between industrial companies and utility companies may be because utility companies may have different motivations for lobbying since they are regulated companies with regulated rates. Previous studies do not specify if utilities are included in their samples which would also explain the inconsistency in results.

SYNOPSIS

This chapter described the results of the survey data collection procedures, descriptive statistics, univariate tests, validity of the logistic regression assumptions, and the tests of the hypotheses. There were 195 usable responses, of which 124 (43.21% response rate) were filers and 71 (21.07% response rate) were nonfilers. Industry distribution of the respondents was compared to that of the population surveyed. The results of chi-square goodness of fit tests indicated that the sample of filers does not appear to be representative of the target population; therefore, the logistic analysis was performed for two data sets, one for the industrial companies and one for the utility companies. Nonresponse bias was tested by the early/late hypothesis. The results indicated that nonresponse bias is not present.

Descriptive statistics were presented and univariate tests of significance were conducted on the independent

variables. Only the size variable (EMP) for industrial companies was found to be significant in the lobbying participation choice model.

Correlation coefficients were examined for bivariate collinearity. No absolute correlation between independent variables exceeded .0590, indicating that multicollinearity is not a problem. In addition, the variance inflation factors (VIF) confirmed the diagnosis.

The research hypotheses for the position choice model-- firm size, impact on financial statements, and leverage position-- were not supported by logistic regression analysis of either data set. Only one research hypothesis for the lobbying participation choice model was supported in the logistic regression analyses-- the research hypothesis for firm size for industrial companies.

CHAPTER 5
SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

INTRODUCTION

This chapter presents a summary of the study, conclusions, limitations, and recommendations for future research.

SUMMARY OF THE STUDY

The Mission Statement of the Financial Accounting Standards Board includes the precept, "to weigh carefully the views of its constituents in developing concepts and standards" (FASB, 1992, p.1). To enable the FASB to weigh the views of its constituency, the FASB must be aware of the factors involved in the lobbying participation and position decisions made by corporate representatives. The purpose of this study is to explain and classify the behavior of corporate managers in the accounting standards setting process as it related to Statement of Financial Accounting Standards No. 106. Knowledge about why corporate managers choose to participate in the standards setting process for postretirement benefits other than pensions is expected to provide insight about the entire constituency of the FASB, not only the respondents.

To accomplish the objective, corporate representatives who responded to the FASB's exposure draft "Employers' Accounting for Postretirement Benefits Other Than Pensions," were surveyed in an effort to determine corporate characteristics that explain position choice and lobbying participation choice on this issue. A sample of corporations whose representatives did not respond to the OPEB exposure draft, (although the corporations did provide OPEB benefits and are of a similar industry distribution as firms which did respond) was also surveyed to capture corporate characteristics to explain their position and their decision not to lobby.

The research hypotheses developed and tested in this study related to two decisions made by management: (1) the position choice, and (2) the lobbying participation choice. Prior research was analyzed to determine variables that were found to be consistently predictive in these two decisions. The comment letters the FASB received were read to determine the position taken by each comment letter writer and factors mentioned in those letters supporting the position choice taken. The integration of these sources resulted in the hypotheses to determine variables expected to explain the position choice and lobbying participation choice made by management. Three variables were incorporated into the analysis: (1) firm size (measured by the number of fulltime nonseasonal employees), (2) the expected impact of the

exposure draft on financial statements²⁰ (estimated by the maturity of the workforce), and (3) the leverage position (measured by the total debt to total equity ratio).

The hypotheses were tested by developing two logistic regression models, (1) one in which the dependent variable was the position taken on the OPEB exposure draft and (2) one in which the dependent variable was lobbying participation choice. Data were obtained from the NAARS and the Disclosure Incorporated databases, Standard & Poor's Compustat Tapes, Moody's Corporate Manuals, and two questionnaires developed for this study. The comment letters filed with the FASB on the OPEB exposure draft were also read to obtain data. These data were used to construct logistic regression models to test the relationships between the dependent and the independent variables.

A questionnaire was mailed to representatives of two groups of firms: (1) 287 firms which replied to the FASB's OPEB exposure draft (filers), and (2) 337 firms which did not reply to the FASB's OPEB exposure draft (nonfilers). Of the 195 usable responses, 124 were from filers and 71 from nonfilers. The data were tested for nonresponse bias; none was evident. Goodness of fit tests revealed that the industry distribution of the sample of nonfilers is representative of the target population; but the sample of

²⁰ The specific impact on the financial statements in the year of adoption is heavily dependent on the transition approach (FERF, 1989).

filers is not, as it includes proportionally more utility companies. Therefore, separate logistic regression models were developed for industrial companies and utility companies.

Univariate tests of significance by industry were performed to identify systematic differences between (1) firms favoring and firms not favoring the OPEB exposure draft and (2) filers and nonfilers. These tests revealed the only statistically significant result to be that industrial companies that filed are larger (as measured by number of fulltime, nonseasonal workers) than industrial companies that did not file.

Logistic regression analysis was used to identify statistically significant variables in the position choice and in the lobbying participation choice decisions. The overall significance of each logistic regression model was determined by examining chi-square statistics of each model. The research hypotheses were tested by examining tests of significance for the parameter estimates.

CONCLUSIONS OF THE STUDY

The logistic regression analysis for industrial companies' position choice produced a model chi-square statistic of 4.243 which is not statistically significant (p -value=.2364). The logistic regression analysis for utility companies' position choice produced a model chi-

square statistic of 1.091 which is not statistically significant (p-value=.7794). The logistic regression analysis for industrial companies' lobbying participation choice produced a model chi-square statistic of 52.109 which is statistically significant (p-value<.0001). The logistic regression analysis for utility companies' lobbying participation choice produced a model chi-square of .629 which is not statistically significant (p-value=.8897).

Conclusions of the Position Choice Hypotheses

The research hypotheses that the position choice (for both industrial companies and utility companies) is related to (1) firm size (measured by the number of fulltime, nonseasonal employees), (2) impact on the financial statements (estimated by maturity of the workforce), or (3) leverage position (measured by total debt to total equity) were not supported. These results are not consistent with previous research. A possible explanation for the inconsistency is that prior research has not included nonfilers in their studies of position choice (Watts and Zimmerman, 1978; and Zmijewski and Hagerman, 1981). Saemann (1987), who did include nonfilers, used separate models for filers and nonfilers. Therefore, the results from Saemann's study may not be generalizable to situations where filers and nonfilers are included in the same model (as in this study).

The insignificance of the maturity variable may be an indication that the more important effect of the OPEB exposure draft is the increase of the OPEB expense, which will be greater for companies with an immature workforce (since the accrual method results in a larger expense than does the pay-as-you-go method). The field study performed by Coopers & Lybrand for the Financial Executives Research Foundation (1989) demonstrated that the maturity of the workforce was the single predictor of the effect of the OPEB exposure draft on the companies they examined. The impact of the OPEB exposure draft on the income statement may be more pronounced for companies with relatively few current retirees compared to expected retirees²¹ in the future because they are paying (and reporting as an expense) a fraction of the postretirement benefits earned by employees when using the pay-as-you-go method (Espahbodi, et al., 1991).

The variables representing firm size and leverage position were not found to be significant. Their lack of significance may reflect the uncertainty of corporate representatives in predicting OPEB costs using the accrual method. Due to the complexity of implementation of the proposed new standard, corporate representatives may have

²¹ Relatively few current retirees to expected retirees is defined by FERF (1989) as more than six active employees for every retiree.

been unsure of the effect the OPEB standard would have on their company.

Conclusions of the Lobbying Participation Choice Hypotheses

Only one research hypothesis for the lobbying participation choice model was supported-- the firm size hypothesis for industrial companies. The other research hypotheses-- leverage position, impact of financial statements, and utility companies' firm size were not supported.

Except for industrial companies' firm size hypothesis, these results are not consistent with previous research. Previous research which has found leverage to be significant include Dhaliwal (1982), Francis (1987), and Deakin (1989). Saemann's (1987) results were consistent with this research, finding no significance for the leverage variable. However, while Francis and Deakin found significance, leverage was measured as net pension liability divided by assets in Francis' study and measured as debt covenant costs in Deakin's study. The different measurement methods may explain the inconsistency in results.

The impact on the financial statements variable was not found to be significant. As mentioned previously, this result may be because filers expected the income statement effect of the proposed OPEB standard to be more important than the balance sheet effect.

Consistent with previous research, larger industrial companies (as measured by number of fulltime, nonseasonal workers) are more likely to participate in OPEB lobbying activities than are smaller industrial companies. Utility companies may not be motivated by the same economic consequences as industrial firms because of the regulatory environment (which regulates rates) within which utilities operate. Previous studies do not specify the type of firms, and the present study is unable to ascertain if utilities are included. The exclusion of utility companies in previous research may explain the inconsistency in results of this study and earlier lobbying participation choice studies.

Synopsis

This study has identified several factors involved in the lobbying participation and position decisions made by corporate representatives. Firm size, measured by the number of fulltime, nonseasonal workers, was found to be the single significant factor for industrial companies' lobbying participation choice. As firm size increases, it is more likely that industrial companies participate in lobbying activities for the OPEB exposure draft. Knowledge that industrial lobbyists are larger than industrial nonlobbyists may encourage the FASB to target smaller firms when encouraging constituents to participate in lobbying

activities. Increased participation could lead to a more effective accounting standards setting process.

Other survey results identified the belief that commenting would not affect the FASB's final statement as the number one reason for company representatives not to participate in lobbying activities for the OPEB exposure draft. A more effective accounting standards setting process may be developed if the FASB could demonstrate to their constituency how the comment letters are evaluated and incorporated into their decision process.

LIMITATIONS OF THE STUDY

A limitation of this study is the use of the NAARS and Disclosure Incorporated databases to identify firms that provide postretirement benefits other than pensions. Selecting firms from these databases may introduce a bias since the population of all such firms was not used for sample selection. Obviously, the extent of this bias, if any, is indeterminate.

Another limitation of this study is the exclusion of firms with less than 500 employees. There are firms with less than 500 employees that provide postretirement benefits other than pensions to which the results of this study cannot be generalized. However, the exclusion of firms with less than 500 employees is preferred since the small size of these firms could inherently lead to other variables being

deemed more important. Firms with less than 500 employees have a delayed effective date for the OPEB accounting standard and therefore the decision to lobby may not have been the same for these companies as it was for public companies and larger, nonpublic companies. Hence, the results of this study may not pertain to firms with less than 500 employees.

An additional limitation of this study is that the industry distribution of the survey respondents who filed comment letters to the FASB does not appear to be representative of the target population. Survey respondents who were filers included proportionally more utility companies, thus, separate logistic regression models for industrial and utility companies were analyzed.

Another limitation of this research is the lack of a variable representing the lobbying activities encouraged by a professional and/or an industry association. Due to a limited number of "yes" responses when the sample was divided into filers/nonfilers and favor/not favor, research hypothesis H₃ investigating the encouragement by professional and/or industry associations could not be examined.

RECOMMENDATIONS FOR FUTURE RESEARCH

There are several recommendations for future research that may be drawn from the results of this study. The income statement effect of the OPEB exposure draft needs to

be investigated further. It is possible that a variable representing maturity of workforce and labor intensity (measured by sales divided by maturity) may reflect the income statement effect. This research found that the balance sheet effect is not significant, however, the income statement effect may be relevant to both the position choice and the lobbying participation choice.

There may also be different decision variables for firms with mature workforces and firms with immature workforces. Future research could investigate this issue by comparing the corporate characteristics of these two groups.

Future research may also consider measuring the leverage variable with expected OPEB liability plus total liabilities divided by total equity. This measurement method would include the magnitude of expected effect of OPEB on liabilities as well as the leverage position of the firm.

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APPENDIX A

**FIRMS THAT FILED COMMENT LETTERS
TO THE FASB ON THE OPEB EXPOSURE DRAFT**

Utility Companies

There were 86 utility companies of 287 corporate representatives (29.97%) that filed comment letters with the FASB for the OPEB exposure draft. These utility companies and the corresponding number of employees are listed below.

	Number of Employees
Alltel Corporation	7,918
American Water Works Company, Incorporated	3,911
American Electric Power Service Corporation	22,273
Ameritech	77,326
Arizona Public Service Company	8,135
Arkansas Power & Light Company	4,673
Arkla, Incorporated	1,700
AT&T	283,500
Atlantic Electric	2,052
Bell Atlantic	79,099
Brooklyn Union Gas	2,533
Carolina Power & Light Company	8,726
Centerior Energy	9,091
Central and South West Services Incorporated	8,468
Central Vermont Public Service Corporation	760
Cincinnati Gas & Electric Company	4,972
Columbia Gas	10,844
Commonwealth Edison	17,844
Commonwealth Energy System	2,589
Connecticut Water Services, Incorporated	1,950
Consolidated Edison Company of New York	20,150
Consumers Power Company	9,614
Contel Corporation	22,000
Corning Natural Gas Corporation	679
Delmarva Power	2,696
Detroit Edison	10,045
Dominion Resources, Incorporated	13,342
Duke Power Company	19,683
Eastern Enterprises	4,099
El Paso Company	1,082
ENRON Corporation	6,299
ENSERCH Corporation	10,416
Energry Services, Incorporated	13,086
Florida Progress Corporation	7,489
FPL Group, Incorporated	18,899
General Public Utilities Corporation	13,721
GTE Service Corporation	158,000
Gulf States Utilities Company	4,948
Houston Industries Incorporated	12,877
Idaho Power Company	1,562
Indianapolis Power & Light Company	2,278
Iowa-Illinois Gas and Electric Company	1,542

K N Energy, Incorporated	1,704
Kentucky Utilities	2,085
KPL Gas Service	4,460
MCN Corporation	3,508
National Fuel	3,539
New York State Electric & Gas Corporation	4,565
- New England Power Service	1,570
Niagara Mohawk Power Corporation	11,193
Northeast Utilities	8,279
Northern States Power Company	8,104
NYNEX Corporation	95,399
Ohio Edison	7,070
Pacific Gas and Electric Company	26,229
Pacific Enterprises	43,890
Pacific Telesis Group	68,451
Pacificorp	15,215
Panhandle Eastern Corporation	6,099
Pennsylvania Power & Light Company	8,243
Potomac Electric Power Company	5,400
PSI Holdings Incorporated	4,198
Public Service Company of Colorado	6,619
Public Service Enterprise Group	13,049
Public Service Company of New Mexico	3,154
Rochester Gas & Electric Corporation	2,639
Rochester Telephone Corporation	3,686
San Diego Gas & Electric	4,638
Sonat Incorporated	4,799
Southern California Gas Company	9,345
Southern New England Telecommunications	12,646
Southern California Edison Company	16,660
Southern Company	31,282
Southwestern Bell Corporation	66,199
Tenneco Incorporated	90,000
Texas Utilities Company	15,774
Texas-New Mexico Power Company	1,077
Transco Energy Company	5,527
United Illuminating Company	1,626
US West, Incorporated	70,586
Valero Energy Corporation	1,815
Virginia Power	13,102
Washington Gas	3,222
Washington Water Power Company	2,447
Wisconsin Electric Power Company	4,940
Wisconsin Public Service Corporation	2,417

Industrial Companies

There were 201 industrial companies of 287 corporate representatives (70.03%) that filed comment letters with the FASB for the OPEB exposure draft. These industrial companies and the corresponding number of employees are listed below.

	Number of Employees
A.O. Smith Corporation	9,899
Abbott Laboratories	40,928
Acme-Cleveland Corporation	2,582
Air Products and Chemicals, Incorporated	14,099
Alcan Aluminum Limited	57,000
Allied-Signal Incorporated	107,099
Aluminum Company of America	60,599
AMAX Incorporated	20,000
Amerada Hess Corporation	8,739
American Brands, Incorporated	47,299
American Cyanamid Company	35,393
American Home Products Corporation	50,815
American International Group, Incorporated	1,000
American Standard Incorporated	38,900
Ametek	5,899
Amoco Corporation	53,652
Anheuser-Busch Companies	46,607
Arch Mineral Corporation	4,569
Aristech Chemical Corporation	1,700
ASARCO Incorporated	9,000
Baker Hughes	20,399
BASF Corporation	374,000
Batus Incorporated	40,000
Bausch & Lomb	12,500
Baxter Healthcare Corporation	64,299
Bechtel Group, Incorporated	20,000
Bethlehem Steel Corporation	30,500
Black Clawson Company	1,100
BMC Industries, Incorporated	2,108
Boeing Company	164,500
Bonneville International Corporation	900
Borden, Incorporated	46,500
Borg-Warner Corporation	82,600
BP America	39,969
Bristol-Myers Company	54,099
Budd Company	14,000
CalMat Company	2,909
Campbell Soup Company	55,411
Caterpillar Incorporated	60,408
CBS Records	6,750
Champion International Corporation	29,599
Chesapeake Corporation	4,944
Chevron Corporation	54,825

Chrysler Corporation	129,000
CIBA-GEIGY Corporation	14,000
Comerica	7,160
Consolidated Rail Corporation	31,573
Corning Incorporated	27,500
CPC International Incorporated	33,500
Crane Company	10,699
CSX Corporation	53,096
Cummins Engine Company, Incorporated	25,099
Dana Corporation	37,500
Deere & Company	38,948
Delta Air Lines, Incorporated	58,783
DeSoto, Incorporated	1,819
Diamond Shamrock	5,000
Digital Equipment Corporation	125,799
Dow Corning Corporation	7,600
Dow Chemical Company	62,110
Dresser Industries	31,399
E. I. Du Pont De Nemours & Company	145,786
Eastman Kodak Company	137,750
Eaton Corporated	38,733
Ecolab Center	13,089
Emerson Electric Company	72,599
Engelhard Corporation	8,099
Exxon Corporation	104,000
F. W. Woolworth Company	138,000
Fieldcrest Cannon, Incorporated	20,415
FMC Corporation	24,109
Ford Motor Company	366,640
Gates Corporation	13,000
General Mills, Incorporated	97,237
General Electric Company	292,000
General Motors Corporation	775,099
Georgia-Pacific Corporation	44,000
Gerber Products Company	12,434
Gillette Company	30,399
Goodyear Tire & Rubber Company	109,898
Graybar Electric Company Incorporated	4,600
Great Northern Nekoosa Corporation	20,000
Growmark	659
H. J. Heinz Company	37,299
Halliburton Company	65,500
Hercules Incorporated	23,289
Hershey Foods Corporation	11,799
Hewlett Packard Company	95,000
Hoffman-LaRoche	10,000
Honeywell, Incorporated	72,645
Household International	14,500
Imperial Oil Company	15,247
Inland Steel Industries	20,714
International Business Machines Corporation	383,219
International Paper	63,500

ITT Corporation	117,000
J.C. Penney Company, Incorporated	198,000
J. P. Morgan	14,206
Johnson & Johnson	83,099
K Mart Corporation	365,000
Kellogg Company	17,267
Kerr-McGee Corporation	7,941
Keystone Health System	628
Kimberly-Clark Corporation	39,663
Knight-Ridder, Incorporated	21,000
Lehigh Portland Cement Company	1,900
Levi Strauss Associates Incorporated	31,000
Libbey-Owens Ford Company	2,347
Liebel-Florsheim Company	530
Lockheed Corporation	82,500
LTV Corporation	38,000
Lubrizol	5,306
Manville Corporation	17,000
Martin Marietta Corporation	65,500
McDonald's Corporation	176,000
McDonnell Douglas	127,925
McGraw-Hill, Incorporated	14,460
Medusa Corporation	899
Memorial Hospital	576
Merck & Company	34,399
Midlantic Corporation	12,181
Minnesota Mining and Manufacturing	87,583
Mobil Corporation	67,899
Monsanto Company	42,178
Moore Corporation Limited	26,358
Mosler, Incorporated	1,200
Motorola Incorporated	104,000
National Railroad Passenger Corporation	23,000
National Steel	12,200
National Gypsum Company	6,500
Navistar International Transportation	14,236
NCR Corporation	56,000
Northern Telecom Limited	47,571
Northwest Airlines, Incorporated	33,200
Norton Company	16,100
Occidental Petroleum Corporation	53,500
Ocean Spray Cranberries, Incorporated	12,300
Olin	15,399
Owens-Corning Fiberglass Corporation	18,599
Pfizer Incorporated	42,099
Philip Morris Companies, Incorporated	157,000
Phillips Petroleum Company	21,799
Pic-n-Save	3,700
Pitney Bowes	31,403
Polaroid Corporation	11,440
Potlatch Corporation	7,370
PPG Industries, Incorporated	35,500

Premark International, Incorporated	24,699
Proctor & Gamble Company	79,000
Pulitzer Publishing Group	3,200
Quaker State Corporation	5,621
Raytheon Company	77,599
Reynolds Metals Company	30,500
RJR Nabisco, Incorporated	116,881
Rockwell International Corporation	108,714
Rohm and Haas Company	13,039
Royal Dutch/Shell Group of Companies	135,000
Rubbermaid Incorporated	8,408
Sara Lee Corporation	101,799
Schering-Plough Corporation	21,299
Scott Paper Company	29,399
Seagrams Company LTD.	17,599
Sears, Roebuck and Company	500,000
Servistar Corporation	1,100
Shell Oil Company	31,338
Sherlock Company	1,200
Society Corporation	5,934
Squibb Corporation	54,099
Standard Supply & Hardware Company	531
Stanley Works	18,463
Sun Company	21,607
Syntex Corporation	10,000
Tasty Baking Company	1,599
Texaco, Incorporated	37,066
Texas Instruments	73,853
Textron Incorporated	58,000
Tektronix, Incorporated	15,700
Times Mirror	29,065
Timken Company	17,247
TRW Incorporated	74,279
Union Carbide Corporation	45,986
Union Camp Corporation	18,645
Union Pacific Corporation	48,125
United Technologies	201,399
United Airlines	71,169
Unocal Corporation	17,285
Upjohn Company	20,099
USAIR Group, Incorporated	49,000
UST	3,336
USX Corporation	25,553
Vulcan Materials Company	6,275
W.R. Grace & Company	49,699
Warner-Lambert Company	33,099
Westinghouse Electric Corporation	121,962
Wetterau Incorporated	12,100
Whitman Corporation	25,187
Willamette Industries, Incorporated	9,370
Williams Companies, Incorporated	4,250
Wyatt Company	540

Xerox Corporation
Yellow Freight System

111,399
29,199

APPENDIX B

**SAMPLE OF FIRMS USED IN THIS STUDY
THAT DID NOT FILE COMMENT LETTERS
TO THE FASB ON THE OPEB EXPOSURE DRAFT**

Utility Companies

There were 93 utility companies of 337 corporate representatives (27.60%) that provide postretirement benefits other than pensions and did not file comment letters with the FASB on the OPEB exposure draft. These utility companies and the corresponding number of employees are listed below.

	Number of Employees
Alabama Power Company	9,700
Appalachian Power Company	4,780
Atlantic City Electric Company	2,150
Baltimore Gas and Electric Company	9,100
Bangor Hydro Electric Company	504
Bay State Gas Company	1,000
Boston Gas Company	1,800
Berkshire Gas Company	581
Bonneville Pacific Corporation	530
Boston Edison Company	4,560
Cascade Natural Gas Corporation	536
Centel Corporation	12,500
Central Illinois Public Service Company	2,670
Central Hudson Gas & Electric Corporation	1,350
Central Louisiana Electric Company	1,280
Central Maine Power Company	2,490
Central Power and Light Company	2,330
Century Telephone Enterprises Incorporated	2,000
Chesapeake Utilities Corporation	515
Cilcorp Incorporated	1,520
Cincinnati Bell Incorporated	11,000
Citizens Utilities Company	1,670
Cleveland Electric Illuminating Company	5,300
CNW Corporation	8,800
Columbus Southern Power Company	2,500
Connecticut Energy	644
Connecticut Natural Gas Corporation	695
Consumers Water Company	888
DPL Incorporated	2,790
DQE	4,350
Eastern Utilities Associates	1,200
Energen Corporation	1,500
Florida Power & Light	15,000
Florida Public Utilities Company	598
Georgia Power Company	15,100
Green Mountain Power Corporation	586
GTI Corporation	883
Hawaii Electric Industries	3,190
Illinois Power Company	4,240
Indiana Energy Incorporated	1,130
Indiana Michigan Power Company	3,510

Interstate Power Company	950
Iowa Public Service Company	1,880
Iowa Power Incorporated	1,220
Iowa Resources Incorporated	1,300
Iowa Southern Incorporated	550
Ipalco Enterprises Incorporated	2,280
Kentucky Power Company	868
Lincoln Telecommunications Company	1,500
Louisville Gas and Electric Company	4,180
Louisiana General Services Incorporated	652
Madison Gas and Electric Company	807
Michigan Gas Company	598
Midwest Energy Company	2,230
Minnesota Power & Light	2,430
Monongahela Power Company	1,900
Montana Power Company	3,690
New England Electric Systems	5,480
New Jersey American Water Company	700
New Jersey Resources Corporation	810
Nicor Incorporated	4,000
Nipsco Industries Incorporated	4,825
Northern Illinois Gas Company	2,600
NUI Corporation	967
Ohio Bell Telephone Company	13,500
Oneok Incorporated	2,141
Orange and Rockland Utilities Incorporated	1,780
Oregon Electric Company	12,310
Otter Tail Power Company	828
Pacific Resources Incorporated	902
Peoples Energy Corporation	3,400
Philadelphia Suburban Corporation	1,200
Public Service Company of Oklahoma	2,000
Savannah Electric and Power Company	643
Sierra Pacific Resources	1,870
Southeastern Michigan Gas Enterprises	590
Southern California Water Company	592
Southern Indiana Gas and Electric Company	970
Southwestern Public Service Company	2,000
St. Louis County Water Company	542
Texas Eastern Corporation	9,300
Toledo Edison Company	2,820
UCG Energy Corporation	975
UGI Corporation	2,100
United Water Resources Incorporated	729
United Telecommunications Incorporated	41,300
Utilicorp United Incorporated	2,560
Upper Peninsula Energy Corporation	582
West Penn Power Company	2,040
West Texas Utilities Company	1,390
Wisconsin Bell Incorporated	6,670
Wisconsin Energy Corporation	5,600
Wisconsin Gas Company	1,430

Industrial Companies

There were 244 industrial companies of 337 corporate representatives (72.40%) that provide postretirement benefits other than pensions and did not file comment letters with the FASB on the OPEB exposure draft. These industrial companies and the corresponding number of employees are listed below.

	Number of Employees
A H Belo Corporation	2,562
Acme Steel	3,000
Alexander & Alexander Services Incorporated	16,000
Allegheny Ludlum Corporation	5,500
Allis Chalmers Corporation	516
American Greetings Corporation	20,700
Allergan, Incorporated	6,435
American Petrofina Incorporated	3,694
AMR Corporation	89,000
Amsted Industries	8,100
Anadarko Petroleum Corporation	784
AON Corporation	1,000
ARCO Chemical Company	3,580
Armstrong World Industries	25,606
Arvin Industries Incorporated	16,849
Avon Products Incorporated	28,399
Badger Meter Incorporated	837
Bandag Incorporated	2,456
Banner Industries Incorporated	17,160
Barnes Group Incorporated	4,798
Beatrice Company	15,900
BFGoodrich Company	11,891
Bird Incorporated	1,000
Black & Decker	38,600
Blount Incorporated	5,000
Brenco Incorporated	600
Briggs & Stratton Corporation	7,315
Brown Group Incorporated	28,000
Brush Wellman Incorporated	2,159
Burlington Northern Incorporated	32,899
Butler Manufacturing Company	3,644
Cadmus Communications Corporation	1,950
Cargill Incorporated	54,000
CBI Industries Incorporated	11,500
CENEX	2,600
CF&I Steel Corporation	2,000
Chicago and North Western Holdings	7,562
Coachmen Industries Incorporated	2,664
Chiquita Brands International Incorporated	44,000
Cincinnati Milacron Incorporated	7,675
Citgo Petroleum Corporation	1,652
Citizens and Southern Corporation	15,381

Clarcor Incorporated	2,289
Clark Equipment Company	9,182
Coca Cola Enterprises Incorporated	20,000
Commerce Clearing House Incorporated	7,782
Commercial Metals Company	3,433
Commercial Intertech Corporation	4,000
Consolidated Freightways Incorporated	40,799
Control Data Corporation	18,000
Cordis Corporation	1,870
Corning Glass Works	650
Crystal Brands Incorporated	10,399
Curtiss Wright Corporation	2,049
Cyclops Industries Incorporated	6,799
Data General Corporation	13,739
Dayton Hudson Corporation	140,000
Deluxe Corporation	16,947
Dexter Corporation	5,399
DeZurik Incorporated	1,300
Diebold Incorporated	4,182
Domtar Incorporated	15,818
Donnelly Corporation	2,149
Doskocil Companies Incorporated	10,000
Driver Harris Company	558
Durr Fillauer Medical Incorporated	1,263
E Systems Incorporated	17,919
Echlin Incorporated	16,199
Electronic Associates Incorporated	539
Equifax Incorporated	12,713
Ethyl Corporation	5,500
Farah Incorporated	6,700
Federal Express Corporation	86,799
Federal Signal Corporation	4,317
Freeport McMoran Incorporated	7,327
Gannett Company Incorporated	36,649
Gencorp	15,099
General Dynamics Corporation	102,200
General Signal Corporation	19,377
Genesco Incorporated	6,699
Genrad Incorporated	1,868
Global Marine Incorporated	1,600
Goulds Pumps Incorporated	4,200
Griffith Consumers Company	534
Guy F Atkinson Company of California	6,047
Hal Incorporated	3,074
Hancock Fabrics Incorporated	6,422
Hanna (M.A.) Company	9,337
Harley Davidson Incorporated	5,089
Hasbro Incorporated	8,199
Hecla Mining Company	906
Herley Microwave Systems Incorporated	517
Hibernia Corporation	3,700
Holnam Incorporated	2,694

Homestake Mining Company	2,095
Hudson Foods Incorporated	6,262
Interco Incorporated	54,000
IE Industries	1,754
Illinois Tool Works Incorporated	15,699
IMC Fertilizer Group Incorporated	6,000
Imcera Group Incorporated	6,900
IMO Industries Incorporated	8,800
Ingersoll Rand Company	31,622
Intel Corporation	29,000
Interlake Corporation	7,052
Internet Corporation	4,200
International Multifoods Corporation	9,171
Intermark Incorporated	2,200
J P Industries Incorporated	4,300
Jefferson Smurfit Corporation	7,600
Joslyn Corporation	2,100
Joy Technologies Incorporated	4,300
Kellwood Company	15,099
Keycorp	11,000
Kroger Company	170,000
Kysor Industrial Corporation	2,084
LaBarge Corporation	1,000
Land O'Lakes Incorporated	5,700
Leucadia National Corporation	3,060
Lifetouch National School Studios	2,000
Loews Corporation	26,799
Longview Fibre Company	3,500
LPL Technologies Incorporated	6,513
LS Starrett Company	2,781
Mack Trucks	7,870
Magma Copper Company	4,496
Manitowoc Company Incorporated	2,300
Mark IV Industries Incorporated	9,099
Marshall & Ilsey Corporation	5,432
Material Sciences Corporation	699
Maytag Corporation	26,018
McCormick & Company Incorporated	7,500
McDermott International Incorporated	30,000
Medtronic Incorporated	6,303
MEI Diversified Incorporated	1,199
Meredith Corporation	4,118
Michigan National Corporation	6,043
Mine Safety Appliances Company	5,300
Missouri Research Lab	519
Mitchell Energy & Development Corporation	2,399
Modine Manufacturing Corporation	4,280
Montgomery Ward & Company Incorporated	67,200
Moog Incorporated	3,287
Morrison Knudsen Corporation	12,559
Morton International Incorporated	8,400
NACCO Industries Incorporated	10,724

Nashua Corporation	6,977
National City Corporation	15,159
Newcor Incorporated	577
Newell Company	10,199
Noland Company	1,924
Norfolk Southern Corporation	33,273
Northrop Company	41,000
Nuvison Incorporated	1,000
Old Spaghetti Warehouse Incorporated	647
Oneida LTD.	4,409
Oregon Steel Mills Incorporated	799
Overmyer Corporation	549
Pacificare Health System	1,024
Peabody Holding	11,107
Phelps Dodge Corporation	13,287
Phillips Van Heusen Corporation	8,500
Phlcorp Incorporated	1,381
Plymouth Rubber	524
Preston Corporation	9,201
Prime Computer Incorporated	12,386
Puerto Rican Cement Company Incorporated	553
Quaker Chemical Corporation	10,000
Quaker Oats Company	31,699
Quantum Chemical Corporation	10,000
R.R. Donnelly & Sons Company	26,099
Raymond Corporation	1,280
RB&W Corporation	1,338
Reading & Bates Corporation	1,369
Reliance Electric Company	13,000
Republic Automotive Parts Incorporated	620
Rexene Corporation	1,019
Riser Foods Incorporated	7,200
Rochester & Pittsburgh Coal Company	2,360
Rorer Pharmaceutical Corporation	5,000
Rouse Company	5,337
Safeguard Scientifics Incorporated	2,000
Safety Kleen Corporation	5,199
Safeway Stores Incorporated	110,000
Salem Corporation	750
Sante Fe Southern Pacific	20,149
Savin Corporation	1,872
Schlumberger Limited	46,000
SCI Systems Incorporated	1,110
Selmer-Ludwig Corporation	1,200
Selas Corporation	535
Shawmut National Corporation	11,775
Sherwin Williams Company	16,725
Smith International Incorporated	2,899
Smithfield Foods	4,200
Somerset Group Incorporated	525
Sotheby's Holdings Incorporated	1,575
Southdown Incorporated	3,299

Southland Corporation	50,000
SPS Technologies Incorporated	5,863
SPX Corporation	5,035
Square D Company	19,299
SSMC Incorporated	24,000
St. Louis Southwest Railway Company	2,900
Standard Products Company	7,099
Standard Register Company	6,321
Sterling Chemicals Incorporated	930
Sterling Software	1,799
Stewart & Stevenson Services Incorporated	2,560
Suave Shoe Corporation	1,299
Sundstrand Corporation	13,699
Sunshine Mining Company	709
Sysco Corporation	18,699
Teledyne Incorporated	43,199
Temple-Inland Incorporated	12,000
Tennant Company	1,789
Tesoro Petroleum Corporation	1,799
Thomas & Betts Corporation	5,000
TIC United Corporation	2,000
Tidewater Incorporated	2,899
Tiffany & Company	2,085
Todd Shipyards Corporation	2,699
Topps Company Incorporated	1,300
Toro Company	3,068
Tosco Corporation	1,679
Trans World Airlines Incorporated	32,000
Trinova Corporation	21,596
Trion Incorporated	545
Unicorp America Corporation	837
Union Texas Petroleum Holdings Incorporated	1,899
United Foods Incorporated	2,275
United States Shoe Corporation	49,000
USG Corporation	14,199
VWR Corporation	1,100
Watts Industries Incorporated	1,700
Weirton Steel Corporation	8,200
Wheeling Pittsburgh Steel Corporation	6,330
Whirlpool Corporation	39,410
Winn Dixie Stores Incorporated	94,000
Witco Corporation	7,364
WM Wrigley Jr. Company	5,750
Woodward Governor Company	3,317
WW Grainger Incorporated	7,645
Wyman Gordon Company	3,100

APPENDIX C

**COVER LETTER AND SURVEY INSTRUMENT SENT TO
REPRESENTATIVES OF COMPANIES THAT COMMENTED ON
FASB'S EXPOSURE DRAFT ON
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

EXHIBIT C-1

Date, 1991

RE: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Name, Title
Corporation
Address
State, Zip

Dear Name:

Three hundred five corporations, including yours, filed comment letters with the FASB on the exposure draft of the statement on Employers' Accounting for Postretirement Benefits Other Than Pensions; almost 400 corporations of similar industries and size did not. I am surveying corporations in each group in an attempt to identify the factors involved in the decision to participate in the standards setting process. Better understanding of these factors should lead to increased participation and improve the process in the future.

The enclosed questionnaire consists of four questions. Please take a moment to complete the questionnaire and return it in the enclosed envelope. Responses will be kept strictly confidential. The results of the survey will be reported in aggregate and I will not associate your name or your company's name with the results that are reported.

Thank you for your participation.

Sincerely,

Christine Schalow
Assistant Professor

EXHIBIT C-2

QUESTIONNAIRE SENT TO REPRESENTATIVES OF COMPANIES THAT COMMENTED ON FASB'S EXPOSURE DRAFT ON POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

1. When the FASB issues an exposure draft of a proposed statement of financial accounting standards does your company submit written comments and/or speak at public hearings?

(1) _____ always

(2) _____ only if the proposed standard is expected to have an adverse effect on the company's financial statements.

(3) _____ other (describe below)

2. Was your company encouraged by industry associations or professional associations to respond to the FASB on the OPEB issue?

yes _____

no _____

If "yes": Did this encouragement motivate your company to respond to the FASB on the OPEB issue?

yes _____

no _____

Which association(s)?

3. Approximately what was the number of retirees for your firm in 1989 (if known)? _____

4. Approximately what was the ratio of employees to retirees for your firm in 1989:

Less than two fulltime employees for every retiree _____

Two to six fulltime employees for every retiree _____

More than six fulltime employees for every retiree _____

IF YOU WOULD LIKE TO RECEIVE A SUMMARY OF THE STATISTICAL RESULTS, PLEASE INDICATE TO WHOM THEY SHOULD BE MAILED:

NAME

TITLE

COMPANY

ADDRESS

ADDRESS

THANK YOU FOR YOUR TIME AND CONSIDERATION IN COMPLETING THIS QUESTIONNAIRE. PLEASE RETURN IT IN THE ENCLOSED, STAMPED SELF-ADDRESSED ENVELOPE.

APPENDIX D

**COVER LETTER AND SURVEY INSTRUMENT SENT TO
REPRESENTATIVES OF COMPANIES THAT DID NOT COMMENT ON
FASB'S EXPOSURE DRAFT ON
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

EXHIBIT D-1

Date, 1991

RE: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Name, Title
Corporation
Address
State, Zip

Dear Name:

Three hundred fifty nine corporations, including yours, did not file comment letters with the FASB on the exposure draft of the statement on Employers' Accounting for Postretirement Benefits Other Than Pensions; 305 corporations of similar industries and size did file comment letters. I am surveying corporations in each group in an attempt to identify the factors involved in the decision to participate in the standards setting process. Better understanding of these factors should lead to increased participation and improve the process in the future.

The enclosed questionnaire consists of six questions. Please take a moment to complete the questionnaire and return it in the enclosed envelope. Responses will be kept strictly confidential. The results of the survey will be reported in aggregate and I will not associate your name or your company's name with the results that are reported.

Thank you for your participation.

Sincerely,

Christine Schalow
Assistant Professor

EXHIBIT D-2

QUESTIONNAIRE SENT TO REPRESENTATIVES OF COMPANIES THAT
DID NOT COMMENT ON FASB'S EXPOSURE DRAFT
ON POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

1. Was your company, or company representative, in agreement with the FASB's proposed accounting standard (OPEB) that postretirement benefits other than pensions should be accrued (ignoring implementation issues)?

yes _____ no _____

2. When the FASB issues an exposure draft of a proposed statement of financial accounting standards does your company submit written comments and/or speak at public hearings:

(1) _____ never

(2) _____ if the proposed standard is expected to have an adverse effect on the company's financial statements.

(3) _____ always

(4) _____ other (describe below)

3. Was your company encouraged by industry associations or professional associations to respond to the FASB on the OPEB issue?

yes _____ no _____

If yes, which association(s)?

4. Why didn't your company, or company representative, comment on the FASB's exposure draft of postretirement benefits other than pensions? (Please check the appropriate reasons)

_____ We were not aware of the exposure draft.

_____ We did not believe commenting would affect FASB's final standard.

_____ It is too costly to comment.

_____ Other (Please explain below)

5. Approximately what was the number of retirees for your firm in 1989 (if known)? _____
6. Approximately what was the ratio of employees to retirees for your firm in 1989
- Less than two fulltime employees for every retiree _____
- Two to six fulltime employees for every retiree _____
- More than six fulltime employees for every retiree _____

IF YOU WOULD LIKE TO RECEIVE A SUMMARY OF THE STATISTICAL RESULTS, PLEASE INDICATE TO WHOM THEY SHOULD BE MAILED:

NAME

TITLE

COMPANY

ADDRESS

ADDRESS

THANK YOU FOR YOUR TIME AND CONSIDERATION IN COMPLETING THIS QUESTIONNAIRE. PLEASE RETURN IT IN THE ENCLOSED, STAMPED, SELF-ADDRESSED ENVELOPE.

**LOBBYING ACTIVITY IN THE STANDARDS SETTING PROCESS:
FASB STATEMENT ON FINANCIAL ACCOUNTING STANDARDS NO. 106,
"EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS"**

**Abstract of dissertation submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy**

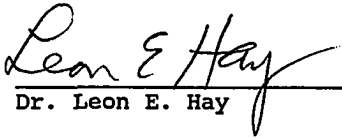
By

**Christine Marie Schalow, B.S., M.S.
University of Wisconsin at Green Bay, 1985
St. Cloud State University, 1987**

**December, 1992
University of Arkansas**

This abstract is approved by:

Dissertation Advisor:



Dr. Leon E. Hay

ABSTRACT

The purpose of this study is to explain and classify the behavior of corporate managers in the accounting standards setting process as it related to Statement of Financial Accounting Standards No. 106. Evidence from this study provides readers a better understanding of participation of corporate managers in the accounting standards setting process. To accomplish the objective, this study surveyed corporate representatives who responded to the Financial Accounting Standards Board's, February 1989, exposure draft, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (OPEB). A sample of corporations whose representatives did not respond to the OPEB exposure draft, although the corporations did provide OPEB benefits, and which are of a similar industry distribution as firms which did respond, was also surveyed. Logistic regression analysis was used to identify statistically significant variables in the position choice and lobbying participation choice decisions. No other known study has attempted to investigate both the position and decision to lobby on the OPEB issue, although Saemann (1987) examined both the position and decision to lobby on Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions."

Evidence from this research provides information useful

involved in setting financial accounting standards. The Mission Statement of the Financial Accounting Standards Board includes the precept, "to weigh carefully the views of its constituents in developing concepts and standards" (FASB, 1992, p.1). Knowledge about why corporate managers choose to participate in the standards setting process for postretirement benefits other than pensions provides insight about the entire constituency of FASB, not only the respondents.

The research hypotheses for the position choice model-- firm size, impact on financial statements, and leverage position-- were not supported by logistic regression analysis. Only one research hypothesis for the lobbying participation choice model was supported in the logistic regression analyses-- the research hypothesis for firm size for industrial companies. The larger the number of employees, the more likely it is that the company participated in lobbying activities related to the OPEB exposure draft. The other attributes tested, maturity of the workforce and leverage position, were found not to be statistically significant.