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The power of the extractive industries: capturing the international accounting standard setting process

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**The power of the extractive industries:
capturing the international accounting
standard setting process**

A thesis submitted in fulfilment of the
requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from the

UNIVERSITY OF WOLLONGONG

by

Corinne L. Cortese, B.Com (Hons)

**School of Accounting and Finance
2006**

Certificate

I, Corinne Lesley Cortese, certify that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the School of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Corinne Lesley Cortese

9 November 2006

Abstract

Purpose – This thesis examines the role of power in the international accounting standard setting process for the extractive industries and explains how that process was mobilised by key extractive industries constituents. For many years these constituents, highly significant in the global economy, have enjoyed choice in the application of accounting standards, enabling them flexibility in the way they present their operations. This investigation illuminates the way in which they have influenced the process of setting an International Financial Reporting Standard (IFRS) for the extractive industries.

Design/methodology/approach – The methodology is based on a critical approach to accounting research, termed critical investigative inquiry. This methodology focuses on the political, economic, and social influences on accounting and facilitates the questioning of taken for granted assumptions and power relations involved in accounting and accounting standard setting. The research method that is used to conduct these inquiries is based on Critical Discourse Analysis (CDA). CDA is used to identify the key players involved in the international accounting standard setting process for the extractive industries, and to analyse their discourse and its implications. The outcomes of the international accounting standard setting process are then explained using power/capture theory, which was developed for this research as an integration of Lukes' (1974) conception of power and Mitnick's (1980) theory of regulatory capture. Lukes' (1974) theory recognises that power need not be empirically verifiable to exist and that the status quo may need to be questioned in order for the presence of power to be illuminated. Mitnick's (1980) theory explains regulatory processes and identifies the factors that contribute to a predisposition of regulatory bodies to take actions consistent with the preferences of the industry they were intended to regulate. Power/capture theory, in combination with CDA, provides a framework to make possible the exposure of these factors and recognises that the presence of power/capture may be insidious and the result of a relationship formed between the regulatory body and the regulated industry.

Findings – The IASC/IASB's extractive industries project, commenced in 1998, resulted in the issue in December 2004 of IFRS 6, *Exploration for and Evaluation of Mineral Assets*. This IFRS is simply a codification of existing industry practice, resulting in a perpetuation of the disparate accounting and financial reporting endemic to the extractive industries. This has occurred because of the mobilisation of a powerful community of interests within the extractive industries, which has enabled them to capture the IASC/IASB in

order to maintain status quo of flexibility in accounting and financial reporting.

Research contributions – The contributions of this research are three-fold. First, as a critical methodology and research method, critical investigative inquiry and CDA have the potential not only to uncover the social practice and public discourse of accounting standard setting, but also to expose the discourse practice underlying the process and make visible the presence of power. Secondly, the theory of power/capture developed to explain the international accounting standard setting process is an innovative approach developed from two theories which are themselves relatively absent from extant accounting literature. Further, CDA and power/capture theory are complementary, and may be used together as a comprehensive framework for critical examination of the accounting standard setting process. Thirdly, this research provides a contribution to practical knowledge of international accounting standard setting processes by tracing the history of accounting for the extractive industries, identifying key players involved in the process, and making connections between these players to provide confirmatory evidence of the effect of power in the international accounting standard setting process.

Research limitations/future research – Because this research is based on publicly available information and identification of key players based on lobbying activity, it relies on overt behaviour that may occur relatively late in the process of setting the accounting standard, compared to agenda setting and committee formation. Further studies may overcome this limitation by examining international accounting standard setting from inside the process, by means of participant observation. The CDA and power/capture framework developed in this thesis can be applied to other studies of international accounting standard setting projects or to studies of other aspects of the extractive industries project.

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