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## The Public Policy Implications Of Audit Regulation: Three Studies Related To The Passage Of The Sarbanes-Oxley Act Of 2002

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THE PUBLIC POLICY IMPLICATIONS OF AUDIT REGULATION: THREE  
STUDIES RELATED TO THE PASSAGE OF THE SARBANES-OXLEY ACT OF  
2002

by

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A dissertation submitted in partial fulfillment of the requirements  
for the degree of Doctor of Philosophy  
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at the University of Central Florida  
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## **ABSTRACT**

This dissertation documents and evaluates certain financial and non-financial strategies used by the public accounting profession to influence audit regulation during the policy formation period of the Sarbanes-Oxley Act of 2002 (SOX). The dissertation is comprised of three separate, but related studies. Each study uses prior research in accounting and related disciplines to investigate significant aspects the profession's strategies. The first study evaluates the rationality and effectiveness of political action committee (PAC) contributions paid by the accounting profession to members of Congress. The study finds that the accounting profession rationally allocated more PAC contributions to top congressional leaders and to members of committees having jurisdiction over SOX. The study also finds that the accounting profession allocated more PAC contributions to legislators with a history of pro-business roll call voting behavior and to candidates in close electoral races. This evidence suggests that the profession is motivated to contribute cash to legislators in order to gain access to lobby and to influence the ideological composition of the legislature. A voting model also finds a positive relationship in two instances between PAC contributions and roll call voting favorable to the economic interests of the profession in the House of Representatives.

The second study evaluates the effect of these PAC contributions on Committee members' frequency and mode of speech during public hearings related to SOX. Using computerized computational linguistics, the study finds a significant positive association

between PAC contributions and speech performance. The study also finds differential uses of modals and certain verbs between legislators depending upon party affiliation.

The third paper explores the rhetoric of the accounting profession's public interest ideal and the profession's motivation to invoke public interest arguments in various contexts. I approach my analysis from three different perspectives. The first perspective analyzes the public interest language of the profession as well-intentioned rhetoric. The second approach eschews any well-intentioned motivations on behalf of the profession and casts public interest arguments as propaganda cloaking self-interested action. The third approach deconstructs the public interest ideal as myth, embodying a constellation of elements including cultural values, political doctrine and contingent interests.

This dissertation is dedicated to my children, Maxwell and Dylan Thornburg.

## **ACKNOWLEDGMENTS**

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## **LIST OF ABBREVIATIONS**

AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
NYSCPA	New York Society of Certified Public Accountants
PAC	Political Action Committee
PCAOB	Public Company Accounting Oversight Board
PRO	Public Regulatory Agency
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act of 2002
USCC	United States Chamber of Commerce

## **INTRODUCTION**

The purpose of this dissertation is to document and evaluate political strategies and tactics used by the public accounting profession and those of its constituents during the policy formation period of the Sarbanes-Oxley Act of 2002<sup>1</sup> (SOX). The dissertation is comprised of three separate, but related studies. Each study uses prior research in accounting and related disciplines to investigate significant aspects the profession's strategies. In this introductory chapter, I provide the overall motivation for the dissertation and a brief summary of each study.

The maintained assumption of American society is that securities regulation fosters fair and efficient capital markets by protecting investors from unfair and fraudulent practices while maintaining investor confidence in those markets. Arguably, the persuasive appeal of this rationale rests on providing the public equal access to the American Dream. According to Merino and Mayper (2001), the American Dream is a combination of Jeffersonian democracy, where all citizens have an equal opportunity to succeed, and social Darwinism, a theory that justifies discrepancies in the distribution of wealth based on performance. In other words, the American Dream promises "an equal opportunity to be unequal" (p.506). According to this dream, legal and political structures should protect equal access and opportunity, as well as personal property rights accumulated through superior performance.

Another view, known as the Iron Law of Oligopoly, claims that society has a natural tendency towards rule by the few (Michels, 1915). According to this theory, large populations tend to specialize and delegate decision making to a few individuals who naturally accumulate their own wealth and protect or enhance their power base.

Economic theories of regulation seem to support this view suggesting that powerful interest groups seek control of regulatory structures for the economic benefit of their members and to the detriment of broader segments of society (Stigler, 1971; Pelzman, 1976; Hirschleifer, 1976; Becker, 1986; Willmott, 1986; Sikka, 2001; Dwyer and Roberts, 2004). Under this view, securities legislation such as SOX, can be seen as a symbolic attempt to restore investor confidence and preserve the status quo following a series of major market failures. At worst, SOX might be seen as an instrumental attempt by politicians and regulators to exploit a crisis in order to protect their power base and enhance their own interests.

SOX contained sweeping provisions affecting the responsibilities of publicly traded companies and their auditors. Principal among these was the creation of a Public Company Accounting Oversight Board (PCAOB) that effectively stripped the American Institute of Certified Public Accountants (AICPA) of its ability to regulate itself and set auditing standards<sup>2</sup>. This legislation is important since it signaled an important shift away from the self-regulatory structure established under the Securities and Exchange Acts of 1933 and 1934<sup>3</sup>. These Acts effectively established a monopoly status for the

U.S. public accounting profession in auditing the financial statements of publicly traded companies. In exchange for this state-granted monopoly, the profession ostensibly agreed to a fiduciary role infused with a mandate to operate in the public interest. This role requires auditors to operate as independent, competent and objective referees overseeing the production of financial information while performing their services under strict professional standards (Roberts and Kurtenbach, 1998). Classic economic theory suggests this role is necessary because the proper functioning of capital markets requires investor confidence in the accuracy, completeness and reliability of the financial information generated by publicly traded companies. In addition, since accounting and auditing standards are complex, a condition of information asymmetry exists between consumers and producers of financial information. To the extent that uninformed consumers cannot evaluate the quality of financial information might subject them to incompetence and fraud. Since the public cannot be reasonably expected to investigate the qualifications of auditors, professional licensing acts as a symbol of quality and presumably, protects the public from harm. Licensing also acts as a quality signal to regulators enhancing the value of CPAs to their clients. Ayers, Jackson and Hite (1989) found that licensing provided CPAs with a degree of protection and negotiating power in practicing before the IRS allowing them to adopt more aggressive, pro-taxpayer positions in ambiguous tax situations.

Some theorists however, have been critical of this arrangement, citing the potential for ‘regulatory capture.’ Regulatory capture describes a potential situation where regulated



industries end up dominating the regulatory structure for the economic benefit of their members. Stigler's economic theory of regulation (1971) suggests that industries and occupations with sufficient political power will utilize the State to seek control of entry and enact complimentary legislation in order to maximize their wealth. Pelzman (1976) formalized this theory and predicted that political equilibrium will result when regulation balances the marginal costs and benefits among the various interest groups affected. Hirschleifer (1976) observed that regulators themselves are an interested group and that when exogenous events disrupt an existing political equilibrium regulators tend to assure that the associated costs (or benefits) of the correction are distributed among all parties. Becker (1986) further refined this theory by including the consuming public as a competing interest group. Taken in combination, these theories suggest that when exogenous events occur, such as stock market crashes and major audit failures, the political and regulatory structures undergo a correction wherein the rational and self-interested members of various interest groups, including the accounting profession, compete for relative economic advantage. Such a correction it seems occurred following the collapse of Enron<sup>4</sup>. The magnitude and widespread impact of the losses demanded a response from the political sector and battle lines were quickly drawn among the various interest groups with an economic stake in the outcome. These interest groups included the accounting profession and their clients, federal regulators, institutional investors, stock exchanges, the investment and consumer banking industry, labor organizations, consumers and even the politicians themselves. Consequently, drawing on Stigler's (1971) economic theory of regulation, the maintained assumption of this proposal is that

the accounting profession acted instrumentally in seeking to protect its economic interests and those of its constituents during the policy formulation period of SOX.

While on the surface, SOX appears to have diminished the profession's ability to self-regulate, it also appears to have contained hidden benefits for the accounting industry. For example, SOX provides accountants with more opportunities for fee generation by requiring a broader scope of attestation responsibilities, and reduces audit risk for accountants by more explicitly placing the onus for accurate financial reporting upon management. A study by Financial Executives International (2004) reported that compliance with section 404 alone, concerning the documentation of internal accounting controls, would increase external audit fees by an average of 38%, or \$1.5 million per company for the largest US Companies. Multiplying this amount by the 321 companies in the survey indicates an increase of about a half a billion dollars in audit fees for the profession. A cottage industry addressing the need for compliance with SOX has also created unprecedented demand for accounting skills among students, boosting the salaries for entry level accounting professors to a level on par with many medical school professors (Gullapalli, 2004). Gullapalli (2004) goes so far as to say that after all the publicity, students now perceive an exciting, "Elliot Ness-like" quality to accounting, reminiscent of the FBI during the Depression. SOX also reduces audit risk for CPA's since CEO's must now personally attest to the accuracy of their financial statements and the strength of their internal control systems under threat of significant penalties. These penalties range from forfeiture of bonuses and profits from the sale of securities to prison

time for failures and restatements. As a result, SOX appears to have solidified and strengthened the professional status of CPAs.

Whether these hidden benefits were instrumentally or serendipitously included in SOX by legislators allied to the profession is a question worthy of investigation. Willmott (1986; pp.556) states that professional accountancy associations are “primarily, but not exclusively, political bodies whose purpose is to define, organise, secure and advance the interests of their (most vocal and influential) members.” Dwyer and Roberts (2004) assert that the accounting profession is too closely aligned with the interest of large multinational companies and that the profession exerts too much influence over U.S. government policy. These sentiments are also echoed by other researchers concerned that the inherently acquisitive nature and substantial political influence wielded by the profession and its supporters legitimizes and sustains inequitable social structures privileging particular interest groups to the detriment of society as a whole (Sikka, 2001; Willmott and Sikka, 1997).

Empirical evidence in accounting research supports these concerns indicating a positive relationship between the relative interest group strength of the profession and the enactment of complimentary legislation. Young (1991) documented a positive relationship between the relative interest-group strength of CPAs, measured by their numbers relative to non-CPAs, and restrictive licensing regimes among state public accounting regulations. Roberts and Kurtenbach (1998) found that state adoption of the

150 hour accounting education requirement was directly related to the ratio of state licensed CPAs to non-CPAs and to the percentage of CPAs belonging to their State's society of CPAs. Donabedian (1991) found that licensing requirements for CPAs were stricter in states with greater numbers of large businesses. Young (1988) found that prior to the initiation of the Advisory Grading Service, CPA exam failure rates in California and Illinois were associated with changes in economic conditions. These results suggest that CPAs as an interest group engage in restrictive licensing practices in order to protect the economic welfare of its members.

Other researchers have documented the strategies and tactics used by the accounting profession and its constituents to influence regulation at the federal level (Dwyer and Roberts, 2004; Roberts and Bobek, 2004; Roberts, Dwyer and Sweeney, 2003). Roberts, Dwyer and Sweeney (2003) documented a variety of strategies used by the accounting profession to influence federal legislation related to auditor liability reform. Using Hillman and Hitt's (1999) typology of political strategies, Roberts et al (2003) concluded that accounting firms and professional organizations have generally adopted a long-term relational approach for influencing the political process that spans multiple issues. Accounting firms participated individually and collectively through professional organizations making extensive use of informational and financial incentive tactics and modest use of constituency building tactics. According to Hillman and Hitt, (1999), informational strategies seek to affect policy reform by providing policy makers information regarding the relative costs and benefits of different regulatory options.

Examples of possible tactics used in an informational strategy include direct lobbying efforts, reporting the results of research and surveys, providing expert testimony and submitting white papers or technical reports. Financial strategies seek to align the interests of the policy makers with those of the industry by using monetary incentives. Tactics used in a financial strategy might include campaign contributions, either directly from an individual or through a political action committee, paying travel expenses and honoraria for speaking engagements and hiring politician's relatives or subordinates as paid political consultants. A constituency building strategy attempts to build support for desired legislation from the "bottom-up" by influencing voter beliefs through tactics of advertising, slogans, press releases or other public relations programs. Roberts, et al (2003) further tested for the effectiveness of these strategies on roll call voting, and found a significant positive correlation between political action committee (PAC) contributions by the accounting profession to committee members and roll call voting behavior favorable to the interests of the industry.

Dwyer and Roberts (2004) analyzed the political contributions made by the accounting profession to legislators during the 1997-1998 federal election cycle and found that the profession shows a preference for legislators with conservative, pro-business ideologies. Roberts and Bobek (2004) tested the relationship between corporate PAC contributions and legislators ability to affect tax law changes. Their evidence indicates that large corporations used PAC contributions in an apparent effort to negotiate contracts with the state concerning legislation directly affecting their tax burden or the demand for their

products. These studies provide strong evidence that accounting firms, both individually and collectively have been making extensive use of lobbying and PAC contributions in efforts to influence legislation favorable to the profession and its constituents.

This stream of research is important in order to document the extent to which sectional interest groups, such as the accounting profession, influence the political process concerning legislation having a direct economic impact on its members. To the extent that the accounting profession has been effective in transferring wealth to its members through political activity or influence undermines its public interest mandate and challenges the rationale for providing it monopoly status.

### **DESCRIPTION OF STUDIES**

The purpose of the first study is to determine whether the political contributions paid by the accounting profession to Congress were rational and effective in protecting or promoting the economic interests of the profession during the formulation of SOX. The study documents the monetary contributions paid by the political action committees (PACS) of the AICPA and Big 5 accounting firms to members of the House of Representatives and Senate and develops a model to test for any relationship between these payments and membership on committees having jurisdiction over SOX. The study extends previous research by evaluating the rationality of PAC contributions paid by the accounting profession to legislators having jurisdiction over legislation affecting audit

regulation. The working hypothesis is that there is a positive relationship between PAC contributions paid by the accounting profession and legislators membership on those committees having jurisdiction over audit regulation.

The first stage of the analysis tests the relationship between PAC contributions and SOX relevant committee membership while controlling for political ideology, electoral competition, leadership position and membership on related committees. The SOX relevant committees include the House Committee on Financial Services chaired by Representative Michael G. Oxley (R-OH), and the Senate Committee on Banking, Housing and Urban Affairs chaired by Senator Paul S. Sarbanes (D-MD)<sup>5</sup>. The general specification for the model is linear, with PAC contributions as the dependent variable. The results indicate that the accounting profession rationally allocated relatively higher levels of financial resources to pro-business legislators, members of committees having jurisdiction over issues relevant to the profession, including the committees with jurisdiction over SOX and to members engaged in close electoral races.

In the second stage of the analysis, the working hypothesis is that legislators repay such political debts with favorable roll call voting behavior. Recent research in accounting has found a significant positive correlation between political action committee (PAC) contributions by the profession to legislators and roll call voting behavior limiting accountants liability in securities litigation (Roberts, et al, 2003). This finding suggests that financial incentives may be an effective strategy for influencing roll call votes

concerning audit regulation, especially when public salience of the issue is low. In a further test of this relationship, I test of the effectiveness of PAC contributions in influencing legislators voting behavior using a probit regression model while controlling for political ideology and party loyalty. The dependent variable is dichotomous, representing affirmative or negative votes on amendments or motions relevant to the accounting profession.

The final roll call vote on SOX was unanimous in the Senate and near unanimous in the House, so the analysis focuses on roll call votes concerning amendments relevant to the accounting profession. The results of the analysis in the House indicate a positive association between PAC contributions and roll call voting behavior favorable to the interests of the accounting profession on at least two amendments relevant to the profession. There was no statistical association between PAC contributions and roll call voting behavior in the Senate.

In an attempt to bring in alternative empirical approaches and evidence into the debate concerning PAC contributions and policy formation, the second study adopts a linguistic perspective. This perspective assumes that language mediates audit policy formulation, and that distributors of PAC money should favor legislators allied with the accounting profession who use persuasive language during public debate. Adopting an empirical linguistic approach opens up new avenues of investigation in the analysis of the political process and adds a new dimension to existing corporate political activity frameworks.



In this study, I evaluate the association between PAC contributions and legislator's speech performance. The working hypothesis is that legislators receiving PAC money reciprocate by arguing more frequently and emphatically on issues in favor of the profession. Overall, the results suggest there was a positive association between PAC contributions and speech among Republican committee members in the House.

However, the association between PAC contributions among Non-republicans was not significant in either the House or the Senate committee hearings.

The third paper in this dissertation represents a philosophical discussion of the accounting profession with respect to its public interest mandate and questions whether the rhetoric of the accounting profession is consistent with the behavior of its members. The purpose of this paper is to examine the nature of the public interest ideal as promulgated by the public accounting profession in the United States and explore what motivates the profession to invoke public interest arguments in various contexts. In so doing, I also explore the elasticity and ambivalence of the term public interest while arguing that it is in and of itself part of the mystification process used by the profession to maintain its self-regulatory status.

I approach my analysis from three different perspectives. The first perspective analyzes the public interest language of the profession as well-intentioned rhetoric. I define rhetoric in the traditional Aristotelian sense, i.e. as persuasive appeals based on logic, emotion and/or authority while assuming a functionalist perspective consistent with the

public interest model of the professions. I illustrate how the profession uses the rhetoric of the public interest as a measure of proper comportment for its members, to reassure regulators and the investing public of the benevolent motivations of the profession, and to maintain the stability of global capital markets.

The second approach adopts a critical perspective. This view eschews any altruistic motivations on behalf of the profession and casts the language of the public interest as propaganda intended to support the economic objectives of professional elites in a highly concentrated monopolistic industry and those of their corporate clients. Using examples, I illustrate the instrumental use of the public interest ideal by the accounting profession to defend its self-regulatory status in times of crisis, as justification to extend its jurisdictional claims and to minimize its exposure to liability from audit failures.

The final perspective focuses on the ambivalence of language and attempts to reveal how the true nature of the public interest is ‘undecidable’. This perspective deconstructs (Derrida, 1982) the public interest ideal as myth, embodying a constellation of elements including cultural values, political doctrine and contingent interests. I use the term myth as both allegory and parable. Myths are similar to allegory in the sense that they exist as symbolic representations for meanings other than those indicated on the surface. They are also similar to parables, being fictitious stories illustrating historically embedded moral attitudes. I rely on myths as the symbolic representations of an ideal reality to describe the simultaneous and contradictory attitudes present in the public

interest ideal and the inherent instability between what is written and what is read, or what is spoken and what is heard. A deconstructive reading of the public interest ideal reveals how its central meaning is always on the move, uniquely reified by readers in context, and how any fixed meaning cannot be sustained. I believe that this paper advances prior critical work because I focus on the instrumental use of the public interest ideal as a rhetorical strategy while acknowledging and addressing the differences in meaning attached to the use of this ideal both by members of the profession as well as external groups.

### **PHILOSOPHICAL ORIENTATION**

Each of the three papers presented in this dissertation highlights an alternative ontological and epistemological perspective. The first study evaluates the rationality and effectiveness of PAC contributions paid by the accounting profession with respect to legislation concerning audit regulation by documenting cash paid and votes cast. Using Burrell and Morgan's (1979) descriptions of paradigms, the PAC study is functionalist given that the held assumptions are ontologically realist and the epistemology is positive science. This view assumes that external circumstances condition individuals and their behavior.

The second study introduces some subjectivity into the analysis by using thematic coding and keyword lists yet retains a positive science perspective by empirically modeling

speech performance. Investigating the discourse of legislators in the context of congressional committee hearings and testing for a relationship between speech performance and financial support from the accounting profession opens new avenues of research semantic analysis that can be applied to a variety of accounting narratives including annual reports, note disclosures, Chairman's statements and SEC filings.

The philosophical stance of the third and final study of this dissertation is critical. It is amethodical in its approach and ambivalent with respect to whether first or third person conscious experiences are real. The study evaluates the rhetoric of the accounting profession with respect to its public interest mandate using three fundamentally different perspectives. The first perspective assumes the rhetoric is driven by functional pluralistic motivations and evaluates the public interest discourse using traditional modes of persuasion, i.e. logical, emotional and authoritative. The second perspective adopts a more critical approach that portrays the rhetoric of the public interest as a glittering and virtuous generality linked to the highly valued ideals of self-sacrifice and benevolence while obfuscating underlying instrumental motivations. The third and final approach deconstructs the public interest ideal to reveal the simultaneous and contradictory attitudes present in the discourse highlighting the inherent instability between what is written and what is read, or what is spoken and what is heard.

In summary, this dissertation portrays three studies in accounting along a continuum of epistemologies, each maintaining alternative assumptions regarding the nature of reality.

The methods used range from the precise and quantitative to the fuzzy and qualitative. I believe that accounting research can benefit from these alternative perspectives because the practice of accounting is inherently humanistic, incorporating fields of sociology, politics, law and language that have heretofore, proved rather impervious to mathematical analysis.

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## **Endnotes**

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<sup>1</sup> The Sarbanes-Oxley Act of 2002 more formally known as HR3763, the Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002 (CAARTA) became Public Law 107-204 on July 30, 2002 after a unanimous vote of in the Senate (99-0) and a near unanimous vote in the House (423-3). HR3763 was sponsored by Representative Michael G. Oxley, R-OH, and incorporated S2673, the Public Company Accounting reform and Investor Protection Act of 2002 sponsored by Senator Paul S. Sarbanes, D-MD.

<sup>2</sup> Title I established the Public Company Accounting Oversight Board (PCAOB) to "...establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers, in accordance with section 103."<sup>2</sup> Section 103 provided the PCAOB wide latitude in seeking standard setting direction from outside sources, including, but not limited to the accounting profession. However, the PCAOB ultimately decided *not* to delegate this standard setting authority to the accounting profession. On April 18, 2003 the board issued Release 2003-5 "Statement regarding establishment of accounting standards" stating:

"The Board has, however, determined *not* to exercise the authority afforded it in Section 103 to designate or recognize any professional group of accountants to propose standards. This release generally describes the manner in which the Board intends to discharge these responsibilities and proposes PCAOB Rule 3700, which would govern the formation, composition and role of the advisory group in the Board's standard setting process."

The potential significance of this release was commented on in the September 2003 issue of *The CPA Journal* (NYSCPA): "On Wednesday, the new oversight board voted to formally strip the [AICPA] of its authority to set auditing standards, retaining that power for itself. The decision is a further blow to the institute, the accounting professions leading trade group. This conclusion is in sharp contrast to what the first group of SEC commissioners determined at their initial meeting. That first group of commissioners decided to rely on the "profession" for rules and self-regulation."

<sup>3</sup> The Securities Act of 1933 requires securities issuers and others to register with the Securities Exchange Commission (SEC) and set standards for disclosure for publicly traded securities, specifically requiring registrants to file audited financial statement information certified by an independent public or certified accountant. The Securities Exchange Act of 1934 delegated responsibility for enforcement to the SEC. The SEC was given statutory authority to set accounting standards, however it typically looked to the private sector for leadership in this endeavor.

<sup>4</sup> What followed the collapse of Enron has been called a witch-hunt as a variety of interest groups accused each other of being implicated or responsible for the scandals. However, attention quickly focused on Arthur Andersen, LLP, Enron's auditor of sixteen years. The SEC set up a special Enron task force on December 17, 2001, the day following Enron's press release announcing a \$618 million net loss for the third quarter of 2001 and a \$1.2 billion write-down of Enron shareholder equity. The task force immediately sent a written request to Arthur Andersen for Enron related documents. The court record indicates that Andersen engaged in large scale document shredding until it received a formal subpoena from the SEC on November 8, 2001. These actions ultimately contributed to the demise of the revered 'Big 5' accounting firm. On March 7, 2002, Arthur Andersen, LLP was indicted in the US District Court, Southern District of Texas on for obstruction of justice, a charge it was convicted of on June 15, 2002 and sentenced to 5 years probation with a \$500,000 fine. In August 2002, the state of Texas stripped Andersen of its auditing license, and the firm ultimately collapsed as clients fled to other firms.



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<sup>5</sup> The defection of Senator Jim Jeffords (I-VT) from the Republican party during the 107<sup>th</sup> Congress shifted the balance of power in the Senate from 50 Democrats and 50 Republicans to 50 Democrats, 49 Republicans and 1 Independent giving control of the Senate and each committee to the Democrats.

**I) STUDY ONE -  
THE ACCOUNTING PROFESSION AND PAC  
CONTRIBUTIONS: EVIDENCE FROM SARBANES OXLEY**

**INTRODUCTION**

The conventional wisdom on the influence of money in politics suggests that it undermines the twin pillars of the democratic process: representation and participation. First, it assumes that interested money can buy legislative favors and/or elective offices. If this is true, then interested money in politics undermines the equality of the one person, one vote system and skews political representation in the legislature towards the wealthy. A corollary to this view is that public disgust with the influence of money in politics causes voters to withdraw from the democratic process. Critics point out that voter turnout has dropped as the level of campaign spending has increased over the last several years. However, much to the chagrin of researchers, empirical evidence of a causal link between campaign contributions and legislative favors has been difficult to find.

A competing view is that in any democracy governed by majority rule, there will be disenfranchised minorities. The important issue is determining the best way to minimize the negative impacts of majority rule on these minority groups. Pure democracy (one-

person, one vote) assumes that all persons have an equal stake in a specific outcome and that the intensity of their interests is the same. Clearly, this is not the case. Mechanisms exist in representative democracy to adjust for these differences by giving more or less weight to the needs of the minorities. To the extent that interested money from minorities, such as accountants, can influence the leaders and legislative agendas of special committees, gives them a disproportionate voice in the political process, but this may be justified since accountants are a minority and may have more at stake in the legislative outcome.

In this study, I draw on extant economic theories of regulation and political economy to undertake an examination of PAC contributions made by the accounting profession to Congress during the policy formulation period of the Sarbanes-Oxley Act and evaluate their effectiveness in influencing the voting behavior of Congress. Recent empirical work focused on the magnitude and nature of the accounting profession's influence in federal politics indicate that the both the accounting profession and its corporate sponsors have successfully used PAC contributions to negotiate favorable economic contracts with the state (Roberts and Bobek, 2004; Roberts, Dwyer and Sweeney, 2003). Roberts and Bobek (2004) tested for the significance of the relationship between corporate PAC contributions and legislators ability to affect tax law changes. Their evidence indicates that large corporations used PAC contributions in attempts to negotiate contracts with the state concerning legislation directly affecting their tax burden or the demand for their products. Roberts, et al (2003) found a significant positive correlation between political action committee (PAC) contributions by the accounting profession to committee

members and roll call voting behavior on liability reform favorable to the interests of the industry. Dwyer and Roberts (2004) analyzed the political contributions made by the accounting profession to legislators during the 1997-1998 federal election cycle and found that the profession shows a preference for legislators with conservative, pro-business ideologies. These studies reveal a statistically significant linkage between PAC contributions and policy formulation suggesting that the U.S. public accounting profession and its corporate sponsors use financial incentives to influence policy formulation having a material impact on their members. These studies also challenge the pluralistic assumption that political power of sectional interest groups in the U.S. is widely diffused implying business interests now dominate the U.S. federal political process. This study extends this stream of research by examining the political influence of the accounting profession in formulating Federal legislation concerning the regulation of auditors.

## **THEORY**

Economic theories of regulation predict that powerful special interest groups will try to capture the legislative process in order to promote the economic welfare of their members. According to these theories, regulated industries, such as the accounting profession, seek complimentary legislation to restrict entry into their industry and/or increase demand for their products and services (Stigler, 1971; Pelzman, 1976,

Hirschleifer, 1976, Becker, 1986; Roberts and Kurtenbach, 1998; Donabedian, 1991; Young, 1991). According to Stigler (1971), industries that seek such complimentary regulation from the state must be willing to pay with two things that legislators need: votes and resources. This conjecture is consistent with theories of political economy that assert politicians seek both monetary and non-monetary resources to promote their conception of good policy, get re-elected and gain the recognition of their legislative peers (Leyden, 1995; Ansolabehere, Snyder and Tripathi, 2002). Monetary resources can come in the form of direct cash contributions, subsidized expenses or honorariums for speaking engagement and other services. Non-monetary resources may take the form of blocs of votes, policy expertise and influence over important economic and legislative actors. The costs to politicians associated with attracting these resources come in two general varieties. The first cost is the potential loss of votes or other resources by shifting policies in favor of the contributing group and alienating others. A second cost may be the disutility suffered by the politician in expending effort to perform services for a contributing group rather than engaging in other personally preferable legislative activities.

Contributors, on the other hand, may give resources for at least two reasons. The first reason is to gain access to existing politicians. The access hypothesis does not necessarily stipulate that interest groups pay contributions to affect policy. Quid pro quo exchanges of votes for money are illegal under bribery statutes and both legislators and contributors have incentives to avoid any such appearances. Rather, it suggests that contributions are a signal to the legislator regarding the value of the information the interest group has on

an issue (de Figueiredo, 2002). Once an interest group gains access to a legislator, they can engage in a more valuable activity, namely lobbying. The correlation between PAC contributions and lobbying expenditures is quite high. Ansolabehere, et al, (2002) found that 70% of all lobbying expenditures and 86% of all PAC contributions come from a small fraction (20%) of interest groups that have both PACs and lobbyists. Groups without PACs tend to spend little on lobbying.

Another reason special interest groups contribute resources is to support the incumbency of legislators with similar political agendas and/or change the composition of the legislature to one that is more ideologically compatible with the interests of the group. Poole and Daniels (1985) found that political ideology explains 80% of all roll call voting with party loyalty explaining an additional 7%. Consequently, lobbying legislators with similar political ideologies should be more cost effective since fewer units of access would be required to convince the legislator of the value of the preferred policy.

According to this reasoning, powerful members, such as committee chairs, party leaders and pivotal legislators should also be able to sell more units of access at the going market price relative to other members because they are able to deliver effective service at a lower cost per unit of access (Ansolabehere, et al, 2002).

While few doubt that PAC contributions are an important component of the political process, there is considerable debate concerning their purpose or effectiveness in influencing policy outcomes. A significant amount of research in the political economy literature suggests that PAC contributions are not a very important phenomenon (Milys,

Primo and Groseclose, 2000; de Figueiredo, 2002). The reasons given for this claim include the lack of a consistent link between PAC contributions and the activities of legislators and the relatively small amount of PAC contributions when compared to lobbying expenses or even philanthropic expenditures (Milyo, 2002). According to this line of reasoning, PAC contributions may merely be evidence of symbolic gifts, such as fruit-baskets, intended to maintain ongoing relationships with legislators, rather than pay-for-performance contracting. A recent meta-analysis by Roscoe and Jenkins (2005) of the impact of campaign contributions on roll call voting found that models with a measure controlling for ideology and more than one contributions variable were less likely to produce results. They concluded that about a third of the roll call votes exhibited an impact from contributions. These inconsistent results are not surprising given the illegal status of political pay-for-performance contracts. Moreover, legislators often receive money from various industries with conflicting interests making such exchanges difficult if not impossible to consummate. The result is a convoluted and complex legislative process that tends to obscure the exact mechanisms of political contracting and hinders attempts to establish a direct linkage between cash payments and policy formulation. Major agreements are often brokered in private by legislators engaged in long-term logrolling activities, where votes on particular issues are given in exchange for past or future support on other issues.

Recent evidence of a high correlation between lobbying expenditures and PAC contributions (Ansolabehere, et al., 2002) coupled with the absence of a demonstrable link between PAC contributions and policy outcomes suggests the unlikely scenario that

lobbying is also independent of policy outcomes. This finding stands in contrast to numerous case studies suggesting that lobbying and information transfer greatly affect voting behavior in congress and influence administrative decisions (de Figueiredo, 2002). In fact, de Figueiredo and Silverman (2002) found that the average return for a dollar of lobbying expenditure was \$11 to \$45 for universities represented by legislators on powerful appropriations committees. Ansolabehere, et al. (2002) suggest that this apparent paradox may be resolved by disaggregating PAC contributions and lobbying expenditures and analyzing them by industry sector.

### **POLITICAL SPENDING BY THE ACCOUNTING PROFESSION**

The Center for Responsive Politics<sup>1</sup> reports that accountants contributed \$15,354,056<sup>2</sup> to federal candidates during the 2000 election cycle while spending \$21,777,432<sup>3</sup> on lobbying, a ratio of 1.4 to 1. This ratio is significantly lower than the average 10 to 1 ratio reported for all groups by Ansolabehere, et al. (2002). The assumption is that groups with low lobby-PAC ratios place relatively less importance on access as opposed to supporting candidates with similar political ideologies. Groups with higher lobbying-PAC ratios are assumed to be more interested in access for lobbying activities and tend to exhibit more balanced, bipartisan patterns of giving, ostensibly because the services they desire can be performed equally well by many different types of legislators.



Empirical evidence indicates that accountants do show favoritism toward pro-business candidates giving on average, twice as much to Republican candidates than to democrats. (Dwyer and Roberts, 2004). However, accountants can also gain ‘free’ access to legislators by paying in kind with policy expertise, thus reducing the need to buy access with PAC contributions. The analysis in table I-1 shows that there is considerable variation in lobbying to PAC ratios among the major accounting firms and the AICPA, ranging from 1.4:1 to 7.8:1. Therefore, the relative ability of firms to gain free access and the relative importance of access versus ideology among firms may be firm specific.

Table I-1. Ratio of Lobbying to PAC Contributions

Big Five and AICPA 1998 and 2000 Election Cycles

Election Cycle	Arthur Andersen	Deloitte & Touche	Ernst & Young	KPMG	PWC	AICPA	Total
Lobbying	4,365,000	1,145,000	2,800,000	1,020,000	1,860,000	3,836,297	15,026,297
PAC	559,586	820,379	1,039,741	633,785	1,159,675	1,244,414	5,457,580
1998	7.8	1.4	2.69	1.61	1.6	3.08	2.75
Lobbying	4,320,000*	3,414,000	2,400,000	2,190,000	2,645,000	6,808,432	21,777,432
PAC	762,999*	1,092,095	1,193,886	733,437	912,591	1,079,244	5,774,252
2000	5.66*	3.13	2.01	2.99	2.9	6.31	3.77

\* Amounts represent only one year in the two-year cycle.

The preceding theory suggests at least three complimentary hypotheses. The first set of questions involve whether or not the accounting profession is engaged in pay-for-performance contracting. The economic theory of regulation suggests that accountants will give rationally to powerful legislative members who can influence policy outcomes, including leaders and members on committee having jurisdiction over issues relevant to the profession. Under this hypothesis, the held assumption is that PAC contributions are

given to influence specific legislation, either as payment for reciprocal voting behavior or as fees paid to gain access for lobbying activities. The second hypothesis suggested by the political economy literature is that accountants are a low access demand group with high ideological concerns who use PAC contributions to change the composition of the legislature rather than to influence specific policies. The relatively low lobbying demand ratio exhibited by accountants suggests that as a group, the accounting profession may use PAC money more as an electoral strategy rather than to gain access to incumbent legislators. Assuming that accountants do target specific legislators or electoral candidates, a related question concerns the effectiveness of PAC contributions in influencing their votes. Therefore, the third hypothesis is that members of the committees having jurisdiction over SOX who received PAC contributions from accountants reciprocated by casting roll call votes in favor of the profession on SOX related motions and amendments. I consider these hypotheses complimentary since they are not mutually exclusive. That is, accountants may use PAC contributions in pay-for-performance contracting, to gain access to powerful incumbent legislators and/or to support specific candidates with complimentary ideologies.

## **HYPOTHESES DEVELOPMENT**

The first stage of the analysis examines whether the accounting profession rationally allocated more monetary resources during the 2002 election cycle to leaders, powerful

committees members or to candidates in close electoral races. Specifically, I test for PAC contributions to members of the House Financial Services Committee and the Senate Committee on Banking, Housing and Urban Development because these committees had direct jurisdictional authority over the Sarbanes-Oxley Act. This stage of the analysis also determines whether the accounting profession allocated relatively more monetary resources to candidates in close electoral races. The held assumption is that PAC contributions paid by the accounting profession favor candidates with more pro-business ideologies. Stated more formally, these hypotheses assert:

H1a: The accounting profession paid more PAC contributions to members of the Congressional committees having jurisdiction over SOX than to other members of Congress.

H1b: The accounting profession paid more PAC contributions to Congressional members with pro-business voting records.

H1c: The accounting profession paid more PAC contributions to Congressional members in close electoral races.

The second stage of the analysis attempts to determine whether PAC contributions have any significant effect on the voting behavior of committee members having direct jurisdiction over SOX with respect to specific provisions of SOX relevant to the economic interests of the profession. This is a more direct test of the pay-for-performance hypothesis versus the token gift hypothesis. Formally, this hypothesis asserts:

H2: There will be a positive relationship between PAC contributions paid by the accounting profession to Congress and roll call voting favorable to the interests of the profession.

I do not expect any relationship to exist on the final vote on SOX, given that it was unanimous in the Senate and near unanimous in the House. However, there were some important motions and amendments proposed during its consideration that would have had a material economic impact on the profession, and the roll call votes on these issues reveal deeper divisions between congressional members.

## **DATA ANALYSIS**

I collected the data on PAC contributions for Arthur Andersen, Deloitte and Touche, Ernst and Young, KPMG, PriceWaterhouseCoopers and the AICPA from the web site for the Center for Responsive Politics. I collected all other data, including leadership positions, committee memberships, voting record and percentage of the vote received in the last election from the Congressional record and the U.S. Chamber of Commerce. The House of Representatives began the 107<sup>th</sup> legislative cycle with 220 Republicans, 211 Democrats, 2 Independents, 5 Delegates and 2 vacancies. 383 representatives were men, 55 women, and 41 were newly elected. The House sample contained 392 observations from a total of 440 seats. The two vacancies, five delegates and 41 were newly elected

members were excluded from the analysis. The descriptive statistics for the House sample in Table I-2 show that there are relatively few powerful legislators in leadership or committee assignments.

Table I-2. Descriptive Statistics for the U.S. House of Representatives Sample  
Accounting profession PAC Contribution to the U.S. House of Representatives

Indicator variables	Variable Description	Group	N	Mean PAC	Std. Dev.	
Member of Top Leadership (LEADER)	1 if the legislator holds a top leadership position, 0 otherwise.	1	8	18,197*	17,008	
		0	384	4,963*	7,559	
Member of Energy and Commerce Committee or Ways and Means Committee (RELATED)	1 if the legislator is a member of holds a committee membership in a committee that has jurisdiction over tax legislation or other legislation related to the accounting profession, 0 otherwise.	1	41	8,116**	7,169	
		0	351	4,896**	8,079	
Member of House Financial Services Committee (FINANCE)	1 if the legislator is a member of holds a committee membership in a committee that has jurisdiction over S-O, 0 otherwise.	1	60	11,207***	10,475	
		0	332	4,153***	7,013	
Member of the Republican party (PARTY)	1 if Republican, 0 otherwise.	1	199	7,040***	8,972	
		0	193	3,479***	6,585	
Continuous variables	Variable Description		N	Mean	Std. Dev.	
Ideology (USCC106)	U.S. Chamber of Commerce voting record for the 106 <sup>th</sup> Congressional cycle. Higher ratings are pro-business (0-100).		392	0.61	0.28	
Electoral Competition (ELECT)	One minus the percentage of the vote received in the previous election.		392	0.30	0.13	
Correlation matrix						
	PAC	LEADER	RELATED	FINANCE	USCC106	ELECT
PAC	-					
LEADER <sup>†</sup>	.233***	-				
RELATED <sup>†</sup>	.123**	-.027	-			
FINANCE <sup>†</sup>	.316***	-.032	-.145***	-		
USCC106	.321***	.194	.035	.006	-	
ELECT	.197***	.031	-.041	.050	.238***	-
PARTY	.225***	.211	.065	.023	.885***	.168***

\* - Significant at the .10 level (Two-Tailed)

\*\* - Significant at the .05 level (Two-Tailed)

\*\*\* - Significant at the .01 level (Two-Tailed)

<sup>†</sup>Dichotomous variable

Regarding the prevailing congressional ideology, the average USCC ratings for all legislators in the sample is relatively pro-business, indicating they vote in favor of the US Chamber of Commerce agenda 61% of the time. T-tests of differences in mean PAC contributions paid by the accounting profession were significant in the expected direction for all variables of interest. The accounting profession paid three times as much to the top leadership of the House of Representatives. These included Party Leaders, Party Whips, Chairs of the Financial Services or related committees and the House Speaker. The profession also paid more money on average to members of the Financial Services or related committees and to Republican party members. The measure of electoral competition shows that House members captured an average 70% of the vote in the previous election.

In order to test the hypothesis of whether the accounting profession allocated relatively more money to members of important committees having jurisdiction over SOX, I follow Roberts and Bobek (2004) and Roberts, et al (2003) by using a tobit model of PAC contributions paid by the accounting profession against committee membership controlling for political ideology, leadership and industry-related committee membership. I also borrow from Ansolabehere, et al (2002) by adding a variable to measure electoral competition. A tobit model is used because the distribution of PAC contributions is censored below zero and significantly skewed to the right (Roberts and Bobek, 2004; Roberts, et al, 2003; Chappell, 1982). These data characteristics cause regular OLS estimates to be inconsistent and biased toward zero. The general specification of the model is:

$$PAC = b_0 + b_1USCC106 + b_2LEADER + b_3RELATED + b_4FINANCE + b_5ELECT$$

Where:

PAC = Legislators total receipt of PAC contributions from the accounting profession.

USCC106 = Legislators cumulative voting record rated by the U.S. Chamber of Commerce voting record for the 106<sup>th</sup> Congress. Higher ratings are pro-business (0-100).

LEADER = 1 if the legislator holds a top leadership position, 0 otherwise.

RELATED = 1 if the legislator is a member of holds a committee membership in a committee that has jurisdiction over tax legislation or other legislation related to the accounting profession, 0 otherwise.

FINANCE = 1 if the legislator is a member of holds a committee membership in a committee that has jurisdiction over S-O, 0 otherwise.

ELECT = One minus the percentage of the vote received in the previous election. I record unopposed elections at 0%.

Interpreting the coefficients of the tobit model can be difficult. According to McDonald and Moffitt (1980), the direction and statistical significance of the tobit coefficients can be interpreted the same as regular regression, but the marginal effects of the independent variables must be scaled for the probability that the latent variable will actually be observed. In the case of the PAC contribution model, the latent dependent variable can be

described as the desire or the propensity of the accounting profession to contribute to a given legislator. The profession makes no payment until this desire reaches a certain threshold at which point the payment becomes observable. The probability of observing a payment changes as the levels of the independent variables change. Tobit models were tested using the statistical software package LIMDEP, which is designed especially for tests that contain a limited dependent variable. LIMDEP calculates the conditional mean of the model at a sample point where all the independent variables are at their mean and then scales the coefficients by the probability that a payment will be made. The results of the model for the House of Representatives sample are in table I-3.

Table I-3. Tobit model of PAC Contributions for U.S. House of Representatives

PAC1000 = $b_0 + b_1\text{USCC106} + b_2\text{LEADER} + b_3\text{RELATED} + b_4\text{FINANCE} + b_5\text{ELECT}$						
Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-12.94	1.81	-7.45 (.000)	-7.56*	
USCC106	+	14.28	2.02	7.07 (.000)	8.34*	0.61
LEADER	+	13.96	3.40	4.11 (.000)	8.16*	0.02
RELATED	+	7.03	1.63	4.31 (.000)	4.11*	0.10
FINANCE	+	10.77	1.38	7.80 (.000)	6.29*	0.15
ELECT	+	11.53	4.30	2.68 (.008)	6.74*	0.30
Sigma =9.33 ( $\sigma$ =.44, SE=20.92, p-value= .0000)						
Log Likelihood function -971.68						
Conditional Mean at sample point: 4.80						
Scale factor for marginal effects: 0.58						
Two tailed p-values are reported for all variables						
(One-tailed p-values can be used for directional predictions.)						
* Marginal effects significant at .01						

All variables of interest were significant in the expected direction in support of hypotheses 1a, 1b and 1c. The most important predictor of PAC contributions made to members of the House of Representatives during the 107<sup>th</sup> Congress was political



ideology followed by electoral competition and committee membership. The marginal effects for political ideology and top leadership position were twice that of membership on related committees and a third more for election tightness and membership on the Financial Services Committee. The statistically significant and positive coefficients for the FINANCE and RELATED variables indicates that the accounting profession allocated relatively higher levels of financial resources to members of the House Financial Services Committee having jurisdiction over SOX and to other House committees relevant to the economic well being of the profession. This result suggests that the profession is concerned with gaining access to these committee members, ostensibly to lobby them on behalf of its membership and/or their clients. The statistically significant and positive coefficient for the ELECT variable indicates the accounting profession also allocated relatively more PAC money to candidates in close elections. This result suggests that the accounting profession is concerned with controlling the composition of the legislature. Further analysis was conducted on the interaction between electoral tightness and political ideology to test whether the profession was biased in giving more to pro-business candidates in close elections, but the results were inconclusive. I used two models to test the interaction between political ideology and election tightness. In the first model, USCC106 and ELECT alone were regressed against PAC contributions using ordinary least squares. The coefficients for both variables were significant ( $\alpha = .01$ ) in the expected direction. In the second model, an interactive variable [USCC106\*(1-ELECT107)] was added to test for the interaction between election tightness and ideology. The results of the second model indicated that the coefficients for both election tightness and ideology were not significant while the

interactive variable was significant. This result suggests that the profession is interested in controlling the ideological composition of the legislature by giving more contributions to pro-business candidates who likely face close elections. When the interaction was tested using the censored model, the results indicated that political ideology was the only significant predictor even after the interactive variable for election tightness was introduced. Consequently, the proposition that political ideology moderates contributions to candidates in close elections remains unresolved and left to future research.

Extending the analysis to the Senate, I add an indicator variable (ELECTYR) to the model as suggested by Roberts and Bobek (2004) to control for election year variation. Unlike the House of Representative, where all incumbents are up for re-election every two years, Senators serve 6 year staggered terms and their receipts from PACs tend to increase during election years. I also add an interactive variable to control for the potential interaction between election year increases and membership on other committees relevant to the profession (ELECTYR\*RELATED).

The final Senate sample contained 88 observations since 12 members were newly elected and were not rated by the U.S. Chamber of Commerce. The descriptive statistics shown in table I-4 support the hypothesis that senators facing re-election receive substantially more PAC contributions from the accounting profession.

Table I-4. Descriptive Statistics U.S. Senate Sample

Descriptive Statistics								
Indicator variables		Variable Description			Group	N	Mean PAC	Std. Dev.
Member of Leadership Team (LEADER)	1 if the legislator holds a leadership position, 0 otherwise.	1			4	10,395	17,616	
		0			84	6,332	10,040	
Member of Senate Finance Committee or Joint Committee on Taxation (RELATED)	1 if the legislator is a member of holds a committee membership in a committee that has jurisdiction over tax legislation or other legislation related to the accounting profession, 0 otherwise.	1			20	5,669	10,874	
		0			68	6,766	10,290	
Member of Senate Committee on Banking, Housing and Urban Affairs (BANK)	1 if the legislator is a member of holds a committee membership in a committee that has jurisdiction over S-O, 0 otherwise.	1			16	9,856	13,381	
		0			72	5,775	9,536	
Election Year (ELECTYR)	1 if it is an election year, 0 otherwise	1			33	15,878***	11,917	
		0			55	900***	1,869	
Member of the Republican party (PARTY)	1 if Republican, 0 otherwise	1			47	8,312*	11,284	
		0			41	4,459*	8,914	
Continuous variables		Variable Description			N	Mean	Std. Dev.	
Ideology (USCC106)	U.S. Chamber of Commerce voting record for the 106 <sup>th</sup> Congressional cycle. Higher ratings are pro-business (0-100). (Twelve members were unrated)				88	.63	.26	
Electoral Competition (ELECT)	One minus the percentage of the vote received in the previous election.				88	.40	.08	
Correlation matrix		PAC	LEADER <sup>†</sup>	RELATED <sup>†</sup>	BANK <sup>†</sup>	USCC106	ELECTYR <sup>†</sup>	ELECT
PAC								
LEADER <sup>†</sup>	-.082							
RELATED <sup>†</sup>	-.045	.142						
BANK <sup>†</sup>	.153	.039	-.185					
USCC106	.250**	-.053	.026	.037				
ELECTYR <sup>†</sup>	.703***	-.056	-.084	-.000	.167			
ELECT	-.319***	-.082	.285***	-.077	.000	.384***		
PARTY	.186	-.015	-.037	-.027	.901***	.112		-.034
* - Significant at the .10 level (Two-tailed)								
** - Significant at the .05 level (Two-tailed)								
*** - Significant at the .01 level (Two-tailed)								
† - Dichotomous variable								

During the 107<sup>th</sup> congressional election cycle, senators facing re-election received almost \$15,000 more in PAC contributions from the profession than those not facing re-election. The data also indicate that Republicans received about twice as much from the profession than non-republicans. Independent sample T tests did not find any statistical difference in PAC contributions paid by the profession based on committee membership or leadership position. Mean ratings on political ideology remain comparable to the House data, while electoral competition in the Senate appears stronger. As expected, the correlation matrix indicates a significant positive association between PAC contributions and pro-business voting record, election tightness and election year.

Table I-5 shows the results of the tobit model testing the rationality of PAC contributions paid by the profession to the Senate. The censored model indicates significant parameter coefficients in the expected direction for the variables related to pro-business ideology, membership on the Senate Banking committee, election year and election tightness. The coefficient for Top leadership position is marginally significant given the .104 P-value can reduce by half. The variable related to membership on related committees was not significant, nor was its interaction with election year. Similar results were obtained using alternative models that either substituted an interactive variable for election tightness and related committee membership or removed any interactive variables.

Table I-5. Tobit model of PAC Contributions to the U.S. Senate

$$PAC = b_0 + b_1USCC106 + b_2LEADER + b_3RELATED + b_4BANK + b_5ELECTYR + b_6ELECT + b_7RELATED*ELECTYR$$

Variable	Expected sign	Coefficient estimates E(Y*)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-28.92	9.09	-3.18 (.002)	-15.14***	
USCC106	+	11.35	5.32	2.13 (.033)	5.93**	.630
LEADER	+	9.63	5.93	1.63 (.104)	5.04	.045
RELATED	+	0.01	4.82	0.00 (.998)	0.00	.227
BANK	+	6.79	3.19	2.13 (.034)	3.55**	.182
ELECTYR	+	19.81	3.11	6.36 (.000)	10.36***	.375
ELECT	+	33.07	19.29	1.71 (.087)	17.31*	.395
RELATED*ELECTYR	+	2.91	6.79	0.43 (.668)	1.52	.068

Sigma =10.13 (σ=1.12, SE=9.02, p-value= .0000)  
Log Likelihood function -184.06  
Two tailed p-values are reported for all variables.  
(One-tailed p-values can be used for directional predictions.)  
Marginal effects significant (two tailed) \*\*\*=.01, \*\*=.05, \*=.10

These results provide further support for hypotheses H1a, b and c in that the profession appears to have a significant bias in their contributions toward congressional members with pro-business ideologies and those sitting on important committees having jurisdiction over matters relevant to the economic interests of the profession. The profession also allocated relatively more resources to incumbent Senators who faced stiff competition in the previous election cycle and were facing an imminent election in the current election cycle. These results also support the hypotheses that the accounting profession is equally concerned with gaining access to members on the powerful Senate Banking committee and with controlling the composition of the Senate. Regarding the relative magnitude of the marginal effects, the results indicate that elections are the most important influence in determining PAC contributions paid by the profession to Senators. Political ideology and having a top leadership position are also important, followed by membership on the important Senate Committee on Banking, Housing and Urban Affairs.

Hypothesis 2 predicts a positive relationship between PAC contributions paid by the accounting profession to congress and roll call voting favorable to the interests of the profession. In order to test this hypothesis, I specify a probit model that takes into account the dichotomous nature of roll call votes. The focus is on a transformation of the probability that the dependent variable equals one. In practical terms, the probit model should come to the same conclusions as a binary logistic regression model, however, probit coefficients tend to be smaller and are interpreted differently (Borooah, 2002). One of the main differences is that probit coefficients represent the marginal effect of a unit change on the cumulative normal probability (Z-score) of the dependent rather than the natural log of the odds ratio. Probit also uses an inverse standard normal cumulative distribution function while logistic regression uses a binomial distribution function. Chappell (1982) suggests that if campaign contributions are actually endogenous to voting behavior, as may be the case, the single equation estimation technique is subject to possible simultaneous equations bias. In such cases, there will be a correlation between the error terms of the censored PAC contribution model and the probit models and the coefficients will be biased upwards possibly indicating significance where this is none. If this is the case, he recommends a simultaneous “probit-tobit” model that uses predicted values of an interest group’s propensity to contribute from the tobit model to estimate the probit model of the probability that a legislator will cast a vote in favor of the interest group. However, Chappell (1982) states that if there is no correlation between the error terms, the single equation techniques are sufficient to estimate the models. The error terms from the models in this study are not significantly correlated. Therefore the general

form of the single equation probit model is:

$$\text{VOTE} = b_0 + b_1 \text{USCC106}_{1i} + b_2 \text{PAC}_{1i}$$

Where VOTE is coded 1 for votes favorable for the profession and 0 for votes unfavorable to the profession. The independent variables for political ideology and PAC contributions received remain as described in model 2. A statistically significant positive coefficient for the variable of interest (PAC) would support the hypothesis that PAC contributions paid by the accounting industry are associated with roll call voting behavior favorable to the interests of the profession.

A summary of the votes taken in the House of Representatives on H.R. 3763 as originally drafted appears in table I-6.

Table I-6. Major Legislative Actions H.R. 3763

House consideration April 24, 2002					
No.	Sponsor	Issue	Pro-CPA	Result	Tally
1	Oxley R-OH	Amendment to strike provisions requiring senior financial officers code of ethics	Neutral	Agreed	Voice vote
2	Capuano D-MA	Amendment to require 1 person on Public Regulatory Organization to be a non-CPA	Unfavorable	Rejected	Voice vote
3	Sherman D-CA	Amendment to require net capital of CPA to equal ½ of audit revenue	Unfavorable	Rejected	Voice Vote
4	Kucinich D-OH	Amendment to create Federal Bureau of Audits to conduct audits	Unfavorable	Rejected	39 yeas Roll 107 381 nays
5	LaFalce D-NY	Amendment to establish Public Regulatory Organization within 90 days of enactment	Unfavorable	Rejected	202 yeas Roll 108 219 nays
6	LaFalce D-NY	Motion to recommit with penalties for CEO/CFOs	Neutral	Rejected	205 yeas Roll 109 222 nays
7	Oxley R-OH	Motion to pass H.R. 3763	Favorable	Passed	334 yeas Roll 110 90 nays
8	Sarbanes-Oxley	Motion to pass			

At least three of the roll call votes concerning H.R. 3763 were of particular interest to the accounting profession. The first vote concerned an amendment, sponsored by Mr.

Kucinich, D-OH, that would have created a Federal Bureau of Audits to audit publicly traded companies. The economic effect of this amendment would have significantly reduced audit fee income among the major accounting firms making its passage clearly unfavorable to the accounting profession as a whole. The second roll call vote concerned an amendment sponsored by Mr. LaFalce D-NY that would have required the creation of the Public Regulatory Organization within 90 days of enactment. The creation of a



Public Regulatory Organization would diminish the autonomy of the accounting profession in standard setting and thus passage of this amendment would have been unfavorable to the accounting profession as a whole. The third important roll call vote concerned the motion to pass H.R. 3763 as written. This would have allowed the SEC to establish the criteria for a Public Regulatory Organization (PRO) comprised of both public members and professionals to improve the accuracy and reliability of corporate disclosures. The bill also prohibited auditors from performing an unspecified list of consulting activities, to be determined at an unspecified future date. There was also a provision that authorized the SEC to perform the duties of the PRO if it had failed to recognize any other PRO within one year of enactment. Thus, without any specific restrictions or mechanisms to ensure implementation, H.R. 3763 effectively maintained the status quo while providing a rhetorical display that condemned improper behavior. Since the effect was purely symbolic, I consider its passage as favorable to the accounting profession as a whole. I have omitted tables of descriptive statistics for each of the roll call votes taken in the House because they were almost identical to those shown in table I-1 for the PAC contribution models. The results of the analysis for each House vote are shown in tables I-7, I-8 and I-9.

Overall, the model indicates that political ideology was the best predictor of pro-business roll call voting behavior by members of the House of Representatives. The coefficients for political ideology (USCC106) are positive and significant in all three votes. This means that a past record of pro-business voting was the best predictor of voting in alignment with the interests of the accounting profession. With respect to the effect of

PAC contributions on roll call voting behavior, results for two of the roll call votes show positive and significant ( $\alpha=.10$ ) coefficients. These were the votes on Rep. Oxley's motion to pass H.R. 3763 (HV110) as originally drafted and Rep. Kucinich's amendment to create a Federal Bureau of Audits (HV107). However, the PAC contribution coefficient was not significant on HV108, the amendment introduced by Rep. LaFalce D-NY that would have required the creation of the Public Regulatory Organization within 90 days of enactment. This result could be due to party loyalty since the vote on HV108 broke much more along party lines than did HV110 and HV107. In all models, the significant partial derivatives of the expected value of the vote for PAC contributions were smaller than those for political ideology.

Since the probability of a favorable vote is not a linear function, but a cumulative normal function of  $Z$ , the effect of a unit change in PAC contributions on the probability of a favorable vote depends on the level of the all the independent variables. Therefore, in order to interpret the coefficients you can substitute the sample means of the independents into the probit equation and calculate an estimated  $Z$  score for each vote. The  $Z$  score corresponds to the overall probability of a favorable vote found in a standard normal distribution  $Z$  table. This provides the baseline probability of a favorable vote when all variables are at their sample means. Adding one unit to the mean of the variable of interest and calculating the change in the overall  $Z$  score provides an estimate of the marginal effect of a unit change in that variable. LIMDEP calculates the marginal effects for the independents at the means of the independents. These results are shown in the partial derivative column of the probit model tables. For example, calculating the

equation for HV110 yields an estimated Z score of approximately 2.83 or a cumulative probability of over 99%. I interpret this as the probability that a legislator with a USCC rating of .61 and who had already received \$5,200 from the profession would vote in favor of SOX as originally drafted in the House. The partial derivative for PAC contributions on HV110 shows that the marginal effect of a one thousand dollar contribution on the probability of the vote, holding all other variables constant at their mean, changes the Z score .00073. This indicates less than a .01 percent change in the probability of the legislator voting for the bill. A quick review of the voting data indicates that eighty-five members of the House met this criteria and all of them (100%) voted in favor of the bill. Moreover, this percentage did not change by selecting members receiving \$1,000 more or less than \$5,200. In fact, only one legislator out of 198 with a USCC rating equal to or greater than .61 voted against H.R. 3763 as originally drafted.

The results for HV107, the only other vote with a statistically significant PAC coefficient, indicate an even smaller marginal effect. I noted statistically significant marginal effects when testing the responses of non-republicans only. The elasticity for measures for political ideology and PAC contributions were 1.56 and 0.12 respectively indicating a slightly larger effect of PAC contributions on non-republican voting behavior when the average PAC contribution was \$3,541 and the USCC voting record was .37.

Table I-7. Probit Roll Call Voting Model HV110

## U.S. House of Representatives Roll Call Vote 110

$$\text{VOTE} = b_0 + b_1\text{USCC106} + b_2\text{PAC1000}$$

Variable	Expected sign	Coefficient estimates	Standard Error	T-statistic (p-value)	Partial derivatives	Mean of X
CONSTANT	+/-	-3.00	0.41	-7.28 (.000)	-0.23E-1	-
USCC106	+	8.69	1.23	7.07 (.002)	0.66E-1	0.61
PAC1000	+	0.10	0.31	3.11 (.001)	0.73E-3	5.28

Republican 213 Aye, 2 Nay

Non-Republican 121 Aye, 88 Nay

Chi Square: 247.65

Log Likelihood function -200.71

Marginal effects not significant.

Table I-8. Probit Roll Call Voting Model HV107

## U.S. House of Representatives Roll Call Vote 107

$$\text{VOTE} = b_0 + b_1\text{USCC106} + b_2\text{PAC1000}$$

Variable	Expected sign	Coefficient estimates	Standard Error	T-statistic (p-value)	Partial derivatives	Mean of X
CONSTANT	+/-	-1.52	0.47	-3.23 (.001)	-0.51E-03	
USCC106	+	7.17	1.67	4.31 (.000)	0.24E-02	0.61
PAC1000	+	0.17	0.10	1.70 (.089)	0.58E-04	5.20

Republican 0 Aye, 213 Nay

Non-Republican 39 Aye, 168 Nay

Chi Square:108.19

Log Likelihood function -120.49

Marginal effects not significant

Table I-9. Probit Roll Call Voting Model HV108

## U.S. House of Representatives Roll Call Vote 108

$$\text{VOTE} = b_0 + b_1\text{USCC106} + b_2\text{PAC1000}$$

Variable	Expected sign	Coefficient estimates	Standard Error	T-statistic (p-value)	Partial derivatives	Mean of X
CONSTANT	+/-	-6.60	0.76	-8.74 (.000)	-2.39*	
USCC106	+	10.29	1.10	9.32 (.000)	3.73*	0.61
PAC1000	+	-0.26E-01	0.02	-1.61 (.109)	-0.97E-02	5.27

Republican 1 Aye, 214 Nay

Non-republican 201 Aye, 5 Nay

Chi Square: 421.90

Log Likelihood function -258.54

\*Marginal effects significant at .01

In extending the analysis to the Senate, I did not find any significant effect of PAC contributions on roll call voting behavior related to issues of relevance to the profession. Of the nine roll call votes, seven were unanimous and only one split roll call vote was relevant to the accounting profession. Table I-10 shows the significant actions and roll call votes concerning S.2673.

Table I-10. Major Legislative Actions S.2673

Senate Consideration July 8-15, 2002					
No.	Sponsor	Issue	Pro-CPA	Result	Tally
4174 I,II,III	Leahy D-VT	Criminal sanctions for destruction of evidence or defraud investors	Unfavorable	Withdrawn	
4175	McConnell R-KY	Amend 4174 require audits of labor organizations	Favorable	Tabled	
4176	Miller D-GA	Require CEO sign Corp. tax returns	Neutral	Withdrawn	UA
	Sarbanes D-MD	Motion to table 4175	Unfavorable	Agreed Roll 168	55 yeas 43 nays
4184	Gramm R-TX	Amend 4174-I Allow waivers for NAS restrictions for small businesses	Favorable	Fell	
4185	Leahy D-VT	Criminal sanctions for destruction of evidence or defraud investors	Unfavorable	Agreed Roll 169	97 yeas 0 nays
4186	Biden D-DE	Increase fraud penalties	Unfavorable	Agreed Roll 170	96 yeas 0 nays
4187	Edwards D-NC	Rules of professional responsibility for attorneys	Neutral	Agreed Roll 175	97 yeas 0 nays
4188	Lott R-MS	Deter fraud and abuse by CEO's	Favorable	Agreed Roll 171	97 yeas 0 nays
4200	McConnell R-KY	Amend 4187 modify attorney practices toward clients	Neutral	Tabled	
4206	Miller D-GA	CEO sign Corp. Tax returns	Favorable	Agreed	UA
	Enzi R-WY	Motion to table 4200	Neutral	Tabled Roll 172	62 yeas 35 nays
4261	Shelby R-AL	SEC Study on aider and abettor law	Neutral	Agreed	UA
4269	Levin D-MI	Amend 4187 Banning certain individuals from public companies	Unfavorable	Fell	
4270	McCain R-AZ	Motion to recommit with amendment 4270 – expense stock options	Neutral	Ruled out of order	
4271	Edwards D-NC	Rules of professional responsibility for attorneys	Neutral	Fell w/4270	
4272	Levin D-MI	Amend 4271 Banning certain individuals from serving as directors	Unfavorable	Fell w/4271	
		Motion for cloture	Neutral	Agreed Roll 173	91 yeas 2 nays
4286	Carnahan	Modify Amendment No. 4187, to require disclosure of transactions involving management and principal stockholders.	Neutral	Agreed Roll 174	97 yeas 0 nays
4295	Schumer D-NY	Prohibit personal loans by issuers to officers	Neutral	Agreed	UA
4296	Schumer D-NY	Study Acct for SPE's	Neutral	Agreed	UA
	Sarbanes	Motion to pass S-O	Unfavorable	Agreed Roll 176	76 yeas 0 nays

UA: Unanimous Consent

I applied the probit model to Senate roll call vote SV169 that concerned tabling an amendment introduced by Mitch McConnell (R-KY) to require audits of labor organizations. Such an amendment would have been favorable to the economic interests of the profession and tabling the amendment effectively removed it from consideration. The results of the probit model on SV168 in table I-11 are similar to the results on HV108, indicating that political ideology dominated the outcome. The USCC106 variable was positive and significant in the expected direction while the PAC variable was not significant.

Table I-11. Probit Roll Call Voting Model SV168

U.S. Senate Roll Call Vote 168						
VOTE = $b_0 + b_1\text{USCC106} + b_2\text{PAC1000}$						
Variable	Expected sign	Coefficient estimates	Standard Error	T-statistic (p-value)	Partial derivatives	Mean of X
CONSTANT	+/-	-5.30	1.09	-4.84 (.000)	-1.92*	
USCC106	+	7.83	1.50	5.22 (.000)	2.83*	.63
PAC1000	+	-.77E-01	0.22E-01	-0.35 (.730)	-0.28E-02	6.65
Republican 4 Aye 43 Nay						
Non-republican 51 Aye 0 Nay						
Chi Square: 84.08						
Log Likelihood function -59.52						
* Marginal effects significant at .01						

## **DISCUSSION AND CONCLUSIONS**

The analysis supports the hypothesis that interested money is flowing disproportionately from the accounting profession to pro-business legislators and members of powerful committees having jurisdiction over matters relevant to economic welfare its members.

The first model tested the rationality of the profession's PAC contributions to members of Congress. The results indicate that accountants give relatively more money to representatives with pro-business voting records and to incumbents elected by tight margins. This finding suggests that accountants may be attempting to influence the ideological composition of the legislature by assisting favored candidates. However, the analysis on whether the profession is trying to stack the legislature with pro-business legislators was inconclusive. An OLS model testing the interaction between election tightness and pro-business voting behavior was significant, but the interaction was not significant in the censored model. The data also show that controlling for political ideology, accountants gave significantly more money to incumbent legislators who were members on the committees having jurisdiction over SOX. This pattern is consistent with the access hypothesis that predicts special interest groups will target powerful congressional members, regardless of their political ideology, simply because they are in a position to influence policy outcomes.

The second model tested the effect of PAC contributions on specific roll call votes that had a material impact on the accounting profession. The results indicate that the marginal effect of PAC contributions on specific roll call votes is very small, if it is present at all. Past pro-business voting behavior is the best predictor of roll call votes relevant to the profession. Even where PAC contributions have a statistically significant association with a roll call vote, they do not seem to have any practical significance.

There are several implications to these results. The first implication is that the



accounting profession is not neutral with respect to policy formulation. The pro-business bias in PAC contributions suggests that the profession may represent the interests of its wealthy corporate sponsors over the interests of the broader public. To the extent that incumbents vote in a manner consistent with the interests of their sponsors, this money may affect policy outcomes.

A second implication is that to the extent that the profession is successful in influencing election outcomes, this pro-business bias may skew political representation in the legislature, marginalizing less wealthy interests and undermining the ideal of representative democracy. Marginalizing less financially munificent interest groups such as those concerned with Civil Rights, women's issues and the environment from the political process may contribute to a growing disillusionment with the democratic system among the broader public that in turn, may lead to less participation by the public in the political process.

The third implication is that the bias in contributions to powerful legislators having direct authority over important legislation relevant to the economic interests of the profession suggests that the profession is engaged in a strategy to capture the important regulatory institutions governing its actions. While theories of economic regulation suggest that the political system will ultimately achieve equilibrium among competing interest groups, there is little or no discussion on the effects of short-run disequilibrium or the disutility suffered by marginalized groups.

There are also several important limitations of this study. First, the study concentrated on a single issue and legislative cycle. Therefore, the results cannot be generalized to other time-periods or issues. There was a great deal of public interest in accounting reform and investor protection following the collapse of Enron and other notable public companies. There was also a significant amount of public interest in campaign financing during the 107th Congress. On March 27, 2002, the president signed the Bipartisan Campaign Reform Act into law. This act banned soft money contributions to political parties and doubled the previous limits on the amount of hard money that individuals can contribute. It is unknown whether the enhanced public salience on these issues may have affected the pattern of PAC contributions during the study period. In addition, much of the political process is unobservable and hence, excluded from the analysis. The impact of logrolling, emulation of leaders, private deals and in-kind payments on voting behavior is unknown, but may be significant. We are also unable to determine the precise timing of PAC contributions and see whether the profession paid money ex-ante or ex-post with respect to any specific vote. Ex-ante payments could influence a vote if legislators interpreted the payments as such and were willing to reciprocate by voting in a direction that they otherwise would not have. However, ex-ante payments might also galvanize a legislator's position against the profession if they see it as a nefarious attempt to influence their vote. Likewise, ex-post payments could influence a vote if the payments represent compensation to the legislator for having voted a certain way and the legislator changed their vote to obtain the compensation. However, if the legislators do not believe the profession will compensate them regardless of their vote, then any ex-post payment would be gratuitous and irrelevant to the vote.

Further analysis is also required to determine if accountants as a group wield an inordinate amount of political influence relative to other groups, such as labor or specific industries, such as oil and gas or pharmaceuticals. While the base proposition that PAC money paid by the accounting profession is biased toward pro-business legislators was supported in this study, the interests of the profession may at times, conflict with those of their clients. For example, legislation that increases the compliance burden on industry favors the economic welfare of the profession, but not their clients. Future research should also seek answers to the larger question of the profession's relative political influence by analyzing the extent of its lobbying activities and the relative influence of accountants in their role as expert witnesses in congressional testimony.

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## **II) STUDY TWO – A LINGUISTIC ANALYSIS OF TESTIMONY RELATED TO THE SARBANES-OXLEY ACT OF 2002**

### **INTRODUCTION**

Several recent studies, including part one of this dissertation, have focused on identifying and assessing the effectiveness of political strategies used by the accounting profession to influence Federal legislation (Roberts and Bobek, 2004; Roberts, Dwyer and Sweeney, 2003). Using Hillman and Hitt's (1999) typology of political strategies, Roberts, et al (2003) concluded that accounting firms and professional organizations have generally adopted a long-term relational approach for influencing the political process that spans multiple issues and incorporates a variety of strategies and tactics. They found that accounting firms have participated both individually and collectively through professional organizations making extensive use of informational and financial incentive tactics as well as a modest use of constituency building tactics. Roberts, et al (2003) further tested for the effectiveness of these strategies on roll call voting, and found a significant positive correlation between political action committee (PAC) contributions by the accounting profession to committee members and roll call voting behavior favorable to the interests of the profession. Finally, Roberts et al. (2003) suggested that these strategies were at least partially successful in weakening the initial version of the

Sarbanes-Oxley Act of 2002 (SOX) as proposed by Rep. Michael Oxley (R-OH) in the House.

Part one of this dissertation found that the accounting profession rationally allocated relatively more PAC contributions to members of committees having direct jurisdiction over SOX. This finding suggests that these PAC contributions were given in order to gain access to legislators and lobby them on behalf of the accounting profession. This reasoning is consistent with economic theories of regulation that predict regulated industries will attempt to influence or even capture the institutions regulating them for the economic benefit of their members (Stigler, 1971).

Study one also found that the profession rationally allocated more financial resources to legislators with pro-business voting records and to legislators engaged in close elections, suggesting that the accounting profession is trying to influence the ideological composition of Congress by supporting legislators with pro-business voting records. The study also tested a roll call voting model on congressional roll call votes related to SOX and found a significant association between PAC contributions paid by the profession and roll call voting behavior favorable to the interests of the profession on two out of three roll call votes in the House of Representatives. However, the marginal effect of the PAC contributions on voting behavior was small, particularly among legislators with a record of pro-business voting. These findings indicate that PAC contributions are something more than symbolic relationship sustaining gifts, but roll call voting models are extremely limited in the additional information they can uncover.

The final roll call vote on SOX was unanimous in the Senate and near unanimous in the House and this invariance prohibits any empirical analysis using traditional linear voting models. While the invariance in the final vote suggests that legislators across the political spectrum had achieved consensus on how to reform corporate governance and audit regulation, a cursory review of the congressional transcripts suggests that legislators were often in heated disagreement over specific provisions of SOX. The final vote may have merely represented a buckling of congressional will under enormous public scrutiny following the Enron and WorldCom collapses. The loss in market value that investors suffered from these and other frauds during 2001-2002 was unprecedented and enraged large blocks of powerful constituents who demanded action. As a result, legislators may have felt compelled to vote in favor of the final bill or risk losing their seat in the next election.

In December 2001, following the collapse of Enron and with congressional elections less than a year away, Congress was well motivated to act swiftly and enacted SOX in near record speed. Less than eight months transpired between the announcement of Enron's bankruptcy and signing of the Act. Sen. Paul Sarbanes (D-MD), Chairman of Senate Committee on Banking, Housing and Urban Affairs began the first of ten public hearings on accounting reform and investor protection on February 12, 2002. Almost immediately, on February 14, 2002 Rep. Michael Oxley (R-OH), Chairman of the House Financial Services Committee, sponsored H.R. 3763 "The Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002". The House Financial



Services Committee began the first of three related hearings on March 13, 2002<sup>4</sup>. Sen. Sarbanes subsequently introduced S2673, the Public Company Accounting Reform and Investor Protection Act of 2002 on June 25, 2002 were merged during a conference committee on July 25, 2002 when the House passed HR3763 as amended by the Senate to incorporate S2673.

This study seeks to expand the study of political influence of the accounting profession in federal regulation by incorporating a textual analysis of congressional testimony during the policy formulation period of SOX. The focus of the study is on the political process as opposed to the outcome. The underlying motivational theory is similar to that of roll call voting models. I hypothesize a relationship between the level of PAC contributions donated by an interest group and behavior that is favorable to that interest group. In this paper, the focus is not on the final roll call vote of SOX, since that was virtually invariant. Rather the focus is on the discourse during public hearings held by congress during the policy formulation period of SOX. Fairclough (1989) asserts that politics is the language, including the disputes occurring in language and over language while Schaffner (1997) points out that language is fundamental to the process of transforming political will into social action. Partington (2003) also claims there is a natural link between institutional analysis and textual analysis because the “discourse is the institution”. This linkage between politics and discourse leads to the proposition that the linguistic patterns of committee members in public hearings related to SOX will vary systematically depending on a vector of independent variables including PAC contributions paid by the profession. The aim is to provide insight into which legislators

were publicly talking about SOX, including how frequently and forcefully they were speaking, and whether there is any evidence that the accounting profession influenced their speech. To the extent that speech patterns during congressional testimony can be associated with specific topics, positions and political ideologies should provide insight into the reasoning of the legislators and those who support them.

The results of the study indicate that while controlling for political and structural factors, the propensity of Republican House Financial Services Committee members to speak during public hearings related to SOX was positively and significantly associated with the level of PAC contributions paid by the accounting profession. The study also finds that PAC contributions were positively associated with the frequency of speech among House Republican committee members concerning specific topics relevant to the profession, such as consulting services and non-audit services. Finally, the study finds a positive association between PAC contributions and the frequency that Republican House committee members used markers of persuasive language. The implication is that PAC contributions provide evidence consistent with the notion of pay-for-performance contracts, with legislators providing arguments consistent with the preferences of the profession. The remainder of the paper is organized as follows: Section two reviews previous textual research in accounting. Section three develops hypotheses regarding the relationship between PAC contributions and speech performance. Section four describes the data and methods of analysis. Section five test the hypotheses, and section six discusses the implications and limitations of the study.

## **LITERATURE REVIEW**

Jones and Shoemaker (1994) provide an overview of content analysis in accounting research, dichotomizing much of it into two general classes, thematic studies and syntactic studies. Thematic studies identify themes or content categories within a text and attempt to draw some conclusions, or inferences regarding the motivations or concerns of the communicators. Syntactic studies generally focus on the counting of words or concrete references using some formula, such as the Flesch Index<sup>5</sup>, to assess the readability of a text, or Diction<sup>6</sup> analysis to evaluate verbal tone. Smith and Taffler (2000) describe these alternative approaches as form oriented (objective/syntactic) versus meaning oriented (subjective/thematic). Using discriminant analysis and a concordance program to construct word and theme variables<sup>7</sup> from discretionary disclosures in Chairman's statements, Smith and Taffler (2000) found an association between the frequency of occurrence of certain keywords in the texts and financial distress. Sydserff and Weetman (2002) used computerized Diction scoring and developed a transitivity index, measured as the number of passive constructions<sup>8</sup> in a text, in analyzing Chairman's statements and manager's reports of good performers versus poor performers. Since discourse with frequent passive constructions is typically more abstract, technical and formal in style, it creates the appearance of distance between the speaker and the message. Sydserff and Weetman (2002) theorized that poor performers would use more passive constructions than good performers. Their results were mixed, but provided some evidence that the narratives of poor performers were characterized by

a more objective, detached style of writing, indicative of management wanting to distance itself from the message. Ober, Zhao, Davis and Alexander (1999) also used Diction software to analyze narratives among Fortune 500 companies and found a higher level of certainty in recorded oral public communications of Fortune 500 companies versus their written Management Discussion and Analysis section in 10-K reports. However, no association between the level of certainty expressed and profitability was found. In summary, there is little extant theory regarding the role of text in accounting and the results of prior research are mixed.

## **HYPOTHESES DEVELOPMENT**

Committees offer a rich environment within which to study the dynamics of the legislative process. Romano (1997) describes the role of congressional committees as the key formulators of legislation since there is virtually no chance that a measure can pass without the approval of a committee. All bills are referred to a committee as soon as they are introduced, and if the governing committee tables a bill, it is unlikely to reach the floor for a vote. More importantly for the purposes of this study, committees hold public hearings on proposed legislation, obtain prepared testimony from experts and interested parties and question witnesses with regard to the particulars of related events. Ostensibly, the purpose of these hearings is to assist committee members in gathering information and develop expertise on policy proposals. However, the traditional

literature tends to discount this informational role of congressional hearings (Romano, 1997). Committee members have many sources of information and they often use hearings for personal reasons, such as to publicize a partisan agenda or to galvanize public support on a favored measure (Romano, 1997). To these ends, committee chairs may 'stack' the witness lists with people supportive of their favored positions (Leyden, 1995). Oleszek (1989) also noted that committee members enter hearings not only with prepared questions, but also with expected answers garnered through extensive staff interviews and rehearsals with potential witnesses. In a classic case study, Huitt (1954) found no evidence that hearings changed committee members' positions. Rather, he suggested that each group came into the hearings with a ready-made frame of reference and only used the facts that were compatible with their arguments while discounting or ignoring others, even when elaborately documented (Diermeier & Feddersen, 2000). This suggests that the SOX hearings were primarily motivated to galvanize support behind partisan agendas rather than to gather new relevant information.

Previous research indicates that congressional representatives are purposive actors (Kathlene, 1994; Hall, 1987; Sinclair, 1999, 1983). Sinclair suggests that political parties delegate power and resources to leaders to overcome collective action problems and facilitate the passage of legislation that furthers the interests of the party. To the extent that leaders are faithful agents of the party, they should respond to changes in their member's expectations. This faithful adoption of the party's agenda may help explain the intransigent positions observed among committee members during public hearings. Hall (1987) found that participation of congressional representatives during committee

hearings was associated with the goals of committee members and their relative opportunities or constraints to participate. Significant goals of committee members that were identified included serving their districts, making good policy, making a personal mark and promoting the president's agenda. Significant opportunities and constraints on speaking included leadership position, party affiliation and freshman status. Kathlene (1994) found that after controlling for political factors and structural features of committee hearings, that men become more verbally aggressive and controlling of the hearing as the proportion of women increases in a legislative body. Verbal aggression was measured by the number of words spoken, number of turns taken and interruptions made or received. Important political factors and structural features related to participation in committee hearings that Kathlene (1994) identified included position, personal interest in the topic and legislative expertise. Personal interest was measured by the frequency that members mentioned specific topics or bills. Legislative expertise was measured by the number of terms served in the legislature and position was measured by whether the speaker held the chair and controlled the agenda and turns at talk.

Previous research has also documented a pro-business and Republican bias in the accounting professions giving to congress in general. This suggests that the profession is attempting to control the political ideology of the legislature and contradicts the access hypothesis that predicts the profession should give to powerful members of relevant committees regardless of their political ideology in order to gain access and lobby them (Ansolabehere, Snyder and Tripathi, 2002). According to this hypothesis, there should be no difference in giving among committee members based on ideology or political

party. If this were true, then the profession should have rationally allocated equal amounts of resources to the Chairmen of the committees having direct jurisdiction over SOX regardless of their political affiliation since they control the agenda, topics and the turns at talk. However, this was not the case for SOX. The relatively pro-business republican, Rep. Oxley, who was the Chairman of the House Financial Services Committee, received a total of \$43,500, making him the largest recipient of PAC contributions from the accounting profession during the 107<sup>th</sup> Congress. On the other hand, the relatively pro-social Sen. Paul Sarbanes (D-MD) who was Chairman of the powerful Senate Committee on Banking, Housing and Urban Affairs received nothing from the profession.

An alternative to the access/ideology theories suggests that PAC contributions represent pay-for-performance contracts where recipients reciprocate by casting votes or altering other behavior to further the agenda of the contributor. If this were true, it would be rational for the profession to give relatively more to the Republican or pro-business committee members who support the profession's agenda since their behavior could influence the outcome of the policy formulation process. According to this reasoning, Republican committee members receiving PAC contributions from the accounting profession should reciprocate by advancing the profession's interests during public debate, and be more inclined to act in the professions interests. However, it is also possible the profession would be motivated to pay members of the opposition in order to encourage them to remain silent or soften their arguments against the profession's agenda during the policy formulation period. For example, if a pro-business Democratic

committee member feels constrained by party affiliation from arguing forcefully in favor of a pro-business legislative alternative, the next best option would be to tone down the force of their party's arguments or to remain silent on the matter. This line of reasoning leads to the proposition that PAC contributions paid by the accounting profession should be positively associated with Republican speech during committee hearings regarding SOX and negatively associated with Non-republican speech, or more formally:

H1a: Accounting profession PAC contributions will be positively associated with speech performance among Republican committee members during committee hearings related to SOX.

H1b: Accounting profession PAC contributions will be negatively associated with speech performance among Non-republican committee members during committee hearings related to SOX.

In addition, not all topics under discussion during the SOX committee hearings were equally relevant to the accounting profession. SOX had significant provisions affecting the issuers, boards of directors, corporate officers and audit committees. With respect to the provisions affecting audit firms, the text of the hearings indicates that the profession was particularly concerned with the potential prohibition against providing consulting services to a firm's audit clients. Partners of the major firms and former regulators provided extensive and compelling arguments on why these services do not compromise auditor independence. However, legislators ultimately included a bright-line list of services into SOX that audit firms cannot provide their clients.



Another issue was the mandatory rotation of audit firms among publicly traded companies. Again, a significant amount of controversy surrounded this topic, and the final bill ultimately included a compromise wherein audit partners in the same firm are required to rotate primary engagement responsibility every five years. Other issues of concern to the profession included, but were not limited to auditor independence, audit fees, and the creation of the Public Company Accounting Oversight Board (PCAOB) that effectively stripped the American Institute of Certified Public Accountants of its ability to set auditing standards for publicly held entities. These items were contentious issues among legislators during the policy formulation period of SOX and the subject of much debate during the House and Senate committee hearings. To the extent that PAC contributions encouraged Republican committee members to argue in favor of the interests of the profession, there should be a positive association between PAC contributions and the frequency Republicans discussed these topics. Alternatively, to the extent that PAC contributions encourage members of the opposition to remain silent or soften their arguments against the profession, there should be a negative association between contributions and speech. Hence the second set of hypotheses are:

H2a: Accounting profession PAC contributions will be positively related to the frequency of speech on topics relevant to the profession among Republicans committee members.

H2b: Accounting profession PAC contributions will be negatively related to the frequency of speech on topics relevant to the profession among Non-republican committee members.

Finally, it would be rational for the profession to give more to committee members who are relatively more persuasive. This leads to a hypothesis that PAC contributions will be positively associated with the persuasiveness of political discourse. Again, the direction of the effect of PAC contributions should differ depending upon the issue and party affiliation. Therefore, with respect to SOX, the third set of hypotheses are:

H3a: Accounting profession PAC contributions will be positively associated with linguistic markers of persuasion among Republican committee members.

H3b: Accounting profession PAC contributions will be negatively associated with linguistic markers of persuasion among Non-republican committee members.

The measurements for these markers are discussed in the data analysis section.

## **DATA AND METHOD**

The analysis is restricted to the prepared readouts and spontaneous speeches of members on the House Financial Services Committee and the Senate Committee on Banking, Housing and Urban Development during hearings related to formulating policy on SOX. The data consist of the transcripts of a series of congressional committee hearings related to SOX where people from a variety of affected interest groups, including the accounting profession, testified. These transcripts are publicly available and provide an easily

accessible source of data concerning the most salient and relevant arguments given both in support of, and in opposition to key provision of SOX<sup>9</sup>. The Government Printing Office identifies thirteen hearings specifically related to SOX and publishes them in four volumes under the title Accounting Reform and Investor Protection. These include the transcripts of ten hearings held by the Senate Committee on Banking, Housing and Urban Affairs between February 12 and March 21, 2002 and three hearings of the House Committee on Financial Services.

The participants consisted of committee members appointed from within the ranks of the governing parties and witnesses representing the most prestigious accounting, investment, and banking firms as well as past and present leaders of relevant regulatory agencies and standard setting bodies. In general, the format of the hearings consists of opening (prepared) statements by each of the committee members and witnesses followed by a question and answer period. Occasionally, the participants submit written questions and responses following the hearing. The text of the SOX hearings consist of about equal amounts of prepared statements of opinion and question and answer periods between two equally professional sides. An important feature of this context however, is the position of the Chairman and his ability to regulate topics and turns at talk. The majority party in the House and Senate appoint the Chairmen of their respective committees. During the 107<sup>th</sup> Congress, the Republicans had gained control of the House and appointed Rep. Oxley to chair the House Financial Services Committee (House committee). The Democrats gained control of the Senate after Sen. James Jeffords (I-VT) left the Republican party to become an Independent and appointed Sen. Paul S. Sarbanes (D-

MD) to chair the Senate Committee on Banking, Housing and Urban Affairs (Senate committee).

The first of the Senate hearings began February 12, 2002 with the Senate Banking, Housing and Urban Affairs Committee<sup>10</sup> chaired by Sen. Sarbanes. Rep. Oxley, chair of the House Financial Services Committee subsequently sponsored H.R. 3763 “The Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002” on February 14, 2002 and held the first House hearings on March 13, 2002.

Content analysis was conducted using the software, QSR N6 (QSR International, 2002) and Concordance 3.0 (Watt, 2002). QSR N6 enables the dissection of congressional hearings into coded nodes. These nodes can be free (standalone) topics or embedded in tree banks. QSR N6 also provides routines to search text among nodes and export frequency counts to SPSS for further analysis. A concordance program can search a text or set of texts for a string of letters (keyword or phrase) and list all occurrences along with a certain amount of co-text for each one. These lists enable an analysis of the patterns in the co-text surrounding words providing information regarding their use. These lists can be sorted in a variety of ways such as alphabetically by headword, by frequency of occurrence, or according to co-occurring words (context) preceding it or following it. The concordances reported in this analysis were prepared using Concordance 3.0 (Watt, 2002).

## **DATA ANALYSIS**

Descriptive statistics for the House and Senate samples are shown in tables II-1 and II-2. The House Financial Services Committee consisted of seventy members. In general, the descriptive statistics indicate members of both the House and Senate committees were predominately pro-business<sup>11</sup> incumbent males who had received PAC contributions from the profession. As noted above, Republicans controlled the House committee and Democrats controlled the Senate committee. Total turns at talk and text units spoken were considerably higher among the Senate committee members. This is because there were ten days of Senate hearings and only three days of hearings in the House. There are also fewer committee members in the Senate committee. A majority of the House committee members did not speak at all during the hearings while virtually all members of the Senate committee spoke. In the House sample, the profession gave significantly more to previously incumbent and Republican committee members. Independent T tests indicate that previously incumbent Senators also received more from the profession than freshmen, however Kolmogorov-Smirnov tests indicate non-normal distributions for all variables in the Senate sample with the exception of Seniority and the nonparametric Mann-Whitney ranked sum and Wilcoxon signed rank tests were not significant.

Table II-1. Descriptive Statistics House Financial Services Committee

House Financial Services Committee					
Male	57	Received PAC	63	Freshman	10
Female	13	No PAC	7	Re-elected	60
Total	70	Total	70	Total	70
Republican	38	USCC106> 50%	40	Speaker	30
Democrat	31	USCC106<50%	20	Did not speak	40
Independent	1	No USCC	10	Total	70
Total	70	Total	70		

  

Variable	N	Mean	Std. Dev.	Minimum	Maximum
PAC money (thousands)	70	12.50	10.98	0	43.50
Turns at talk	70	7.09	16.24	0	100.00
Text units (sentences)	70	45.49	111.04	0	714.00
Seniority	70	8.54	6.19	2	28.00

  

PAC contributions					
Indicator variables	Variable Description	Group	N	Mean PAC	Std. Dev.
Chairman position (CHAIR)	1 if the legislator holds the committee chair, 0 otherwise.	1 0	1 69	43.50 12.10	- 10.39
Freshman Status (FRESH)	1 if the legislator is a freshman legislator, 0 otherwise.	1 0	10 60	11.21*** 20.61***	10.99 10.47
Gender (GENDER)	1 if the legislator is a Male, 0 if female.	1 0	57 13	12.82 11.36	11.08 10.86
Member of the Republican party (PARTY)	1 if Republican, 0 otherwise	1 0	38 32	16.05*** 8.40***	10.44 10.28

  

Correlation matrix								
	Turns	Text	Senior	Chair	Fresh	Gen	Party	PAC
Turns	-							
Textunits	.963**	-						
Seniority	.411**	.441**	-					
Chair <sup>†</sup>	.358**	.456**	.224	-				
Fresh <sup>†</sup>	-.020	-.047	-.434**	-.049	-			
Gender <sup>†</sup>	-.009	.033	.090	.057	-.015	-		
Reppart <sup>†</sup>	-.064	-.084	.053	.110	.129	.152	-	
PAC1000	.153	.180	-.211	.342**	.302*	.052	.350**	-

\* - Significant at the .10 level (Two-tailed)  
 \*\* - Significant at the .05 level (Two-tailed)  
 \*\*\* - Significant at the .01 level (Two-tailed)  
<sup>†</sup> - Dichotomous variable

Table II-2. Descriptive Statistics Senate Committee on Banking Housing and Urban Affairs

Senate Committee on Banking Housing and Urban Affairs					
Male	20	Received PAC	14	Freshman	5
Female	1	No PAC	7	Re-elected	16
Total	21	Total	21	Total	21
Republican	10	USCC106> 50%	9	Speaker	19
Democrat	10	USCC106<50%	7	Did not speak	2
Independent	1	No USCC	5	Total	21
Total	21	Total	21		

  

Variable	N	Mean	Std. Dev.	Minimum	Maximum
PAC money (thousands)	21	8.2237	12.08	0	35.56
Turns at talk	21	45.76	92.31	0	425
Text units (sentences)	21	302.43	547.65	0	2,534
Seniority	21	8	6.96	2	26

  

PAC contributions						
Indicator variables	Variable Description	Group	N	Mean PAC	Std. Dev.	
Chairman position (CHAIR)	1 if the legislator holds the committee chair, 0 otherwise.	1	1	0	-	
		0	20	8.63	12.24	
Freshman Status (FRESH)	1 if the legislator is a freshman legislator, 0 otherwise.	1	5	3.00*‡	3.67	
		0	16	9.86*‡	13.38	
Gender (GENDER)	1 if the legislator is a Male, 0 if female.	1	20	8.18	12.39	
		0	1	9.00	-	
Member of the Republican party (PARTY)	1 if Republican, 0 otherwise	1	10	12.11	14.93	
		0	11	4.69	7.90	

  

Correlation matrix								
	URNS	TEXT	SENIOR	CHAIR	FRESH	GENDE	PARTY	PAC
URNS	-							
TEXTUNITS	.990**	-						
SENIORITY	.673***‡	.707***‡	-					
CHAIR†	.941***‡	.934***‡	.593***‡	-				
FRESH†	-.054	-.103	-.494*	-.125	-			
GENDER†	.052	.040	.198	.050	-.400	-		
REPPARTY†	-.257	-.226	.000	-.213	-.309	.213	-	
PAC1000	-.165	-.113	-.012	-.156	-.248	-.015	.315	-

\* - Significant at the .10 level (Two-tailed)  
 \*\* - Significant at the .05 level (Two-tailed)  
 \*\*\* - Significant at the .01 level (Two-tailed)  
 † - Dichotomous variable  
 ‡ Not significant using nonparametric tests

Hypotheses 1a and 1b test whether the profession discriminated in giving to members of committees having direct jurisdiction over SOX on the basis of party affiliation and speech performance. To the extent that speech represents the reciprocal behavior that committee members exhibit in pay-for-performance contracts with their contributors, PAC contributions given by the profession should encourage the relatively pro-business Republican committee members to speak and advance the profession's agenda during the hearings. PAC contributions given to the opposition party should have the opposite effect. That is, PAC contributions paid to the opposition represent hush money and Non-republican committee members should reciprocate by remaining silent or softening their arguments. Therefore, PAC contributions should be positively associated with speech performance among Republicans and negatively associated with speech performance among Non-republicans.

Preliminary analysis using one-way analysis of variance (ANOVA) shown in table II-3 provides some support for H1a. The profession allocated relatively more resources to speaking Republicans in the House than to non-speaking Republicans and all Non-republicans regardless of whether they spoke or not. However, there was no significant difference between Non-republicans on the basis of their speech performance, and H1b is not supported. There was also no statistical difference in giving among speakers of either party in the Senate.



Table II-3. One-Way ANOVA House Financial Services Committee

Variable	N	Mean	Std. Dev.	PAC Contributions	
				Minimum	Maximum
Non-speaking Non-Republican	14	10.47 <sup>1</sup>	11.91	0	30.92
Speaking Non-Republican	18	6.78 <sup>13</sup>	8.82	0	26.33
Non-speaking Republican	26	13.01 <sup>1</sup>	8.32	0	27.32
Speaking Republican	12	22.63 <sup>23</sup>	11.84	4.5	43.50

Superscripts indicate group membership (1,2,3)  
Difference between Group 1 and 2 significant at the .05 level equal variances assumed  
Difference between Group 3 significant at the .05 level unequal variances assumed

Table II-4. One-Way ANOVA Senate Committee on Banking Housing and Urban Affairs

Variable	N	Mean	Std. Dev.	PAC Contributions	
				Minimum	Maximum
Non-speaking Non-Republican	-	-	-	-	-
Speaking Non-Republican	11	4.69	7.90	0	27.05
Non-speaking Republican	2	0.50	0.71	0	1.00
Speaking Republican	8	15.02	12.08	0	35.56

No statistical differences between groups.

A more rigorous test of H1a and H1b was conducted using a tobit model with the number of sentences spoken during the hearings (TEXTUNIT) as the dependent variable and PAC contributions as the test variable. Additional independent variables were selected based on previous research (Kathlene, 1994; Hall, 1987; Sinclair, 1983). These control variables include the party controlling the chair (REPPARTY), the position of the chair (CHAIR), freshman status (FRESH), legislative expertise (SENIORITY) and gender (MALE). A positive relationship between PAC contributions and amount of speech would support the pay-for-performance contracting theory. It is necessary to control for party affiliation because rules for committee hearings grant each committee member equal amounts of time to speak or interrogate witnesses. Since Republicans outnumbered Non-republicans on the committee, Republican members may have had relatively more

time to speak than Non-republicans. On the other hand, assuming the political ideologies of the parties differ and the introduced legislation reflects the controlling party's agenda, the opposition may have a higher propensity to argue for changes to legislation that are more consistent with their party's values. With respect to SENIORITY, congressional members with more seniority in office should be more likely to speak since they are comfortable with the setting and less tenured members might defer relatively more of their speech time to senior party members. The CHAIR position controls the agenda, directs the turns at talk, and naturally has more opportunity to speak. The text units and turns at talk of the chair position were adjusted to eliminate instances of turn transition talk such as "Thank you very much." Control variables for freshman status and gender are also included based on the prior work of Hall (1987) and Kathlene (1994). Hall (1987) detected less participation among freshman legislators (FRESH), including the frequency of their speech. Kathlene (1994) did not find any significant association among committee members between frequency of speech and Freshman status, but did find a negative association between frequency of speech and female gender (GENDER). I have included all of these variables in the general form of the model shown below.

$$\text{TEXTUNITS} = b_0 + b_1\text{SENIORITY} + b_2\text{CHAIR} + b_3\text{FRESH} + b_4\text{GENDER} + b_5\text{REPPARTY} + b_6\text{PAC1000}$$

Where:

TEXTUNITS = The number of sentences spoken during hearings.

SENIORITY = The number of years the committee member has served in Congress.

CHAIR = Indicator variable for the legislator holding the committee chair position.

FRESH = Indicator variable for freshman status, 1 = Freshman, 0 otherwise.

GENDER = Indicator variable for Gender, 1 = male, 0 for female.

REPPARTY = An indicator variable for political party affiliation. 1= Republican otherwise 0.

PAC1000 = Political Action Committee contributions received from the accounting profession, scaled per \$1,000 increments.

The results from the House in table II-5 indicate that committee members' overall propensity to speak during the hearings was positively associated with the chair position, PAC contributions and seniority, and negatively associated with the Republican Party. The results from the Senate indicate significant positive associations between speech performance and the chair position, seniority and freshman status. No significant association was found between speech performance and PAC contributions in the Senate sample.

Table II-5. Tobit model of Text units for U.S. House of Representatives

House Financial Services Committee  
 $\text{TEXTUNITS} = b_0 + b_1\text{SENIORITY} + b_2\text{CHAIR} + b_3\text{FRESH} + b_4\text{GENDER} + b_5\text{REPPARTY} + b_6\text{PAC1000}$

Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-109.03	59.51	-1.83 (.067)	-41.87*	
SENIORITY	+	13.82	3.83	3.61 (.000)	5.31**	8.54
CHAIR	+	317.19	169.10	1.88 (.061)	121.84*	0.01
FRESH	-	111.13	68.06	1.63 (.103)	42.69*	0.14
GENDER	+	-58.23	50.04	-1.16 (.245)	-22.37	0.81
REPPARTY	+	-138.01	48.35	-2.85 (.004)	-53.01**	0.54
PAC1000	+	4.01	2.31	1.74 (.082)	1.54*	12.55

N=70  
 Sigma = 144.18  $\sigma$ = 20.03 SE= 7.20 p-value= .000  
 Log Likelihood function -211.85  
 Conditional Mean at sample point: 38.75  
 Scale factor for marginal effects: 0.38  
 Two tailed p-values are reported for all variables.  
 Marginal effects \*=significant at the .10 level two-tailed \*\*=significant at the .05 level two-tailed

Table II-6. Tobit model of Text units for Senate Committee on Banking Housing and Urban Affairs

Senate Committee on Banking Housing and Urban Affairs  
 $\text{TEXTUNITS} = b_0 + b_1\text{SENIORITY} + b_2\text{CHAIR} + b_3\text{FRESH} + b_4\text{GENDER} + b_5\text{REPPARTY} + b_6\text{PAC1000}$

Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-74.54	197.72	-0.38 (.706)	-72.47	
SENIORITY	+	27.20	7.21	3.77 (.000)	26.45**	8.00
CHAIR	+	1883.26	206.00	9.14 (.000)	1831.03**	0.04
FRESH	-	195.17	108.25	1.80 (.071)	189.75*	0.24
GENDER	+	17.97	175.44	0.10 (.918)	17.47	0.95
REPPARTY	+	-64.48	77.87	0.83 (.408)	-62.69	0.48
PAC1000	+	3.44	3.14	1.10 (.273)	3.34	8.22

N=21  
 Sigma = 153.48  $\sigma$ = 25.43 SE= 6.03 p-value= .000  
 Log Likelihood function -124.57  
 Conditional Mean at sample point: 295.57  
 Scale factor for marginal effects: 0.97  
 Two tailed p-values are reported for all variables.  
 Marginal effects \*=significant at the .10 level two-tailed \*\*=significant at the .05 level two-tailed

The negative association between political party and speech was somewhat unexpected given that the Republicans controlled the committee chair and outnumbered their Non-republican counterparts. Committee rules allow equal time to each committee member for interrogating witnesses. One possible explanation might be that the Republicans stacked the witness list with pro-business experts and allowed them to speak longer uninterrupted during their allotted interrogation time. The Non-republican committee members may have chosen to utilize more of their allotted time for personal expression rather than letting the witness respond. This is somewhat supported by additional unreported regression results from the House indicating that Non-republican committee members asked significantly more narrow WH questions (Who, what, where, when) and polar yes/no questions than the Republicans. The narrow and polar yes/no questions do not allow a responding witness to elaborate as much, or for as long, as would occur if he or she is being asked broad how or why questions. The strategic use of these types of questions may have allowed the Non-republicans to utilize relatively more of their allotted time to express their party's viewpoint as opposed to letting a Republican selected witness express theirs. In these regressions among the speakers in the Senate, Seniority was positive and significantly associated with all question types.

In order to test the directional robustness of the PAC1000 variable, additional models were run on each respective party. A positive coefficient for PAC1000 was expected for the Republican sample and a negative coefficient was expected for the Non-republican sample. In partial support of H1a, the House results shown in table II-7 show a significant positive relationship between PAC contributions and speech among

republicans. Seniority remained statistically significant, but the association between speech and the chair position was not statistically significant among Republicans only. The results for the House Non-republicans were also not statistically significant and do not support H1b. The results in the Senate again indicated that seniority was the only significant predictor of speech performance.

Table II-7. Tobit model of Text units for U.S. House of Representatives Republicans

House Financial Services Committee Republicans Only						
TE TEXTUNITS = b0 + b1SENIORITY + b2CHAIR + b3FRESH + b4GENDER + b5PAC1000						
Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-283.07	125.70	-2.25 (.024)	-84.19**	
SENIORITY	+	10.78	5.17	2.09 (.037)	3.21**	8.84
CHAIR	+	218.88	179.97	1.22 (.224)	65.10	0.03
FRESH	-	75.89	78.30	0.97 (.333)	22.57	0.18
GENDER	+	-16.39	65.08	-0.25 (.801)	-4.87	0.87
PAC1000	+	7.54	3.83	1.97 (.049)	2.24**	16.05

N=38

Sigma = 115.16  $\sigma$ = 26.17 SE= 4.40 p-value= .000

Log Likelihood function -84.04

Conditional Mean at sample point: 21.67

Scale factor for marginal effects: 0.30

Two tailed p-values are reported for all variables.

\*\* Marginal effects significant at the .05 level two-tailed

Table II-8. Tobit model of Text units for Senate Committee on Banking Housing and Urban Affairs Republicans

Senate Committee on Banking Housing and Urban Affairs Republicans Only						
TEXTUNITS = b0 + b1SENIORITY + b2FRESH + b3PAC1000						
Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-97.98	114.79	-0.85 (.393)	-68.30	
SENIORITY	+	25.80	10.56	2.44 (.015)	17.99	8.00
FRESH	-	-836.33	48101.18	-0.02 (.986)	-583.01	0.10
PAC1000	+	4.43	3.59	1.24 (.217)	3.09	12.11
N=10						
Sigma = 152.11 σ= 38.86 SE= 3.92 p-value= .000						
Log Likelihood function -52.53						
Conditional Mean at sample point: 107.84						
Scale factor for marginal effects: 0.70						
Two tailed p-values are reported for all variables.						

Secondary analysis using one-way ANOVA shown in table II-9 on the House indicates that more PAC contributions were given to silent pro-business Non-republicans than to silent pro-business Republicans and speaking pro-business Non-republicans. Pro-business status was determined by the United States Chamber of Commerce (USCC) rating of the legislator's voting record. Legislators with USCC ratings in excess of 50% were considered pro-business. These results indicate that the association between PAC contributions and Non-republican speech may be dependent on their having a pro-business ideology. That is, only some of the pro-business Non-republican members reciprocated by remaining silent in response to the PAC contributions.

Additional results in the House sample show that, speaking or not, freshmen Republicans were paid significantly more than freshman Non-republicans. Amounts given to liberal

and unrated (freshmen) Non-republican committee members were significantly lower than the amounts given to all pro-business committee members and the unrated (freshmen) Republicans. This suggests among the House Financial Services Committee, the profession has an initial bias in giving toward Republican freshmen versus Non-republican freshmen, but will give more to Non-republicans members as they demonstrate pro-business voting behavior. Again, there were no significant differences between groups in the Senate.

Table II-9. One-Way ANOVA House Financial Services Committee

Variable	N	Mean PAC Contributions	Std. Dev.	PAC Contributions	
				Minimum	Maximum
Liberal Dem/Ind Not Speaking	8	4.04 <sup>1</sup>	5.68	0.00	17.29
Liberal Dem/Ind Speaking	12	4.50 <sup>1</sup>	7.93	0.00	26.33
Freshman Dem/Ind Speaking or Not	3	8.27 <sup>1</sup>	6.19	2.50	14.81
Pro-business Dem/Ind Speaking	5	12.11 <sup>12</sup>	10.31	1.00	25.50
Pro-business Rep Not Speaking	23	12.14 <sup>12</sup>	8.22	0.00	24.00
Pro-business Rep Speaking	8	18.64 <sup>123</sup>	12.53	4.50	43.50
Freshman Rep Not Speaking	3	19.62 <sup>123</sup>	6.77	14.56	27.32
Pro-Business Dem Not Speaking	4	24.25 <sup>23</sup>	12.19	6.00	30.92
Freshman Rep Speaking	4	30.60 <sup>3</sup>	4.51	26.50	37.00

Superscripts indicate group membership (1,2,3)

Means of groups 1,2 and 3 differ at the .05 level of significance (equal variances assumed)

No significant differences detected assuming unequal variances.

Overall, the results suggest there was a positive association between PAC contributions and speech among Republican committee members in the House. This provides some support for H1a. However, except for the final ANOVA test in table II-9, the association between PAC contributions among Non-republicans was not significant in either the House or the Senate committee hearings. Therefore, the majority of the evidence does not support H1b.



The second set of hypotheses predict that Republican recipients of PAC contributions are positively associated with the frequency that certain topics are mentioned and negatively associated with the frequency that Non-republicans mention them.

To test this, I selected several relevant topics and tested for differences in the frequencies that each party mention them. The topics and relative frequencies are shown in table II-10. Tobit models were then run using the topic frequencies as the dependent variable and independent variables from the general model. Independent T-tests indicate that as a group, Non-republicans mentioned Consulting or Non-audit services and Rotation significantly more frequently than Republicans. These issues were particularly salient to the profession since prohibition of consulting services and mandatory rotation of audit firms would have a significant impact on firm specific revenue.

Table II-10. Accounting Related Topics - House Financial Services Committee

Frequency of Topic by Party		House Financial Services Committee			
	Indepen~	Consult~ Nonaudit	Rotat~	Fees	Oversight
Republican	20	4**	7*	8	1
Non-republican	17	11**	26*	11	25
* Significant at .10					
**Significant at .05					

Table II-11. Frequency of Consulting as a Topic - House Sample

House Financial Services Committee						
CONSULTING = b0 + b1SENIORITY + b2CHAIR + b3FRESH + b4GENDER + b5REPPARTY + b6PAC1000						
Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-5.77	2.04	-2.83 (.005)	-0.81**	
SENIORITY	+	0.31	0.10	3.17 (.002)	0.04**	8.54
CHAIR	+	-2.37	3.36	-0.71 (.481)	-0.33	0.01
FRESH	-	1.68	1.72	0.98 (.329)	0.24	0.14
GENDER	+	0.39	1.31	0.30 (.763)	0.06	0.81
REPPARTY	+	-4.12	1.35	-3.04 (.002)	-0.58**	0.54
PAC1000	+	0.16	0.59	2.67 (.008)	0.02**	12.55
N=70						
Sigma = 2.71 σ= 0.59 SE= 4.60 p-value= .000						
Log Likelihood function -4918						
Conditional Mean at sample point: 0.19						
Scale factor for marginal effects: 0.14						
Two tailed p-values are reported for all variables.						
** Marginal effects significant at the .05 level two-tailed						
House Financial Services Committee						
Republican Only						
CONSULTING = b0 + b1SENIORITY + b2CHAIR + b3FRESH + b4GENDER + b5REPPARTY + b6PAC1000						
Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	-13.37	5.93	-2.25 (.024)	-0.01	
SENIORITY	+	0.42	0.17	2.49 (.013)	0.00	8.84
CHAIR	+	-9.36	4.68	-2.00 (.046)	-0.00	0.03
FRESH	-	1.20	1.52	0.79 (.432)	0.00	0.18
GENDER	+	0.90	1.27	0.71 (.479)	0.00	0.87
PAC1000	+	0.33	0.15	2.23 (.026)	0.00	16.04
N=38						
Sigma = 2.71 σ= 0.59 SE= 4.60 p-value= .000						
Log Likelihood function -4918						
Conditional Mean at sample point: 0.19						
Scale factor for marginal effects: 0.14						
Two tailed p-values are reported for all variables.						

The results of the analysis indicate that while controlling for political and structural factors, PAC contributions were positively associated with the frequency that House committee members mentioned Consulting or non-audit issues. Tobit was unable to estimate the model for rotation issues among the House committee members. The results also indicate that Republican members mentioned consulting significantly less than Non-republican members. When the model was applied to the Republican members only, PAC contributions, seniority and the Chair were positive and significantly associated with the frequency that consulting was mentioned.

Table II-12. Consulting Frequencies – Senate Sample

Senate Committee on Banking, Housing and Urban Affairs						
CONSULTING = b0 + b1SENIORITY + b2CHAIR + b3FRESH + b4GENDER + b5REPPARTY + b6PAC1000						
Variable	Expected sign	Coefficient estimates E(Y)	Standard Error	T-statistic (p-value)	Partial derivative of E(Y)	Mean of X
CONSTANT	+/-	6.33	6.86	0.92 (.356)	2.74	
SENIORITY	+	0.14	0.26	0.56 (.574)	0.06	8.00
CHAIR	+	25.65	6.79	3.78 (.000)	11.11**	0.05
FRESH	-	-1.15	4.29	-0.27 (.788)	-0.50	0.24
GENDER	+	-8.81	6.01	-1.47 (.142)	-3.82	0.95
REPPARTY	+	-0.92	3.07	-0.30 (.690)	-0.40	0.48
PAC1000	+	-0.05	0.13	-0.40 (.690)	-0.02	8.22
N=21						
Sigma = 4.76   σ= 1.49   SE= 3.20   p-value= .000						
Log Likelihood function -27.50						
Conditional Mean at sample point: 1.53						
Scale factor for marginal effects: 0.43						
Two tailed p-values are reported for all variables.						
**significant at the .05 level two-tailed						

Results from the Senate sample shown in table II-12 only indicated a positive and significant association between CHAIR and CONSULTING. That is, Chairman

Sarbanes who received nothing from the accounting profession spoke about consulting and non-audit services more frequently than other Senate committee members.

These results are consistent with the results on H1a and H1b. The implication of these results suggest that in the House, Republican recipients of PAC contributions from the profession reciprocated by discussing issues of relevance to the profession relatively more frequently than non-recipients. These results provide some evidence that House committee members reciprocated in pay-for-performance contracts with PAC contributors by discussing issues relevant to the profession.

### **LINGUISTIC VARIABLES**

The third set of hypotheses predict that the relative frequency of persuasive markers will be positively associated with PAC contributions in Republican speech and negatively associated with Non-republican speech. In order to measure the persuasiveness of language, I draw on empirical work in computerized corpus linguistics and construct linguistic variables related to the persuasiveness and force of speech.

According to Zadeh (1975), linguistic variables are arrived at through fuzzy logic, or approximate reasoning. This is a mode of reasoning that is “not exact, or very inexact, but offers a means to approximate the characterization of phenomena that are too complex or

ill-defined to be amenable to description with conventional quantitative terms” (Zadeh, 1975; p. 199). Simply put, linguistic variables are variables whose values are words or sentences in either a natural or artificial language. Zadeh (1975) describes them as a quintuple consisting of 1) the name of the variable, 2) the term set, or collection of its linguistic values, 3) a universe of discourse (i.e. language), 4) a syntactic rule that generates the terms in the term set, and 5) a semantic rule that associates each linguistic value with its meaning. Linguistic fuzziness can be illustrated using the term ‘height’. Height is a term consisting of a term set. A person’s height can be described as short or tall in varying degrees, i.e. quite short, very short, or extremely short. The term set may be infinite, i.e. very, very, very... short. A person can also be both short and tall, depending on the perspective of the observer. Shortness can also refer to a degree of length, i.e. short or long, or to something ‘less than needed’, i.e. short on cash, short of the runway. So what does a statement like “Bill is short” mean? Fuzzy logic would apply a syntactic rule that says Bill is human, and human shortness usually refers to height, when not accompanied by an argument, such as ‘on cash’. The semantic rule associated with this version of short usually means shorter than most, but taller than some. However, the definition of short is contingent, and the logic used to arrive at its meaning in context is fuzzy, not crisp. More importantly, with respect to construct validity and linguistic variables, to the extent that the definition of a concept is contingent, so is its measurement. This problem is particularly acute with respect to some of the linguistic concepts used in prior research, such as transitivity or certainty. These concepts are global properties with multiple, normatively defined facets. For example, transitivity consists of at least ten components<sup>12</sup> that represent the degree to which an activity is

‘carried over,’ or transferred from an agent to a patient<sup>13</sup> in a sentence (Hopper & Thompson, 1980). Likewise, Diction’s master variable for certainty consists of nine components<sup>14</sup> based on the work of general semanticists, such as Alfred Korzybski, S.I Hayakawa and Wendell Johnson, in the 1940’s (Hart and Childers, 2004; Hart, 2001). While their definitions have a certain amount of face validity, it is unclear how to measure them and empirically establish their convergent and discriminant validity.

In order to address this issue I draw on empirical research conducted in computerized corpus linguistics. Corpus linguistics generally refers to how features of spoken discourse, including rhetorical strategies, can be analyzed with the aid of corpora (collections of recorded utterances used as a basis for the descriptive analysis of a language). McEnery and Wilson (1996) define a corpus as “a body of text which is carefully sampled to be maximally representative of a language or language variety” (pp. 87). Biber, Conrad and Reppen (1998) describe them as large, principled collections of naturally occurring text, and suggests their usefulness in analyzing large amounts of language collected from many speakers in order to draw empirically supported general conclusions regarding grammatical patterns. The importance of corpora in linguistic analysis has been discussed at length (Biber, et al, 1998, Biber, 1988; Partington, 2003, 1998; Kennedy, 1998; McEnery and Wilson, 1996), and generally, their value is perceived to be directly related to the degree that they represent the characteristics of the genre of language under study. Traditionally, corpus linguistics has concerned itself with lexicography, grammatical description and register studies, and not pragmatics<sup>15</sup> or discourse analysis<sup>16</sup>. The principle reason given for this lacuna in the literature is that

pragmatics and discourse analysis tend to rely on context, and corpora strip most of the context away (Partington, 2003; Biber, et al., 1998; McEnery and Wilson, 1996).

Another reason given is that, until recently, there has been a paucity of complete corpora with which to conduct discourse analysis.

### **PERSUASIVE MARKERS**

Research in corpus linguistics has revealed that linguistic features vary systematically depending on the specific speech situation in which they occur and the functions they are intended to serve. This is because people have mental frames or scripts gained from previous experience of what will happen in certain speech settings and adjust their expectations of their own and other's behavior according to the context. A review of this research also suggests that the co-occurrence of certain linguistic features can indicate the force of the claims made, and whether they are offered as subordinated positions, or as recommended courses of action. In a seminal study, Biber (1988) found that linguistic structure in text varies depending on the nature of the speech<sup>17</sup> situation and the intended function of the communication. In a factor analysis of twenty-three linguistic genres<sup>18</sup> in two major corpora<sup>19</sup>, Biber (1988) found at least five dimensions of variation. These were labeled 1) involved versus information production, 2) narrative versus non-narrative discourse, 3) elaborated versus situated dependent reference, 4) overt expression of persuasion and 5) impersonal versus non-impersonal style (Biber, et al, 1998). It should

be noted that Biber (1988) found no clear distinction between spoken and written English per se. Rather, he found the variation within each mode of communication was often as great as the variation between them. More importantly for the purposes of this study, Biber (1988) found a set of features labeled Overt Expression of Persuasion. These features include prediction and possibility modals, suasive verbs, necessity modals, conditional subordination, infinitives and split auxiliaries. Prediction modals (will, would, shall) and their contractions are used to refer to the future and are direct pronouncements that certain events will or will not occur. Possibility modals (can, may, might, could) are statements concerning the ability or possibility of certain events occurring, and are used to consider different perspectives on a problem. When used with a first person agent, prediction and possibility modals indicate intention, e.g. I (we) will support, I might support. In other cases, they can offer an assessment of likelihood, e.g. they will support, they might support. Necessity modals and suasive verbs mark the author or speaker's attempts to persuade the addressee that certain events are desirable. Necessity modals (ought, should, must) are pronouncements concerning the obligation or necessity of certain events while suasive verbs<sup>20</sup> (e.g. demand, insist, propose) imply intention to bring about certain events in the future. Conditional subordinators (if, unless) specify the conditions that are required for certain events to occur. Infinitives (to plus the root of a verb) are commonly used as adjective and verb complements. In these constructions the head adjective or verb encodes the speaker's attitude or stance toward the proposition encoded in the infinitival clause, e.g. happy to do it, hoped to see it. Split auxiliaries occur when adverbs are placed in between an auxiliary and its main verb, e.g. to boldly go, to blindly follow. However, Biber (1988) noted that the co-occurrence of



split auxiliaries with these other features may be due to the fact that the auxiliaries are frequently modals rather than split auxiliaries being overt markers of persuasion. Texts with a high incidence of persuasive markers included professional letters, institutional letters and letters to the editor while broadcasts and press reviews contained notably few of them. Prepared and spontaneous speeches, official documents and academic prose were also relatively unmarked with respect to these features when compared to other texts.

Another set of surface features not strictly associated with Biber's (1988) dimension of overt argumentation yet of interest to this analysis include downtoners, hedges, amplifiers and emphatics. Downtoners (almost, barely, hardly) have a general lowering effect on the force of the verb. Biber (1988) notes that while downtoners can mark uncertainty towards a proposition they may also mark politeness or deference toward an addressee. Hedges (maybe, sort of, kind of ) are less specific markers of probability. Whereas downtoners give some indication of the level of uncertainty hedges simply mark a proposition as uncertain. Amplifiers (absolutely, completely, extremely) boost the effect of a verb and can be used to indicate certainty or conviction towards a proposition, as well as signal solidarity with the listener. The relation between emphatics (very, really, just, most, more) and amplifiers is similar to that between hedges and downtoners, in that emphatics simply mark the presence of certainty while amplifiers indicate the degree of certainty toward a proposition. Illustrations of the use of these markers in discourse analysis are presented in Appendix II-2. I draw on this literature in the following analysis to identify salient words and term sets and to examine the frequency that legislators use

them in context of public debate. The variables and related term sets used in this analysis are identified in Table II-13.

Table II-13. Linguistic Variables

Variable	Term Set
Necessity modals	[Must Ought Should]
Amplifiers	[Absolutely Altogether Completely Enormously Entirely  Extremely Fully Greatly Highly Perfectly Strongly  Thoroughly Totally Very]
Emphatics	[A lot Do For sure Just More Most Real Really So Such a]
Predictive modals	[Shall Will Would Won't]
Suasive verbs	[Agree Allow Arrange Ask Beg Command Concede Decide  Decree Demand Desire Determine Enjoin Ensure Entreat Grant  Insist Instruct Intend Move Ordain Order Pledge Pray Prefer  Pronounce Propose Recommend Request Require Resolve Rule  Stipulate Suggest Urge Vote]
Possibility modals	[Can Could May  Might]
Downtoners	[Almost Barely Hardly Merely Nearly Only Partially Partly  Practically Slightly Somewhat]
Hedges	[Almost At about Kind of Maybe More or less  Something like Sort of]

Source: Biber (1988)

All frequencies are first normalized to a text length of 1,000 sentences so that the frequency values for different speakers are comparable. Thus if necessity modals are spoken 220 times over 3,217 sentences, then the normalized frequency of occurrence would be 68 times per 1,000 sentences. The normalization process allows the frequencies of occurrence for each speaker to be directly comparable to one another. The normalized frequencies can then be standardized to a mean of zero and a standard deviation of one. Thus, if the normalized mean of necessity modals was 68 with a standard deviation of 65 and speaker A used this feature 17 times over 56 sentences, then they would have a standardized score of 3.62 [ $17/56 * 1000 = 3.62 * 65 + 68$ ] on this feature. The standard score of 3.62 indicates that speaker A used necessity modals very frequently in discourse

relative to other speakers at the hearings. The normalized frequencies and Z scores for the linguistic variables in the House and Senate samples are shown in tables II-14 and II-15.

Hypotheses 3a and 3b predict that there will be a positive association between PAC contributions and markers of persuasive speech among Republicans, and a negative association among Non-republicans. The results of independent T-tests on the House sample indicate that, on average, Non-republicans used persuasive markers more frequently in their speech than Republicans. Significant differences existed on all linguistic variables in the House sample with the exception of suasive verbs and predictive modals. The results among Senate committee members was the opposite. In the Senate sample, the only linguistic variable with a significantly different frequencies of usage between Republicans and Non-republicans was for suasive verbs. Non-republicans Senate committee members used significantly more suasive verbs than Republicans. These results may be due to differences in the controlling party, and/or to contextual differences between the House and Senate speech settings.

The results of the multivariate GLM model shown at the bottom of Table II-13 provide partial support for H3a indicating a positive and significant association between the usage of persuasive markers and PAC contributions among Republican committee members in the House. Consistent with previous results, there was no significant association among House Non-republicans. There were no also no significant associations detected in the Senate sample, therefore, hypothesis H3b is not supported.

Table II-14. Frequencies of Linguistic Variables – House Financial Services Committee

House Financial Services Committee Normalized Frequencies of Selected Linguistic Variables*									
Variable	N	Mean	Std. Dev.	Minimum	Maximum				
Necessity modals	70	23.70	50.55	0	303.57				
Amplifiers	70	17.73	38.53	0	250.00				
Emphatics	70	50.49	80.08	0	343.75				
Predictive modals	70	50.07	74.10	0	270.27				
Suasive verbs	70	15.67	29.04	0	135.14				
Possibility modals	70	59.11	89.72	0	371.79				
Downtoners	70	6.65	19.60	0	125.00				
Hedges	70	10.75	21.71	0	100.00				
*Normalized to text length of 1000 sentences									
Standardized Scores of Selected Linguistic Variables									
Z-Variables	N	Party	Mean	Std. Dev.	Std. Error	P-value			
Necessity modals	32	Non-republican	0.23	1.24	0.22	.096*			
	38	Republican	-0.19	0.70	0.11				
Amplifiers	32	Non-republican	0.28	1.34	0.24	.050*			
	38	Republican	-0.23	0.48	0.08				
Emphatics	32	Non-republican	0.33	1.61	0.21	.014*			
	38	Republican	-0.28	0.75	0.12				
Predictive modals	32	Non-republican	0.16	1.02	0.18	.210			
	38	Republican	-0.14	0.97	0.16				
Suasive verbs	32	Non-republican	-0.04	0.83	0.15	.760			
	38	Republican	0.03	1.13	0.18				
Possibility modals	32	Non-republican	0.26	1.07	0.19	.051*			
	38	Republican	-0.22	0.90	0.15				
Downtoners	32	Non-republican	0.27	1.38	0.24	.060*			
	38	Republican	-0.22	0.40	0.07				
Hedges	32	Non-republican	0.23	1.20	0.21	.083*			
	38	Republican	-0.20	0.76	0.12				
*Significant at .10 (Two tailed)									
House Financial Services Committee Multivariate General Linear Model Republicans Only $ZVAR_{i,j} = b_0 + b_1PAC1000_{i,j}$									
Variable	Expected sign	Nec.	Amp.	Emph	Pred	Sua	Poss	Down	Hedge
CONSTANT	+/-	-0.218	-0.520	-0.712	-0.570	-0.161	-0.702	-0.179	-0.501
	P-value	(.313)	(.000)	(.002)	(.052)	(.641)	(.009)	(.152)	(.031)
PAC1000	+	0.002	0.018*	0.027*	0.027*	0.012	0.030*	0.003	0.019
	P-value	(.888)	(.015)	(.020)	(.079)	(.505)	(.030)	(.665)	(.115)
	Adj. R2	-	.129	.118	.058	-	.099	-	.042
Wilks' Lambda significant for constant and PAC1000 at .05									

Table II-15. Frequencies of Linguistic Variables – Senate Committee on Banking, Housing and Urban Development

Senate Committee on Banking, Housing and Urban Development Normalized Frequencies of Selected Linguistic Variables*						
Variable	N	Mean	Std. Dev.	Minimum	Maximum	
Necessity modals	21	44.82	42.88	0	176.47	
Amplifiers	21	51.85	36.18	0	117.65	
Emphatics	21	95.62	61.82	0	193.33	
Predictive modals	21	102.02	50.96	0	184.47	
Suasive verbs	21	17.84	19.81	0	78.13	
Possibility modals	21	87.84	45.43	0	170.73	
Downtoners	21	8.89	10.40	0	40.00	
Hedges	21	15.97	13.66	0	38.46	
*Normalized to text length of 1000 sentences						
Standardized Scores of Selected Linguistic Variables						
Z-Variables	N	Party	Mean	Std. Dev.	Std. Error	P-value
Necessity modals	11	Non-republican	0.11	0.77	0.23	.621
	10	Republican	-0.12	1.23	0.39	
Amplifiers	11	Non-republican	0.11	0.93	0.28	.594
	10	Republican	-0.13	1.11	0.35	
Emphatics	11	Non-republican	0.24	0.89	0.27	.254
	10	Republican	-0.27	1.09	0.35	
Predictive modals	11	Non-republican	0.30	0.66	0.20	.175
	10	Republican	-0.33	1.23	0.39	
Suasive verbs	11	Non-republican	0.49	1.12	0.34	.013*
	10	Republican	-0.54	0.44	0.14	
Possibility modals	11	Non-republican	0.22	0.64	0.19	.310
	10	Republican	-0.24	1.29	0.41	
Downtoners	11	Non-republican	0.30	1.13	0.34	.152
	10	Republican	-0.33	0.76	0.24	
Hedges	11	Non-republican	0.28	1.07	0.32	.190
	10	Republican	-0.30	0.86	0.27	
*Significant at .10 (Two tailed)						

## **DISCUSSION AND CONCLUSION**

This study tested three sets of complimentary hypotheses regarding the association between PAC contributions given by the accounting profession and speech performance among members of congressional committees having jurisdiction over SOX. The hypotheses suggest that PAC contributions represent pay-for-performance contracts and that legislators reciprocated by altering their speech performance during public hearings related to SOX. Specifically, the hypotheses suggest that Republican committee members receiving PAC contributions reciprocated by increasing their rhetoric in support of the profession's agenda. In addition the hypotheses predicted that Non-republican members receiving PAC contributions from the profession reciprocated by remaining silent or decreasing the quantity or quality of their rhetoric against the profession's agenda. A significant association between PAC contributions and committee member's speech performance during public debate concerning policy formulation would be consistent with a theory of political influence exerted by the accounting profession.

The results among the House Financial Services Committee indicate positive and significant associations between PAC contributions paid by the accounting profession and Republican speech performance. The first indication is that the profession paid Republican speakers significantly more than non-speaking Republicans and all Non-

Republicans. In addition, the number of text units (sentences) spoken by House Republican committee members was also positive and significantly associated with PAC contributions paid by the profession. The frequency that House Republicans mentioned consulting and non-audit services was also positive and significantly associated with PAC contributions. Finally, there was a positive association between PAC contributions and markers of persuasive speech among House Republican committee members.

The implication of these findings is that House Republicans tend to reciprocate with their PAC contributors by engaging in debate during committee hearings, speaking more when they do engage in debate, discussing topics relevant to their contributors more frequently and using relatively more markers of persuasion in their speech. The results on House Non-republican committee members and members of the Senate committee do not support a theory of pay-for-performance contracting.

There are numerous limitation on the results of this study. First, the text samples analyzed were limited to the members of the House Financial Services Committee during three days of public hearings and ten days of hearing in the Senate Committee on Banking, Housing and Urban Development concerning SOX. Consequently, the results cannot be generalized to other committees, time-periods or topics. Second, the theory put forth in this study should be critically evaluated. Extant theory on the speech behavior of legislative committees is scant and needs further development. Finally, to the extent that this theory is incomplete or incorrect directly affects the specification of the empirical models used in this study and the validity of their results.

## APPENDIX II-1

An illustration of how some of these features are associated with persuasive argument is shown in the following modal analysis of ranking minority member Rep. John LaFalce's (D-NY) opening statement before the House Committee on Financial Services on March 13, 2002. This analysis is conducted with the aid of a concordance program. A concordance program identifies and retrieves all instances of a word or a string of words in a text along with the surrounding context. Concordancing for all instances of the necessity and possibility modals 'can' 'may' 'might' 'should' and 'must' in the text helps to construct the minority argument that the SEC budget should be tripled (see text lines T2, T6) since boards of directors were too passive (T3) in responding to earnings manipulation by management (T4-5). LaFalce also uses two necessity modals to demand meaningful oversight of the audit profession (T8) and to reform of the functioning of audit committees (T9).

- T1) We have to sort through them and try to come to some consensus. I hope we **can** do that.
- T2) Second, and this is something that I think we **can** now agree on, and I will finish up, I called for the 200 to 300 percent increase in the SEC budget.
- T3) Very often, unchecked by the board of directors for one reason or another, because of a policy passivity that **may** have existed at too many boards, because of the same stock options to a lesser extent to be sure that corporate officers, their chief desire is not a better product or a better service, but market capitalization, to drive capitalization.
- T4) The SEC, as you know, was tripling the number of mandated restatements, which was at least some indication that something **might** well be wrong.
- T5) And there was too much of an incentive it seemed to me within corporate America, particularly because of the compensation mechanisms that have evolved over the years, for earnings manipulation, for revenue recognition when it **should** not be recognized, for channel stuffing, cookie jar reserves, and so forth, and so forth.
- T6) Now nobody was paying attention in this committee when we were considering the SEC fee reduction bill, I said what we **should** be considering in the first instance is not a 2 or 3 percent increase in the SEC budget, but a 200 or 300 percent increase in the SEC budget, because of what is going on.
- T7) We **should** at least consider these particular proposals.



- T8) We **must** also provide for meaningful oversight of the audit profession.  
 T9) We **must** reform the functioning of audit committees and the boards of directors of public companies to ensure that independent directors are truly independent and that auditors are working for the shareholders, not for the management.

Using the same method, we can see the president and CEO of the AICPA, Barry Melancon, respond to Lafalce's attack on the profession cautioning against a rush to legislation (T1), and making the point that financial statements are created by the company (i.e. management's representations) (T2). The preferred solution (i.e. reforming the functioning of audit committees) is emphasized in T3-4 continuing Melancon's theme that management is responsible for financial statement disclosure. Curiously, the only instances of 'must' occur in reference to countries that tried and discarded mandatory auditor rotation (T6) (ostensibly because it was a bad idea), and in a vague demand to 'modernize business reporting' (T7).

- T1) But we all **should** be wary of proposals that **can** lead to unintended consequences.  
 T2) We **should** all recognize that the financial reporting process is a complex system of checks and balances that begins with the creation of the financial statement by the company.  
 T3) To enhance this first step in the process, the audit committee **should** also have the sole authority to approve the company's financial statements and require business disclosures in the annual report and other public documents.  
 T4) And the audit committee **should** be responsible for the hiring and firing of the company's auditor.  
 T5) Equally important, it **should** be composed of outside directors with auditing, accounting, or financial experience.  
 T6) Finally, I **must** mention that at one time Canada, Greece, Spain, and Italy all required mandatory audit firm rotation in one form or another. Three of those four countries subsequently dropped the requirement.  
 T7) Efforts to modernize business reporting **must** be accelerated.

As these examples show, concordancing for modals can be a very useful linguistic analysis tool for discourse analysis. An analysis of the frequency of use of amplifiers, emphatics, downtoners and hedges respect to specific topics by specific speakers can also provide an indication of the level of force associated with an argument. For example, the following passages selected from the Senate Committee on Banking, Housing and Urban

Affairs hearing on March 14, 2002 indicate the AICPA was very concerned with who would serve on any independent oversight board.

We believe that there should be **very** careful consideration as to how members of the public body would be nominated and in terms of their terms and the background of the people that would serve on such an important body. (Mr. Castellano, Chairman AICPA, 3/14/02).

I hope we would look to some of the improvements made in the corporate governance structure and apply some of those very same safeguards and checks and balances to a body such as this. I think it is **very** important, and Mr. Castellano's point about the nominating process is **extremely** important. (Ms. Kirtley, Former Chairman AICPA, 3/14/02).

Likewise Senator Gramm, demonstrating solidarity with the profession, hedges on the idea of non-accountants sitting on the board.

I guess my own views are that if you are going to have an ethics subpanel, that perhaps there is some logic to having **maybe** even a majority of people who are non-CPA's. (Senator Gramm, 3/14/02).

This qualified conciliation however, sets the stage for a counter-proposal that a supermajority should be required for the board to initiate any action.

When we are setting accounting standards, I have to admit that it frightens me to have nonaccountants in the majority in setting such standards. And when we are setting those standards, **maybe** we ought to require a super-majority of the panel, no matter how it is made up. (Senator Gramm, 3/14/02)

In this statement Sen. Gramm conflates accounting standards with ethical standards in order to warrant his claim that the ethics subpanel should contain a majority of accountants. The only obvious support for this claim is his fear of non-accountants.

It is also important to note that these markers can be used simultaneously with countervailing effects. For example, the witness in the passage below employs an amplifier (absolutely) in an attempt to agree with Chairman Sarbanes, but subordinates the clause (to the extent, then) to a possibility modal (may) blunting the message of solidarity.

**To the extent that** any of our consulting services **may** put us in the position of management, **then** I **absolutely** believe there is a conflict and I believe that is for listed or nonlisted companies. (Mr.

Balhoff, Chairman AICPA Public Company Practice Section, 3/14/02).

These examples indicate how modals, downtoners, hedges, amplifiers and emphatics can be used to regulate the force of claims made with respect to specific topics.

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## **Endnotes**

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<sup>1</sup> [www.crp.org](http://www.crp.org)

<sup>2</sup> This includes contributions from individuals (\$6,903,477), PACs (\$5,788,177) and soft money contributions (\$2,662,402)

<sup>3</sup> This includes all lobbying expenditures for calendar years 1999 and 2000.

<sup>4</sup> A bill is the most common form of congressional action. A bill originating in the House of Representatives is designated H.R. followed by a number that it retains throughout all of its parliamentary stages. Bills originating in the Senate are designated S followed by a number. The Speaker then refers the bill to the appropriate committee having jurisdiction over the area affected by the measure. Committee action is a very important phase of the legislative process since it is where the most intense consideration is given to a measure and when various people are given the opportunity to be heard. Usually, the first step of a committee is the process of holding a public hearing where committee members hear from witnesses representing various viewpoints on the measure. Transcripts of the testimony taken at the hearing are publicly available in the committee office. After the hearings are completed, the bill is considered in a 'mark-up' session. The 'mark-up' session is where committee members study the various viewpoints in

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detail and offer amendments for acceptance or rejection. This process can take place at either the sub-committee level or the full committee level. At the end of discussion the committee members vote on the action to be taken with respect to the bill. A bill can be ‘reported’ with or without amendment or ‘tabled’ with no further action taken. After a bill has been reported, the Committee writes a report describing the purpose and scope of the measure and why it recommends approval. The bill is then considered by the full House under a ‘rule’ that sets out the particulars of debate, such as the time allowed for discussion and whether or not amendments can be offered. After all debate is concluded and amendments agreed upon the House may then vote to ‘recommit’ the bill to committee or vote on final passage. Efforts to recommit a bill are usually made by opponents attempting to get the bill tabled. After a bill passes the House it goes to the Senate for consideration. A bill must pass both the House and the Senate before it can be presented to the President for signature into law. If the Senate changes the language of the bill, it must go back to the House for concurrence or additional changes. Often a conference committee with both House and Senate members is established to handle this ‘back and forth’ negotiation and to resolve differences. Conference committees also issue reports outlining the final version of the bill. Once a bill has passed in both the House and Senate it is considered ‘enrolled’ and sent to the President who can sign the measure into law, veto it and return it to Congress, let it become law without signature, or ‘pocket veto’ it at the end of the legislative session.

<sup>5</sup> Both the Flesch index and the Flesch-Kincaid index use a combination of sentence length and syllable count to measure the difficulty of a text. The Flesch test is expressed as  $206.935 - ((L \times 1.015) + (S \times 0.846))$  where L is mean sentence length and S is the number of syllables per 100 words. The lower the score the more difficult the passage. See Jones and Shoemaker (1994).

<sup>6</sup> DICTION text analysis software was developed by Dr. Roderick P. Hart and is available through Sage Publications at [www.scolari.com](http://www.scolari.com). Diction 5.0 uses dictionaries (word-lists) to search a text along five dimensions labeled: Certainty, Activity, Optimism, Commonality and Realism. Certainty refers to the level of resoluteness, inflexibility, and completeness in a text and the tendency to speak ex-cathedra. Activity refers to language featuring movement, change, the implementation of ideas and the avoidance of inertia. Optimism refers to language endorsing some person, group, concept or event or highlighting their positive entailments. Commonality refers to language highlighting the agreed-upon values of a group and rejecting idiosyncratic modes of engagement. Realism refers to language describing tangible, immediate, recognizable matters that affect people’s everyday lives.

<sup>7</sup> Word variables were constructed as the number of common occurrences for each keyword and composites divided by the total number of words in the narrative. Theme variables were constructed as the sum of frequencies of keyword combinations occurring in sentences divided by the total number of sentences in the statement.

<sup>8</sup> Passive constructions are created by having the subject acted upon rather than performing the action expressed by the verb. For example, “The boy hit the ball.” Is constructed using the active voice whereas, “The ball was hit (by the boy).” is constructed using the passive voice. In agentless passive constructions, the agent, (the boy), is omitted and inferred by the reader in context. Agentless passive constructions are associated with lower transitivity. See Footnote 9 for a more complete description of transitivity.

<sup>9</sup> Full transcripts of committee hearings including witness lists, prepared statements and additional material supplied for the record are available from through the government printing office access website at <http://www.gpoaccess.gov>

<sup>10</sup> See “Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, 107<sup>th</sup> Congress, Second Session, Volume I on the Legislative History of the Sarbanes Oxley Act of 2002: Accounting Reform and Investor Protection issues raised by Enron and other public companies” available at the U.S. Government Printing Office via GPO access DocID: f:87708v1.wais

<sup>11</sup> Committee members were dichotomized into those with U.S. Chamber of Commerce ratings above 50% and those with ratings below 50%. Committee members with USCC ratings above 50% are considered pro-business while those with ratings lower than 50% are considered pro-social.

<sup>12</sup> The ten components described by Hopper and Thompson (1980) in explaining the notion of transitivity include: “A) Participants - No transfer can take place unless at least two participants are involved. B) Kinesis – Actions can be transferred from one participant to another; states cannot. Thus something happens to Sally in *I hugged Sally*, but not in *I like Sally*. C) Aspect – An action viewed from its endpoint,

i.e. a telic action, is more effectively transferred to a patient than one not provided with such an endpoint. In the telic sentence *I ate it up*, the activity is viewed as completed, and the transferal is carried out in its entirety; but in the atelic *I am eating it*, the transferal is only partially carried out. D) Punctuality – Actions carried out with no obvious transitional phase between inception and completion have a more marked effect on their patients than actions that are inherently on-going. Contrast *Kick* (punctual) with *Carry* (non-punctual). E) Volitionality - The effect on the patient is typically more apparent when the A is presented as acting purposefully; Contrast *I wrote your name* (volitional) with *I forgot your name* (non-volitional). F) Affirmation – this is the affirmative/negative parameter. G) Mode – This refers to the distinction between ‘realis’ and ‘irrealis’ encoding of events. An action which either did not occur, or which is presented as occurring in a non-real (contingent) world, is obviously less effective than one whose occurrence is actually asserted as corresponding directly with a real event. H) Agency – It is obvious that participants high in Agency can affect a transfer of an action in a way that those low in Agency cannot. Thus, the normal interpretation of *George startled me* is that of a perceptible event with perceptible consequences; but that of *The picture startled me* could be completely a matter of an internal state...I) Affectedness of O – the degree to which an action is transferred to a patient...it is done more effectively in *I drank up the milk* than in *I drank some of the milk*...J) Individuation –refers to the distinctness of the patient from the A, and to its distinctness from its own background” (pp. 252). Referents of nouns with the following properties are more individuated/non individuated: 1) proper vs. common, 2) human, animate vs. inanimate, 3) concrete vs. abstract, 4) singular vs. plural, 5) count vs. mass, 6) referential, definite vs. non-referential. (Timberlake, 1975).

<sup>13</sup> The term patient refers to the receiver of an action in a cardinal transitive relationship. ‘A’ (for agent) and ‘O’ (for object) refer to the two participants in a two-participant clause. See Dixon (1979).

<sup>14</sup> In Diction analysis, the master variable for certainty is composed of the sum of variables representing tenacity, leveling, collectives and insistence, less the sum of variables representing numerical terms, ambivalence, self-reference and variety (Hart, 2004). “Additive variables: *Tenacity*: All uses of the verb “to be” (*is, am, will, shall*), three definitive verb forms (*has, must, do*) and their variants, as well as all associated contractions (*he’ll, they’ve, ain’t*). These verbs connote confidence and totality. *Leveling*: Words used to ignore individual differences and build a sense of completeness and assurance. Included are totalizing terms (*everybody, anyone, each, fully*), adverbs of permanence (*always, completely, inevitably, consistently*), and resolute adjectives (*unconditional, consummate, absolute, open-and-shut*). *Collectives*: Singular nouns connoting plurality that function to decrease specificity. These words reflect a dependence on categorical modes of thought. Included are social groupings (*crowd, choir, team, humanity*), task groups (*army, congress, legislature, staff*), and geographical entities (*county, world, kingdom, republic*). *Insistence*: This is a measure of code restriction and semantic “contentedness.” The assumption is that repetition of key terms indicates a preference for a limited, ordered world. In calculating this measure, all words occurring three or more times that function as nouns or noun-derived adjectives are identified and the following calculation performed: (number of eligible words ÷ sum of their occurrences) Subtractive variables: *Numerical terms*: Any sum, date, or product specifying the facts in a given case. This dictionary treats each isolated integer as a single “word” and each separate group of integers as a single word. In addition, the dictionary contains common numbers in lexical format (*one, tenfold, hundred, zero*) as well as terms indicating numerical operations (*subtract, divide, multiply, percentage*) and quantitative topics (*digitize, tally, mathematics*). The presumption is that Numerical Terms hyper-specify a claim, thus detracting from its universality. *Ambivalence*: Words expressing hesitation or uncertainty, implying a speaker’s inability or unwillingness to commit to the verbalization being made. Included are hedges (*allegedly, perhaps, might*), and statements of inexactness (*almost, approximate, vague, somewhere*) and confusion (*baffled, puzzling, hesitate*). Also included are words of restrained possibility (*could, would, he’d*) and mystery (*dilemma, guess, suppose, seems*). *Self-reference*: All first-person references, including *I, I’d, I’ll, I’m, I’ve, me, mine, my, and myself*. Self-references are treated as acts of “indexing” whereby the locus of action appears to reside in the speaker and not in the world at large (thereby implicitly acknowledging the speaker’s limited vision). *Variety*: This measure conforms to Wendell Johnson’s (1946) type-token ratio, which divides the number of different words in a passage by the passage’s total words. A high score indicates a speaker’s avoidance of overstatement and a preference for precise, molecular statements.” (Hart 2004, p519-520)



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<sup>15</sup> Pragmatics has been defined as ‘meaning in context’ (Partington, 2003).

<sup>16</sup> There appears to be some confusion regarding the term ‘discourse’. Partington (2003) has used it to include “any stretch of language in its authentic context” (p.262), while others (Kennedy, 1998) use it to refer only to language in its spoken form.

<sup>17</sup> Although speech refers to strictly to the expression of thoughts or exchange of ideas using spoken words, I will use the term speech and speaker interchangeably with message and addressor.

<sup>18</sup> The written genres included press reportage, editorials, press reviews, religion, skills and hobbies, popular lore, biographies, official documents, academic prose, general fiction, mystery fiction, science fiction, adventure fiction, romantic fiction, humor, and personal and professional letters. The spoken genres included face-to-face conversation, telephone conversation, public conversations, debates and interviews, broadcast, spontaneous speeches and planned speeches.

<sup>19</sup> The two corpora used in Biber (1988) included the Lancaster-Oslo-Bergen (LOB) Corpus of British English and the London-Lund Corpus of Spoken English. Biber (1988) also added a collection of personal and professional letters since the standard corpora do not include non-published written texts.

<sup>20</sup> Biber (1988) used the list of suasive verbs found in Quirk, Randolph; Greenbaum, Sidney; Leech, Geoffrey; and Svartvik, Jan (1985) *A Comprehensive Grammar of The English Language*, Longman. London. Another source for these words is “English verb classes and alternations: A preliminary investigation.” by Beth Levin. University of Chicago Press. Chicago.

### **III) STUDY THREE: ACCOUNTING FOR THE PUBLIC INTEREST**

#### **INTRODUCTION**

According to the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, members should “act in a way that will serve the public interest” defined as “the collective well-being of the community of people and institutions the profession serves”. Specifically, the code defines the accounting profession’s public as “clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce<sup>1</sup>”. In this paper I suggest that by failing to explicitly identify with specific interests and by including anyone who relies on the orderly functioning of commerce within its public, the profession has tacitly promised to act as the ultimate social mediator. This is a role it cannot possibly fulfill given the inevitable and often intractable conflicts among interests and the bounded nature of human intellect and ability. As a consequence, the image of the accounting profession has suffered.

One of the hallmarks of a profession is its stated responsibility to serve the public interest (Kultgen 1988). The public interest model of the professions depicts this commitment as one that obligates professionals to place the goal of service to society ahead of self-interest considerations. According to this model, a fiduciary responsibility is imposed on professionals to act competently and altruistically on behalf of the public because their services are both indispensable and difficult for laypersons to evaluate. This goal of selfless service is further portrayed as an appropriate offering by a professional group in exchange for the monopoly of service and self-regulation that the state grants to licensed professions. Without this commitment to the public good, providers of expert services could use their informational and market advantages to extract monopoly rents from users of their services.

Conflict models of the professions, on the other hand, question the face value of public interest commitments offered by professions (Kultgen 1988; Roberts and Dwyer 1998). Although declarations of this public interest commitment are proclaimed in codes of ethics and policy statements of professions, conflict models argue that powerful private interests are driving the rhetoric used in communications to regulators, legislators and the public (Canning and O'Dwyer 2003; Roberts and Dwyer 1998; Willmott 1986). According to this view, the professional ideals of altruism, meritocracy and collegiality are not portrayed as truly representing reality. Conflict models depict professional institutions as seeking to perpetuate a mystique surrounding their work product in order to hinder critical evaluation of their services and insulate their members from outside interference. This mystification and insulation enables professions to claim expert status

and the right to self-regulation, thus maintaining a position of dominance whereby they can exploit the very public they claim to serve.

The purpose of this paper is to examine the nature of the public interest ideal as promulgated by the public accounting profession in the United States (hereinafter the Profession) and explore what motivates the profession to invoke public interest arguments in various contexts. In so doing, I also explore the elasticity and ambivalence of the term public interest while arguing that it is in and of itself part of the mystification process used by the profession to maintain its self-regulatory status.

I approach my analysis from three different perspectives. The first perspective analyzes the public interest language of the profession as well-intentioned rhetoric. I define rhetoric in the traditional Aristotelian sense, i.e. as persuasive appeals based on logic, emotion and/or authority while assuming a functionalist perspective consistent with the public interest model of the professions. I illustrate how the profession uses the rhetoric of the public interest as a measure of proper comportment for its members, to reassure regulators and the investing public of the benevolent motivations of the profession, and to maintain the stability of global capital markets.

The second approach adopts a critical perspective. This view eschews any altruistic motivations on behalf of the profession and casts the language of the public interest as propaganda intended to support the economic objectives of professional elites in a highly concentrated monopolistic industry and those of their corporate clients. Using examples,

I illustrate the instrumental use of the public interest ideal by the accounting profession to defend its self-regulatory status in times of crisis, as justification to extend its jurisdictional claims and to minimize its exposure to liability from audit failures.

The final perspective focuses on the ambivalence of language and attempts to reveal how the true nature of the public interest is 'undecidable'. This perspective deconstructs the public interest ideal as myth, embodying a constellation of elements including cultural values, political doctrine and contingent interests. I use the term myth as both allegory and parable. Myths are similar to allegory in the sense that they exist as symbolic representations for meanings other than those indicated on the surface. They are also similar to parables, being fictitious stories illustrating historically embedded moral attitudes. I rely on myths as the symbolic representations of an ideal reality to describe the simultaneous and contradictory attitudes present in the public interest ideal and the inherent instability between what is written and what is read, or what is spoken and what is heard. A deconstructive reading of the public interest ideal reveals how its central meaning is always on the move, uniquely reified by readers in context and how any fixed meaning cannot be sustained. I believe that this paper advances prior critical work because I focus on the instrumental use of the public interest ideal as a rhetorical strategy while acknowledging and addressing the differences in meaning attached to the use of this ideal both by members of the profession as well as external groups.

## **THE PUBLIC INTEREST AS RHETORIC**

“By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.” Adam Smith – *Wealth of Nations*, Chapter 2

Rhetoric has been defined as the management of symbols in order to coordinate social action (Cooper, 1989). This definition implies that a message has been constructed to achieve a purposive result. It follows then that a rhetorical analysis requires an examination of the symbols used with the principal objective of uncovering the message and original intent of the message maker. According to Aristotle (Trans. 1954), rhetoric, or persuasive appeals, can be logical (logos), emotional (pathos), and/or ethical (ethos). Logical arguments appeal to the reasoning and intellect of an audience while emotional arguments are usually characterized by vivid and emotionally loaded language. Logical arguments seek a cognitive and rational response from the audience while emotional arguments seek to reshape the state of mind of the audience in order to obtain the most productive reception of a message. Ethos, on the other hand refers to the character or qualifications of the speaker. Appeals based on ethos generally attempt to persuade an audience by projecting the author's authority, reliability and competence.

From an ethos perspective there is a long established authoritative basis for linking the concept of financial reporting with the public interest. The Securities Act of 1934 invokes the ‘public interest’ no less than 14 times in section 13 alone concerning the

production of periodic reports. Section 2 concerning the necessity for such regulation firmly states that "...transactions in securities [ ] are affected with a national public interest which makes it necessary to provide for regulation and control of such transactions and practices..." Since that time, professional and political discourse concerning accounting has promulgated and reified the term 'public interest' into a condensation symbol representing the standard of goodness by which all political and professional acts can be measured (Sarat, 2002). As such, it also represents an emotional appeal, condensing into a single term all socially held beliefs regarding how governments and professions should act, especially given their appropriation of self-regulatory power. Authoritative and emotional appeals to "serve the public interest" motivate auditors to act independently and also notify the investing public of the benevolent purpose and intention of the profession. Actions seen 'in the public interest' are perceived of as 'good' and therefore deserving of approval, so it is not surprising that the accounting profession has appropriated and cloaked itself in the rhetoric of the 'public interest', applying the term liberally in its public communications.

These public interest claims can also be argued on the basis of logic. Logical appeals are normally conveyed as deductive syllogisms or enthymemes. A syllogism consists of at least three parts: a major premise, a minor premise and a conclusion. They are usually deductive in the sense that they move from general ideas to increasingly more specific conclusions. The major premise is usually a universal observation that an audience can generally accept as true. The minor premise then recasts one object from the major premise and narrows the subject of the argument. Finally, a conclusion is drawn

regarding the subject by showing it to be a subset of the universal premise. For example, most Americans would accept the premise that economic activity is good for society as a whole. Consequently, a speaker who successfully argues that capital markets aid in economic growth can logically claim that capital markets are good for society. Likewise, to the extent that a speaker can convince the audience that auditors are necessary for the proper functioning of capital markets, they should also be successful in claiming that auditors themselves are good for society. As long as the foundational premises are true, then valid conclusions can logically follow.

Enthymemes, on the other hand, are simply syllogisms with omitted premises. For example, a speaker can simply state that ‘auditors serve the public interest’ based on the commonly held warrants that: 1) everything good for society is in the public interest, 2) proper functioning capital markets are good for society, and 3) competent and independent auditors are necessary for the proper functioning of capital markets. Each of the supporting sub-claims represent claims in their own right. Each is warranted by their own data, beliefs or authority and so on, in an ever-extending logical chain of reasoning. For example, the claim that auditors serve the public interest might also be supported by the arguments that 1) Professional auditors assist capital markets by ensuring the production of unbiased and accurate information to be used by managers, investors and creditors in making rational economic decisions regarding the allocation of capital and resources; 2) Proper functioning capital markets decrease transaction costs and therefore the cost of capital to marginal investment increasing aggregate economic output and utility by expanding the production possibility frontier providing more goods to a given



population, and 3) Given the result that efficient markets ensure optimal allocation of resources and maximum aggregate utility, auditors are fulfilling a critical role necessary for a successful society. Such a rational and coherent argument is difficult to refute, especially when respected experts have quantified it and supported it with empirical evidence gathered under rigorous scientific conditions.

The public interest ideal of the accounting profession can also be diagrammed using Toulmin's (1969) model of argument. The basic model consists of three principal components and three sub-components. The three main components of the model consist of a claim, or assertion that an advocate wants the audience to accept followed by data provided in support of the claim and warrants, or the assumptions necessary to bridge between the data and the claim. The three sub-components consist of qualifiers that indicate the strength of the claim being made, backing, or additional data presented to bolster the warrants, and a rebuttal, or statement specifying when the claim would not follow from the data presented. Thus, the argument that auditors serve the public interest might be diagrammed as shown in figure 1.

Figure III-1: Model of the public interest argument

<u>Data</u>	<u>Qualifier(s)</u>	<u>Sub-claim</u>	<u>Qualifier(s)</u>	<u>Claim</u>
Investors and creditors require financial information	Probably	Auditors are necessary to attest financial information	Usually	Auditors serve the public interest
	<u><b>Warrant</b></u> Agency theory Managers will manipulate earnings and seek company funded perquisites	<u><b>Rebuttal</b></u> Unless agency theory is wrong	<u><b>Warrant</b></u> Economic theory Efficient capital markets increase investment and productivity	<u><b>Rebuttal</b></u> Unless auditors are incompetent or biased, or economic theory is wrong
	<u><b>Backing</b></u> Empirical evidence		<u><b>Backing</b></u> Empirical evidence	

The data originates in the demand for accurate and timely financial information by external investors and creditors. This data leads to the claim that auditors are necessary to attest to the accuracy of financial information based upon the warrants expressed in agency theory. Namely, that self-interested managers will utilize their asymmetric supply of financial information and access to company assets to extract company funded perquisites. The rebuttal acts as a counter warrant, specifying at least one condition under which the claim is not supported. Thus, if agency theory is wrong and managers usually provide accurate and objective financial information of their performance, then auditors are usually not needed. The qualifier acts as a modifier of the strength of the argument or likelihood that the claim follows the data. In this case, I am not suggesting that all managers try to mislead external users of financial information, but that some will, and auditors are still probably necessary to reduce uncertainty among creditors and

absentee owners. The sub-claim that auditors are necessary to attest financial information becomes that data leading to the claim that auditors serve the public interest. This claim is warranted by economic theory and backed by empirical data showing that efficient markets increase economic growth and production. Economic growth and production reduces scarcity while increasing aggregate utility among society as a whole. In accordance with economic theory, increases in aggregate utility are beneficial to society and hence, in the public interest. This claim should always follow unless economic theory is wrong, or if auditors do not provide accurate information.

To the extent that accurate and objective information is a function of audit quality, we can claim that high quality audits operate in the public interest. DeAngelo (1981) defines audit quality as the conditional probability that an auditor will both discover a breach in a client's accounting system and report it. The ability of an auditor to discover a breach in a client's financial reporting system is based upon the expertise of the auditor. Expertise consists of a combination of academic education, client specific knowledge and sufficient general professional experience for the auditor to develop the knowledge structures necessary to perform an audit. In order to counter the potential rebuttal that auditors are not competent, the profession requires rigorous examination of new entrants, usually with associated experience requirement, the endorsement of an experienced professional, and continuing education requirements to maintain their level of expertise. However, the ability of an auditor to detect a breach in a client's financial reporting system does not guarantee that the auditor will report the breach. The auditor must also correct or report any breaches discovered. Thus, auditor expertise is a necessary, but not sufficient

condition to audits serving the public interest. The conditional probability of an auditor reporting a breach that they have detected is a measure of auditor independence (DeAngelo, 1981). This definition may, in fact, be too simplistic since the efficient functioning of capital markets requires not only the production of accurate and timely information, but also the perception among investors and creditors that the information is objective or unbiased.

The potential rebuttal that auditors lack independence is probably the most significant threat to the accounting profession's ability to maintain its self-regulating monopoly status. This threat arises from the current market-like structure of the profession whereby auditors are paid by clients to attest their financial information. Arguably, the direct economic linkage between auditors and their clients provides an incentive to auditors to withhold reporting any breaches discovered in a client's reporting system in order to protect their streams of income from audit fees. In response to this potential rebuttal, the profession has developed several arguments that support an auditor's ability to maintain independence despite being directly paid by the client. These mitigating factors include auditor's fear of massive liability from securities litigation and their self-interested motivation to protect other preexisting and future audit fees through maintenance of their reputational capital (Becker, Defond & Jiambalvo, 1998; Pitt, 1997; DeAngelo, 1981).

The reputational capital argument asserts that firms with multiple income streams from audit services will vigorously protect their economic interests by not allowing clients to manage earnings or engage in otherwise aggressive accounting that might damage the

audit firm's reputation for independence and objectivity. This argument is warranted by the belief that in free markets, clients will only hire auditors with a reputation for high quality audits. To the extent that investors and creditors perceive an auditor to lack independence reduces the ex-ante value of the audit to the client and the associated price at which they are willing to pay. Former SEC Chairman Harvey Pitt (1997) argued "the overwhelming economic interest of accounting firms in their reputational capital provides a powerful incentive to safeguard independence." DeAngelo (1981) argued that the client specific quasi-rents auditors earn act as a collateral bond against opportunistic behavior and increases audit quality, especially for larger firms who have more at stake than smaller firms. This claim was empirically supported by Becker, Defond & Jambalvo (1998) who found that clients of smaller (non-Big6) auditors report more income increasing discretionary accruals than large auditors. It was also argued that the threat of massive liability from securities litigation should serve as a key deterrent to improper behavior, ensuring auditor independence and high audit quality (Pitt, 1997). This argument was backed by empirical results suggesting that auditors with lower (higher) levels of litigation activity represent higher (lower) quality audit suppliers, and that smaller (non-big8) audit firms have higher levels of litigation (Palmrose, 1988).

However, these arguments have been seriously challenged in recent years. For example, the collapse of Enron erased about \$66.5 billion in market capitalization over a matter of months, wiping out the life savings of thousands of Enron employees and severely damaging the portfolios of millions of other investors. Compounding this tragedy was evidence that both Enron and Andersen upper management made millions of dollars in

the process and then attempted to conceal or destroy evidence related to the collapse by shredding thousands of documents and refusing to testify under oath. These events attacked the core foundational premises underlying any logical claims that the U.S. accounting profession (at the very least, Arthur Andersen) was serving the public interest. Law enforcement and regulatory institutions were quick to reinforce the argument by convicting Arthur Andersen, LLC of obstruction of justice and stripping it of its license to audit public companies. David Duncan, the Andersen partner in charge of the Enron audit, was also criminally charged and subjected to public humiliation in nationally televised congressional hearings. The formality of the congressional setting, the angry questioning and the emotional angst on the faces of the accused, all served as persuasive rhetoric to reassure a wounded investing public that the regulatory system was properly functioning in the public interest, and as a warning to other audit firms that such opportunistic behavior would be swiftly and severely punished.

Market failures, such as Enron, illustrate the fact that auditors may not always serve the public interest and that capital markets may not always be good for society. The question remains, however, as to whether the public interest rhetoric of the profession represents an achievable ideal communicated in good faith, or a cloak for the exploitation of investors by large corporate interests and their accounting accomplices. The following section explores this alternative perspective and evaluates evidence suggesting that the public interest rhetoric may be instrumentally employed to protect the economic interests of a professional cartel and their corporate sponsors to the detriment of society as a whole.

## **THE PUBLIC INTEREST AS PROPAGANDA**

“I have never known much good done by those who affected to trade for the public good.” Adam Smith - Wealth of Nations, Chapter 2

Collison (2003) argues that large corporate interests have coordinated an extensive campaign of propaganda over many years to maintain a climate wherein corporate self-interest has become an end in itself, often at the expense of larger social interests. Essentially, this view suggests that there has been an ongoing campaign through the media to convince the public that laissez faire capitalism, the notion of market efficiency and the adequacy of accounting measures as symbols of business success promote the public interest despite evidence to the contrary. This perspective represents a challenge to the claim that auditors serve the public interest, and the purpose of this section is to outline the rebuttal argument. First, I suggest that the overwhelming extent to which the profession has cloaked itself in the public interest has created a climate of “taken for grantedness”, wherein the concept of the ‘public interest’ has been institutionally embedded into the language of both the profession and the investing public, perpetuating a façade that shields the self interested core of large corporations from scrutiny. Agents of the government and the profession, both witting and unwitting, perpetuate this rhetoric in mimetic fashion continuously solidifying the association between the profession and the public interest until its use becomes almost invisible and obscured from critical evaluation. I also suggest that the public interest rhetoric used by the accounting

profession narrowly defines the term public interest while the public at large tend to interpret the phrase in a more socially inclusive sense and argue that the accounting profession instrumentally exploits this perceptual difference in meaning to convey a sense of goodness regarding its activities to the public at large in order to advance its own private interests and the private interests of its corporate and state sponsors.

The term ‘public interest’ as commonly employed in public discourse, usually refers to the well being of a community of people. As such, it constitutes what is referred to as a glittering and virtuous generality linked to the highly valued ideals of self-sacrifice and benevolence (DOA, 1979). However, the term also has significant potential for alternative meanings. All too frequently, the audience interprets the meaning of the ‘public interest’ to be something that is good for them privately as well, even when the speaker is referring to a localized public with very specific interests. This is, according to relevance theory (Sperber & Wilson, 1995), because people cognitively attempt to maximize the relevance of a communication according to the belief that it will be meaningful, or relate to them personally. Each member of an audience subjectively defines elastic terms such as the ‘public interest’ in context according to his/her own personal lived experiences and normative values. This participation by the audience in the construction of an argument helps make the ‘public interest’ a powerful rhetorical tool that speakers can exploit for instrumental or strategic purposes.

I characterize the U.S. profession’s employment of public interest arguments as propaganda because the rhetoric cannot be easily reconciled with observable behavior.



Rather, the evidence suggests that the profession employs this rhetoric instrumentally in an attempt to deflect criticism during times of crisis. Propaganda is defined as the intentional spreading of ideas, facts, allegations, rumors or symbols in order to help or injure an institution, cause or individual (M-W, 2004). Linebarger (1948, 1972) classifies propaganda as white, grey or black. White propaganda originates from clearly identifiable sources while the source of grey propaganda is not clearly identified, and black propaganda attempts to intentionally mislead the audience into thinking the source is other than the originator. Another form of propaganda, or more accurately, negative propaganda, is censorship. Censorship is the practice of suppressing or deleting anything objectionable in a message. The deletions may be obvious or obscured, and occur either at the source of the message or during transmission to the audience. Enthymemes such as “We serve the public interest” incorporate a form of censorship by omitting the underlying warrants or sub-claims. As propaganda, enthymemes are better known as slogans, and they can be very effective in moving an audience, even when the underlying warrants are refutable. Thus, claims such as “the accounting profession serves the public interest” can be seen as a form of self-evident propaganda, as slogans that are simultaneously virtuous and deliberately vague. The intention is to move the audience through emotion while appealing to the authority of the profession, interrupting any attempt by the audience to determine whether its application is logical or valid.

### ***Protecting Reputational Capital***

Consider for example, statements made by Barry Melancon, president of the AICPA,

while appearing on national television immediately following the congressional hearing on Andersen's role in Enron collapse, where Duncan "pleaded the 5th" and refused to answer questions on whether Andersen engaged in wide spread document shredding to hide their involvement. In response to the pointed question of whether the accounting profession could be trusted, Melancon replied with a classic form of rhetorical parallelism known as the tri-colon. "Well, certainly the accounting profession can be trusted. This profession has over 100 years of credibility, over 100 years of meeting the public interest and, in fact, has been a critical component of the success and transparencies of the best capital markets in world here in America<sup>2</sup> ." Note that the first two phrases set up the expectation that there will be a third. The slight change in the third phrase renders it more emphatic and highlights the emotional appeal to American patriotism. The fact that American capital markets had been suffering a series of massive audit failures over several years wiping out billions of dollars in market capitalization was left unstated, leaving the audience to fill in the gap with culturally ingrained warrants concerning the benefits of free markets and the value of audits.

The unwanted publicity and public scrutiny that followed these crises motivated the accounting profession to launch extensive campaigns of so-called advertorials to bolster its image and protect its reputational capital. However, reconciling the rhetoric of these advertorials with the profession's behavior is again, somewhat problematic. For example, in December 2002, KPMG launched an ad campaign in the Wall Street Journal under the title "Regaining Investors' Trust: A Resolution We Plan to Keep" promising to take the lead in "restoring professional credibility to the accounting profession."

Coincidentally, KPMG had just been slapped with a lawsuit by the Missouri Department of Insurance for advising General Life Insurance Co. to develop and sell so called ‘Stable Value’ funding arrangements that forced its parent, General American Holding Company into receivership. “Among the allegations, the lawsuit claims KPMG concealed information, failed to disclose the insurance company's several-billion-dollar liability exposure and failed to exercise due care in performing audits. The suit also says KPMG tried to cover up its actions during the state's investigation of the company's liquidity crisis<sup>3</sup>.” The apparent inconsistency between the rhetoric of the advertorial, the context in which it was offered and the alleged behavior leads us to classify this campaign as propaganda. In a similar manner, PriceWaterhouseCoopers placed full-page ads in January of 2003, under the banner “Stand and be Counted” while simultaneously under fire for using aggressive accounting to overstate earnings by \$382 million over three years at Tyco International. In these ads, PWC proclaimed they would “ask the tough questions and tackle the tough issues<sup>4</sup>” and promised to resign from any audit where they had concerns of about the quality of information they were receiving from management. As propaganda, the “Stand And Be Counted” campaign attempts to conflate the practice of auditing with broader public interest groups through a process of association. The slogan, “Stand And Be Counted” is used by a variety of other public interest groups supporting everything from freedom of speech<sup>5</sup> to the environment and human rights<sup>6</sup>. The goal of the campaign appears to be self-serving by transferring the positive qualities of broader societal concerns to the accounting profession during a time of crisis.

As previously noted, the reputational capital argument is based on the assumption that the

market will punish audit firms for helping CEOs and CFOs manage earnings and extract perquisites. However, the empirical evidence indicates that the relationship between auditor reputation, audit quality and marketability may in fact, be inverted. A pattern of hire, fraud, fire and re-hire among the large accounting firms and their corporate clients casts doubt on the credibility of this argument. For example, in October 2001, Xerox fired its auditor KPMG, who had helped them overstate earnings by \$2 billion over three years, replacing them with PriceWaterhouseCoopers (PWC). In October 2003, Sprint hired KPMG after firing Ernst & Young for selling questionable tax shelters to its CEO and CFO. In June 2002, following a \$2.5 billion fraud, Adelphia fired Deloitte and Touche and hired PWC, yet in January 2004, after allowing a \$382 million overstatement of earnings, Tyco fired PWC and hired Deloitte and Touche who, incidentally, had just been fired by Parmalat after a \$5 billion dollar fraud was uncovered there. Not surprisingly, Parmalat replaced Deloitte and Touche with PWC. The examples seem endless, leading one to the conclusion that once a firm demonstrates a willingness and ability to help executives manage earnings and/or construct complicated tax shelters, their services are in even greater demand by others.

### ***Extending Jurisdictional Claims***

Another area where the profession has invoked the public interest argument for self-serving purposes is with respect to extending its traditional claims beyond the audit function. Here the argument is that the provision of consulting services aids the audit function by improving client knowledge and broadening the revenue base of audit firms

making them less reliant on a single client. Pitt (1997) claimed there was no empirical evidence that non-audit services harmed audit quality, and that “regulatory concern over non-audit services is, at best, unfounded. At worst, it is contrary to the public interest<sup>7</sup>.” The reasoning Pitt offered was that, “Non-audit services increase the firm’s investment in reputational capital, contribute importantly to the quality of audit services and provide other benefits to clients and the public<sup>8</sup>.” William Balhoff, Chairman of the AICPA Public Companies Practice Section, subsequently stated in congressional testimony related to the Sarbanes-Oxley Act that, “to the extent that consulting services provide information to management, we are working in the public interest. We are helping those companies, whether they are listed or nonlisted companies, to better run their companies. I think that is a public interest <sup>9</sup>.” This statement appears to draw on the 1950’s slogan, “What’s good for the country is good for General Motors and vice versa.<sup>10</sup>” The intention is to argue that despite the massive audit failure at Enron, auditors should be allowed to provide consulting services to their clients.

### ***Federal Policy Formation***

Perhaps the most influential arena in which the profession has waged its war of propaganda is in Congress. Beginning in the early 1990s, the strategy of the AICPA and the Big 5 firms changed from one of dealing with regulators to one of directly influencing legislators who were in positions to affect the content of legislation of interest to the profession. During this time, the profession joined in the political action committee (PAC) game to directly lobby and support specific congressional candidates. However,

the profession's willingness to assume the role of unbiased and objective guide on diverse public issues raises questions regarding the extent and execution of their self-proclaimed public interest responsibilities. When debating rules and regulations before standard setting bodies, the profession argues that exposure to litigation liability serves the public interest by providing a deterrent to anti-social behavior while simultaneously engaging in a campaign to reduce auditor liability through lobbying efforts and direct campaign contributions to legislators. The U.S. profession's involvement in federal policymaking and contracting has become so intense that the AICPA and the Big four firms are now major financial contributors to congressional election campaigns and high-profile lobbyists (Roberts, Dwyer and Sweeney, 2003; Dwyer and Roberts, 2004).

One of the first concerted efforts to influence federal legislation having a direct economic impact on audit firms was the battle over the Private Securities Litigation Reform Act of 1995 (Avery, 1996). Roberts, et al. (2003) document the extensive use of PAC contributions and lobbying activities that the profession engaged in to secure passage of this legislation despite opposition by the attorney's bar, consumer groups and state securities regulators. This act contained at least two provisions of extreme interest to the accounting profession. The first was the 'fair-share' proportionate liability rule that helped shield audit firms from the potentially massive liability resulting from large audit failures. The second provision provided caps on the actual amount of damages that audit firms would be required to pay investors. Both of these legal provisions appear to undermine the strength of the litigation liability argument supporting auditor independence.

Another example of the profession's involvement with federal policy making was documented by Roberts and Bobek (2004) in the debate over the Taxpayer Relief Act of 1997. Their findings illustrate the inherently political process of tax legislation and the differential economic effects these policies have both within and across industries. The AICPA announced its role in creating this piece of legislation by "submitting written and oral testimony to both houses of Congress and supporting particular provisions of both bills with visits to Capital Hill members and staff." (Padwe, 1998; pp. 122). Some critics called this legislation a political fraud stating, "The tax bill may be good for some clients and at least do no harm to the nation. But the real winners are accountants themselves." (Telberg, 1997).

While the leaders of the CPA profession continue to claim that these activities are part of the public accounting profession's commitment to meet its public interest duty, I submit that there is a fundamental difference between providing advice to clients regarding their tax situation or financial reporting and providing advice to federal legislators regarding the effects of tax and securities litigation legislation. The former falls within the profession's view of client advocacy, while the latter contains far-reaching consequences regarding the distribution of economic burdens among various publics to which the profession claims to be dedicated to serve. I also believe the profession's willingness to use its public interest obligation as a justification to support or oppose potential federal legislation having a material positive economic impact on its members such arguments contestable.

While the foregoing examples challenge the benevolent motivations of the profession, the evidence supporting a presumption of coordinated and pervasive ill-intent is far from conclusive. Moreover, in the following section I suggest that any conclusions regarding the intentions of the authors or the meaning of the rhetoric are merely provisional. Once the rhetoric of the public interest ideal is published, the author is no longer in control of its meaning. Rather, the final determination of meaning resides with the audience.

### **THE PUBLIC INTEREST AS MYTH**

“He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it.” Adam Smith – *Wealth of Nations* – Chapter 2

The term myth, as I employ it here, should not be interpreted necessarily as imputing anything fictional or false, although that is frequently the case. Rather I use the term to refer to the embodiment of ideals and institutions in a society, including its dominant political doctrine and extant norms and values. My concept of myth is based in part on De Saussure’s (1959) semiotic scheme as elaborated on by Barthes (1957) and adapted by Macintosh (2002) and Puxty (1993). In Saussure’s system of signs, each sign consists of two parts: a signifier and a signified. The signifier is the word or token used to indicate the signified. The signified is the mental image created in the mind of the writer and reader of the actual object, or referent. To the extent that objects and ideas exist



independently in a real and objective world, language can be seen as a method for naming them. However, Barthes contribution suggests that signifieds become signifiers as soon as they are evoked in a second order system of signs. The new signifiers represent pre-existing myths or language-objects that consist of their own language material, a constellation of signifiers that can be used to create new signs in a never ending chain of embedded meaning. Thus, no final or natural term can ever be stripped from a signifier and meaning is never fixed.

For example, the term “accountant” is a signifier referring to the idea of an accountant, the signified. The referent is the actual person. The idea of an accountant pre-exists in the in the mind of the speaker or writer who, drawing from a constellation of signs, utters a word or inscribes some symbols onto a medium of communication to be interpreted by an audience or reader. The sign also exists as a myth or language-object in the minds readers who interpret the sign and create an image in their own mind. As a language object, the myth consists of a constellation of signifiers, each of which can in turn represent the final term of the first semiotic system. The word “accountant” is itself empty of meaning, and gets ‘filled-up’ with the myth of the clever tax consultant, the experienced business consultant or the independent auditor, depending upon the interpretation of the reader. As the symbols are interpreted, the meaning of accountant shifts instantaneously into any one of the signifiers comprising the myth. The myth and its associated signifiers can then become the first terms in a second order semiotic system giving rise to new signs, and so on. For example, in continuing the semiotic chain, the reader may interpret “accountant” to mean the clever tax consultant who helps hard

working entrepreneurs avoid the excessive demands of the state, or the independent auditor who ensures fair play among market participants. Following this chain of meaning, the signifier ‘accountant’ embodies a constellation of elements, including the politics of capitalism, the institutions of free markets, the standards of reliable financial reporting and the professional ideals of competence, independence and objectivity. Alternative chains of meaning, however, can be found in the underprivileged signifiers simultaneously embedded in the myth. These signifiers are represented as the binary opposites of the privileged signifiers. Rather than clever tax consultant or independent auditor, “accountant” may be interpreted as the shifty servant of greedy and exploitive corporations paid to help them evade their legitimate social responsibilities and exploit investors. Regardless, once invoked the meaning of the signified can shift sideways one way or the other, becoming the signifier in a subsequent chain of meaning. Determining which perspective is the “Truth” remains undecidable. Is the accountant a pedant bookkeeper, a professional auditor, a clever consultant or an unimaginative bean-counter? What grounds do we have for our faith in the reality of the referent, or in our ability to accurately interpret the intention in mind of the writer? My argument suggests that language contains no transcendental “Truth”, only localized truths within particular discourses, yet these ideas are immanent to our language and dominate the way we understand.

Identifying the referent of the ‘public interest’, assuming it is real, is more problematic. The Miriam-Webster Dictionary Online reports no less than 28 entries for ‘public’ and 13 entries for ‘interest’, any combination of which could theoretically provide a distinct

meaning or referent. In the case of the public interest, it appears the sign has become the master, not the servant. As a language-object, the public interest ideal is associated with multiple, simultaneous and contradictory myths.

Theories of linguistic relativity suggest that different groups, each with their own unique history and knowledge structures, will create different linguistic codes and meanings that in turn, mediate the perceptual cognitive processes group members use to define their social environment (Belkaoui, 1995; Belkaoui, 1980). At its limit, this thesis suggests the lexical register of a language directly limits the cognitive ability of speakers to organize their thoughts. This is based on the assertion that all thinking goes on in language, that language may distort thinking and that languages differ in the thoughts they afford us. That is, the words and symbols contained in a language and privileged in discursive practices directly enable, influence and constrain the thoughts of its users. Thus, the discursive practices of different social groups will create multiple referents of the public interest ideal depending upon how the myth is privileged within their lexical register.

Typical discourse in the accounting profession privileges the myth that auditors serve the public interest by ensuring accurate and reliable financial reports that provide critical information necessary for the efficient functioning of capital markets. On the other hand, discourse in law privileges the myth that lawyers serve the public interest by providing free legal services to the indigent, poor and persecuted while discourse in medicine privileges the myth that doctors serve the public interest by monitoring and safeguarding society against outbreaks of disease, educating the public in healthful practices and caring

for ill and aged. A plethora of other groups also purport to serve the public interest by raising social consciousness on issues of free speech, the environment, preventing child and spousal abuse or supporting human rights, etc. Once we understand the public interest ideal as a collection of privileged myths, and as such, value laden and temporary, we can attempt to demystify it through a deconstructive reading.

### ***Deconstruction as Method***

Deconstruction is a theory of reading that aims to undermine the logic of opposition within a text. Forged in the writings of Jacques Derrida (1982) a deconstructive reading presupposes that meaning is unstable and attempts to ‘unpack’ a text in order to understand the rhetorical steps taken to arrive at its central meaning. Developing a clear and coherent discussion of deconstruction as a methodology for the social sciences is problematic since precise definitions are antithetical to its fundamental assumptions regarding knowledge and discourse. Nevertheless, there have been several attempts to describe Derrida’s project and incorporate deconstruction into their epistemological arsenal, most notably by proponents of the poststructuralist critique (Macintosh, 2002; Truex, Baskerville & Travis, 2000; Kilduff, 1993; Cooper, 1989; Cooper & Burrell, 1988).

The value of deconstruction seems to be in its ability to reveal the simultaneous and contradictory attitudes present in a specific text or discourse and the inherent instability between what is written and what is read, or what is spoken and what is heard.

Knowledge and Truth are not assumed to exist externally in a 'real' world. Rather, they are recognized by what they are not. Words are recognized and interpreted according to their metaphysical relationship to all other words in a language. This conscious recognition and interpretation is a result of, or an effect of, what Derrida refers to as *Différance*.

*Différance* is a crucial word-concept of Derrida's process of deconstruction. However, *différance* is difficult to understand, if not impossible to discuss. Derrida coined the term based on a pun that seems amusing only in the original French in which he discusses it. *Différence* (with an *é*) is a French homonym, meaning both to differ (spatially) and to defer (temporally). *Différance* (with an *á*) is a homophone that Derrida created in philosophical discourse as a textual illustration of the metaphysical cleavage between thoughts. At risk of oversimplifying this word-concept, and at risk of falling into the bottomless pit of metaphysical discourse, I describe *différance* as 'not' or 'naught', and as such, a 'knot'. Metaphysically, *différance* may refer to the cleavage between mind and soul that allows the emergence of consciousness, or the perception of Being. However, since the "perception of Being" implies a spatial and temporal difference between mind and soul, consciousness must exist as a third party observer. In this third party status as observer, consciousness is both mind and soul while simultaneously being neither.

The idea then of *différance* is an attempt to describe the imperceptible and inaudible space between ideas, sounds or words that allow us to differentiate them as being separate and distinct from one another. It does not and cannot exist, because if it did,

then it would become a mid-point between two concepts, creating a new idea that is itself only an effect of *differánc*e. Derrida's pun of substituting the *á* in *differánc*e further illustrates this cleavage between thought and language, and between speaking and writing, in text, but not in speech. The *á* represents the not/naught between symbols and the undecidability, or ambivalence of language.

Deconstruction recognizes and embraces the ambivalence of language, the simultaneous and contradictory manner in which meaning is inscribed and ascribed to text. For example, we can define light and dark in binary opposition to one another, yet they merge together in the middle of a dusky continuum. Likewise, life and death stand in opposition to one another, yet chemical processes continue and cells divide while doctors and clerics debate the precise moment of termination. The process of a deconstructive reading is fluid and challenges the privileged myths, opening up space for repressed or marginalized interpretations. Thus, a deconstructive reading lends itself to critique. Definitions are unstable and meaning is ultimately undecidable because *differánc*e always allows the opening up of another space between meanings, providing a jumping off point for new meaning in unknown directions. Symbols are inscribed by writers in a process of reflection and subsequently interpreted by readers who ascribe new or expanded meanings to them. These in turn, are disseminated within a community in new directions, threading through and beyond the original idea or memory trace present in the mind of the author, creating ongoing chains of signification that seem to take on lives of their own much like the stalks, stems and flowers of a plant. The fruitions of which are only temporary and fall away to seed new ideas and new discourse concerning topics not

yet conceived. Cooper (1989; p488) uses the metaphor of ideas being transported in “a vehicle that has no substance, by a driver whom one cannot see, and to a destination that one can never know.” Metaphors are useful here because they describe through analogy, illustration and example, yet they ‘prove’ nothing. At best, they provide a perspective from which to understand a problem. The main point being that, it is not the destination of the vehicle, or the color of the flower that is important. Rather, it is the process of recognition. Meaning is always on the move.

### ***Deconstructing the public interest***

Given the assumptions of differ<sup>ance</sup> and undecidability, how can a deconstruction of the public interest ideal proceed? The word seems to imply some sort of reverse engineering, or taking apart. However, any attempt to define deconstruction by fixing it in place and establishing rigid procedures for its method is antithetical to its philosophical underpinnings. Specifying an ordered set of procedures merely privileges one hierarchy over another that can, and should, in turn, be deconstructed. One might also ask, “What are the correct procedures for appreciating a work of art?” Can such “procedures” even be articulated? Even if they can, the “procedures” that work for one observer, listener, or type of art may differ from one another. Consider for example, the popular optical illusion of the old woman and the young woman. By concentrating on a particular pattern in the illusion, an image of an old woman’s face covered in a scarf may emerge. Alternatively, a viewer may see a young woman in a shawl. Usually, only one pattern can be seen at a time since the eye of the old woman becomes the ear of the young woman in

the alternative rendition. The body of one image is simultaneously the outline of the other, and privileging one picture distracts our attention, pushing the other image into the background. Differ<sup>ance</sup> then, can be described as the process of deferring a pattern of differences. Deconstruction is differ<sup>ance</sup> in action, a way of seeing those things deferred out of our awareness by our concentration on the privileged picture. Regardless of the procedures given, some people, no matter how long they look at the illusion, will see only one picture and not the other.

Nevertheless, in following Macintosh (2002) and Truex, et al (2000), I will attempt to deconstruct the public interest by developing alternative semiotic chains of meaning, each privileging different assumptions leading to different and admittedly, only provisional conclusions. As a first step I identify and arrange crucial words (signifiers) surrounding the public interest ideal into a metaphysical hierarchy, juxtaposing them against their binary opposites such that one side is privileged as being better than the other. For the public interest, this binary opposite might be identified as private gain.

The public interest is usually associated with the common concerns of a community of people, country or locality. As such it represents a reified signifier of the aggregate concerns, claims and interests of a society as opposed to an individual. As a second or third order semiotic symbol, the public interest can also be associated with a constellation of words that surround and intersect its meaning. These might include words like self-sacrifice, benevolence, good, and perhaps, ultimately, God. As an aggregation of individual concerns, the public interest is given more weight, or a higher priority, than the



interests of a single individual or possibly even a subset of individuals. The individual is subservient to the public, and in this privileged position, the public has the right to demand sacrifice from the individual for the welfare of the whole. The privileged assumption also holds that it is the public's disposition to do good for itself by providing greater aggregate happiness, well-being and prosperity to its members. Likewise, benevolence, as it is commonly interpreted, is the value of gifting this sacrifice to the community out of kindness. However, it also has etymological roots as the compulsory levy made by English kings having no other authority than the claim of prerogative. Thus, at its limit, this semiotic chain might end in the aggregation of all humanity, signified by God, who created Man in His image, and by whose Word, Man must live.

At this point, I can also reveal the negatively associated semiotic chain of reasoning that marginalizes private gain to the public interest. The word-objects surrounding this semiotic chain might include self-seeking, greed and evil. Private gain, as the self-sought relative increases in advantage, privilege and resources acquired by individuals does not in and of itself necessarily connote something negative. However, given the assumptions of resource scarcity, it can be argued that to the extent self-sought accumulation of advantages is excessive and made at the expense of other members, that private gain is somehow reprehensible. Onto-theologically, the proclivity for excessive and reprehensible acquisitiveness is known as greed, a sin that spawns covetous retaliation by the less privileged and disturbs the order of society. In contrast the public interest reifies the concept of universal benevolence and the value of selfless sacrifice for the common good.

In the second step, I reverse the hierarchy by privileging the opposite side of the public interest argument. In this way, I can derive a different constellation of signifiers that privilege private gain. These signifiers, grounded in the cultural values of freedom and individualism, exist in a chain of reasoning that justifies the rationality of capitalism and the productive and distributive efficiencies of the market. Under this perspective, privately gained privilege and advantage are produced through an ethic of individual effort and ability. To the extent that these advantages arise independently, the individual responsible for their creation has right to their ownership, including all future production arising from them. The extension of property rights to the future production of individually created advantage also rationalizes the potential unlimited accumulation of wealth. As the underprivileged binary opposite of private gain, the public interest marginalizes the collective against the individual, socialism against capitalism and state sponsored paternalism against individual freedom. This semiotic chain of reasoning might demonize the state by portraying taxation and regulation as unnecessary intrusions on the inalienable right of individuals to life, liberty and the pursuit of happiness. These arguments may also be warranted by economic theory and backed by empirical evidence that state regulated economies have proven unduly restrictive and inefficient in allocating resources. Ultimately, this perspective believes in the morality of the market, the aggregation of private interests as the common good and elevates the rationality and achievement of the individual over the state. Maintenance of this perspective also requires the protection of capitalistic institutions, such as free markets, personal property rights and the unrestricted accumulation of wealth.

The third and final step of my deconstruction reveals how any fixed meaning is unsustainable. I can argue that the myths of capitalism and market efficiency are unsustainable due to the unrealistic assumptions the underlying economic theory. Among these is the assumption that market participants have perfect information regarding all existing and potential stocks of resources as well as each other's respective utility functions. Compounding this shortcoming is the vagueness of the notion of utility and the inadequacy of currency as its proxy measure. Utility is a somewhat unclear notion equivalent to satisfaction or the preference by individuals for some goods, tangible or intangible, over others. However, even given the assumption that we could somehow measure utility, the notion that it can be rank ordered, traded and consumed attributes properties to it that simply do not exist. For example, happiness, satisfaction and love are all components of utility, yet they are not diminished by their consumption or devalued by their accumulation. Thus, the nature of utility contradicts the fundamental assumptions of scarcity and diminishing marginal valuation and undermines any rationality for its exchange.

Unfortunately, this argument suffers from flaws in its assumptions as well. The legitimacy of any inference as to what the true interests at stake are can be challenged both subjectively and objectively. I can argue that economic theory is not meant to be a depiction of reality; that its true value lies in its ability to predict human behavior and that its assumptions are merely convenient simplifications oriented toward that end. Empirical observations of self-interested utility maximizing economic man

simultaneously confirm our greatest hope and our worst fear: Economic man is predictably amoral. Fortunately, economic man is only a theoretical reification of a pattern of behavior that can in turn be deferred. In *differance*, we see the evolution of the state as a mechanism to correct for this moral deficiency using the public interest as justification.

Pleasence and Maclean (1998) describe the public interest as a hopelessly ambiguous term with practical difficulties in establishing both its nature and magnitude. The public is first reified from the abstract and defined as a thing in itself, much like the term “American”. Thus, any interest attributed to the public is not any form of shared interest, but an interest of a defined public of indeterminate size and composition.

Notwithstanding the phantasmic reification of a public as a collection of individuals, the distinction of “interests” also eludes us in the process of *differance*. Ideological interests represent interests in moral values while material interests are more concerned with property and consumption. However, in the ambivalence of *differance*, material interests that are considered vital or concerned with subsistence simultaneously become ideological interests in their effect on the extent or character of the public’s existence.

Since language offers only crude approximations, a precise articulation of the public interest is unavailable. However, the listening mind needs totality, relevance and closure, and so draws on conscious and unconscious memory traces acquired from lived experience to complete the sign and create the myth. Existentially, the public interest may or may not exist, yet in the mind of the audience, its meaning is constructed,

interpreted and extended. The public interest is imagined and a unique meaning is impressed upon the mind of the audience. The deconstruction of the public interest then, results in virtually whomever, and whatever the speaker intends during the context of any specific discourse. Moreover, since the intent of a speaker cannot be accurately formulated and transmitted through language, the public interest simultaneously becomes whomever and whatever the audience wishes to interpret it as.

### **PROVISIONAL CONCLUSION**

The purpose of this paper was to explore the nature of accounting profession's rhetoric regarding its public interest ideal. In the first section, I presented the logical argument, consistent with the functionalist perspective that auditors serve the public interest by maintaining the orderly functioning of commerce. These claims are warranted by the theories of agency and neo-classical economics, backed by empirical observation and qualified to the extent that auditors are both competent and independent. In support of auditor independence, I presented the arguments that both the auditor's economic interest in their reputational capital and their fear of massive liability arising from litigation motivate them to remain independent and objective in their financial reporting. These arguments rely on the widely held belief among the American investing audience that a free market will 'weed-out' or punish firms that engage in anti-social behavior. I also presented evidence that the state supports these arguments by punishing individuals and

firms in public displays of interrogation and humiliation.

In the second section, I presented evidence that indicates the leaders of the accounting profession and their agents instrumentally perpetuate the myth of the public interest ideal through slogans, advertorial campaigns and white papers in order to maintain their status as a self-regulating monopoly. In rebuttal to the neoclassical economic arguments, I presented evidence that in the market for audit services, a firm's economic interest in their reputational capital does not necessarily mitigate pro-management and anti-social behavior, at least for the largest accounting firms. Despite having been implicated in numerous financial frauds and questionable tax shelters, the reputations of the Big Four firms seems intact as evidenced by their continuing ability to secure large audit engagements and sell new services. Following a crisis the lead partners and executives clumsy enough to "get caught" are singled out for punishment and public humiliation while the profession responds with a multi-pronged campaign of propaganda to bolster its image and restore its reputation. They accomplish this by resigning from engagements, blaming individual partners and CEOs, running massive advertorial campaigns and swapping clients among themselves in a highly concentrated monopolistic market. Treating each audit failure as an isolated incident of individual greed perpetrated under the guise of responsible professional stewardship simply protects the reputation of the profession allowing it to retain its self regulating status and continue to extract monopoly rents from the market. Likewise, in undermining the argument that massive liability from securities litigation ensures auditor independence, we see the profession invoking the public interest ideal in order to influence legislation concerning proportionate liability

provisions and caps on litigation damages. They accomplish this by providing written and oral testimony, paying direct cash contributions to legislators, visiting the offices of Congressmen and their staff and making emotional appeals to the public through the business media.

In the final analysis, I illustrate that the profession's claim of public service is undecidable. This is because the public interest is emotionally loaded word with little or no rational content. When used before a receptive audience, the 'public interest' can act as a virtuous word with significant potential to transfer positive qualities to the accounting profession and create favorable associations between past or pending events and the audience's personal welfare. However, if delivered before a cynical audience, this strategy can backfire. The logical arguments supporting the accounting profession's claim of public service can be refuted, exposing the rhetoric as an attempt to instrumentally manipulate an unsuspecting audience. Thus my provisional conclusion is an admonishment to the accounting profession. In order to be effective, the rhetoric of the public interest must be used in a manner consistent with the expectations of the audience and it would be a mistake to underestimate the depth of their perception. Hatch (1988) warns speakers that, "Americans admire professionals for their dedication to public service and revile them for the extent to which such claims serve as masks for financial greed."

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## **Endnotes**

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<sup>1</sup> AICPA Code of Professional Conduct Section 52, Article II

<sup>2</sup> Transcript of Barry Melancon on January 24, 2002 CNBC Broadcast posted on the AICPA web site [http://www.aicpa.org/info/tscript\\_1\\_24\\_02.htm](http://www.aicpa.org/info/tscript_1_24_02.htm)

<sup>3</sup> Wittenauer, C. (2002) KPMG faces suit over disclosure failure. *Associated Press*. Dec. 17, 2002

<sup>4</sup> Glater, J. (2003) Pricewaterhouse taking a stand and a big risk. *The New York Times*. Jan. 1 pp. C1

<sup>5</sup> <http://standandbecounted.net>

<sup>6</sup> Stand and Be Counted Concourse at <http://csny.dreamhost.com/features/concourse/concourseOpen.html>

<sup>7</sup> Pitt (1997) Section II, para. 4.

<sup>9</sup> Senate Committee on Banking, Housing and Urban Affairs, March 14, 2002.

<sup>10</sup> Statement made by Charles E. Wilson while Chairman of General Motors Corp. testifying before the Armed Services Committee in 1952. Wilson later became Secretary of Defense. See [Www.cyber-nation.com](http://www.cyber-nation.com)