How Do Ideologies and Lobbying Connections of U.S. Politicians Influence Corporate Accounting?

Researchers at the University of Mannheim recently conducted a study on the influence of U.S. members of Congress on corporate accounting. The team led by Prof. Jannis Bischof of the collaborative research center “Accounting for Transparency” found out that ideologically motivated legislators only participate in the regulation of accounting practices at times when important economic issues are being widely discussed in the media. In contrast, members of Congress with close ties to lobby groups frequently take an active part in regulating financial accounting.

In September 2008, the investment bank Lehman Brothers was declared bankrupt. A few days later, the US government announced a bailout package for the financial sector amounting to almost 800 billion dollars. This measure was accompanied by a political debate on whether it would be better to channel the money into pensions, schools or the healthcare sector. The discussions were highly controversial, both in public and in the U.S. Congress: While a majority of conservative Republican members of Congress opposed the bank bailout, many Democrats were in favor.

However, strongly left- or right-wing oriented members of Congress do not consistently intervene in activities of the finance industry. When the interest of the media and the general public in a topic declines, so does the politicians' willingness to deal with technical aspects of the finance industry, such as accounting. This is what Prof. Jannis Bischof and Prof. Holger Daske of the Business School at the University of Mannheim found out in their latest study together with Christoph J. Sextroh, a PhD graduate from Mannheim and now assistant professor in Tilburg.

Bischof and Daske came to the conclusion that U.S. members of the Congress can be divided into two groups: The group of ideologically motivated members of Congress only sporadically comments on accounting regulations and focuses primarily on the economic consequences, above all on major aspects of distribution policy. Such controversial issues include bank bailouts and the question of whether manager salaries should be restricted.

The other group takes a greater interest in being more actively involved in determining and shaping accounting regulation. In their argumentation, these members of Congress are less
concerned with the economic consequences of accounting regulation but rather focus on technical factors such as volatility concerning the significance and predictability of profits. However, these members of Congress, in particular, have close connections to economic lobby groups.

“The results of our study show that economic interest groups in the USA are quite capable of influencing accounting regulation without being in the public eye and thus asserting their own tangible economic interests”, summarizes the head of the study, Bischof. “This is critical.”

As part of their study, Prof. Bischof and his team analyzed the public statements of all 435 members of the U.S. Congress on topics relating to regulation, including their TV and radio interviews, press releases and speeches in Congress. "The data situation in the USA is very good and the American system sets a good example in terms of how transparently financial relationships are reported," explains the business expert. Even though much of what happens in Europe takes place behind closed doors, it can be assumed that such connections to lobby interests also exist in the European setting, Bischof said.

Original publication:

About the CRC Accounting for Transparency
The TRR 266 Accounting for Transparency is a trans-regional Collaborative Research Center funded by the German Research Foundation (DFG). Collaborating partners are the University of Mannheim, Paderborn University, the Humboldt University of Berlin, and five other universities. Approved by the DFG in May 2019, the project is the first Collaborative Research Center with an exclusive focus on Business Administration to receive funding. Its team of over 80 researchers examines how accounting and taxation affect the transparency of companies and how regulation and firm transparency impact our economy and society. The aim is to develop effective regulation for firm transparency and a transparent tax system. For more information on the project, visit www.accounting-for-transparency.de

Contact:
Prof. Dr. Jannis Bischof
Chair of Business Administration and Accounting
University of Mannheim
Phone: +49 621 181-1629
E-mail: jbischof@uni-mannheim.de

Yvonne Kaul
Research Communication
Communications
University of Mannheim
Phone: +49 621 181-1266
E-mail: kaul@uni-mannheim.de