CONSULTATION IN THE POLICY PROCESS: DOUGLASIAN CULTURAL THEORY AND THE DEVELOPMENT OF ACCOUNTING REGULATION IN THE FACE OF CRISIS

Linsley R, Shrives, P & McMurray R accepted for publication in Public Administration in 2015
INTRODUCTION

As the British regulatory state has grown over the last three decades so too has concern that the promise of independent oversight is giving way to politicisation and vested interest (Lodge 2014). Moreover, consultations intended to secure meaningful reform in regulatory functions across policy areas as diverse as welfare provision, infrastructure development, and financial services (James 2000; Oliver 2010; Lodge 2014) have failed to bring about dramatic changes in oversight policy or practice. Employing Dougasian cultural theory (DCT) we consider how the very consultation processes designed to facilitate change have in fact worked to reinforce existing modes of thought and practice so as to buttress the status quo.

The context for this exploration is the greatest regulatory failure of recent times; the 2007-8 financial crisis which resulted in the UK government taking emergency measures to ensure the banking system did not fail and, ultimately, acquiring shareholdings in major UK banks such as Lloyds Banking Group. The crisis shone a light on weaknesses in regulation (FRC PN 243 2008) and a fundamental review of the regulation of the financial services sector ensued. However, the body charged with securing change in respect of the regulation of accounting, auditing and governance – the Financial Reporting Council (FRC) – concluded in the aftermath of the crisis that ‘(we) currently believe that the recent difficulties in the financial sector do not require a generalised tightening of governance standards across the UK corporate sector’ (FRC PN 243 2008).

The FRC fulfils its primary role of regulating accounting and auditing in the UK through two committees. The Conduct Committee is focused on disciplinary and supervisory matters in respect of the accounting and auditing professions, whilst the remit of the Codes and Standards Committee is to set accounting, auditing, and governance codes and standards. The FRC undertakes a public consultation process when a code or standard needs amending or
originating and all consultation responses are made available on the FRC website. Following consultation proposals are refined and the final version of a standard or code published. This paper explains how the FRC consultation processes worked against the very possibility of substantial policy reform and regulatory change. With the aid of DCT we explore how different solidarities function as ‘a consistent pattern of constraints upon reasoning towards decision-making’ (6 2014a, p. 90) so as to circumscribe the room for change such that, ultimately, people are led to make decisions that reinforce the dominant institutions of which they are part. Such reinforcement has the secondary effect of making it difficult for people to attend to the arguments of other solidarities. Specifically, we demonstrate how a dominant individualistic worldview was maintained (at the expense of more hierarchist, enclave or isolate worldviews) such that the consultation processes emerge as a mechanism for the maintenance of prevailing policies rather than the starting point for their substantive re-negotiation.

The paper is structured as follows. The first section justifies the selection of three key post-crisis consultative activities of the FRC. The second discusses important aspects of DCT and the third explains the method employed in analyzing the three consultations. The results are then reported in terms of the competing cultural dialogues identifiable in the differing policy proposals submitted by the consultation contributors in respect of individualist, hierarchist and enclave solidarities. We argue that the responses of the individualistic solidarity identified within the FRC, albeit moderated by a subordinate hierarchical worldview, took precedence over the views of the other solidarities. In concluding, we note that while DCT cannot prevent regulatory or policy failure, in attending to the underlying logics of shifting worldviews it can provide useful pointers to policy blind spots arising out of particular cultural biases.
FRC CONSULTATION SELECTION

The government department responsible for economic growth in the UK is the Department for Business, Innovation and Skills (BIS). “Corporate Accountability” is a key BIS policy established to address a perceived loss of public confidence in how companies are run. The FRC Chairman is appointed by the Secretary of State for BIS and in 2013-14 the FRC had an operating budget of c.£26m (FRC Annual Report 2013-14). Therefore, the FRC was selected for this study as it is a significant regulator in an important government department and is concerned with matters with a high public profile post-the financial crisis.

A proportion of FRC consultations concern technical amendments to accounting standards or audit practice notes. Consequently, in selecting the consultations to examine for this study it was considered that less specialized consultations were likely to be more characteristic of public consultation processes, being of broader public concern. Three different consultations were selected from each of the years 2009, 2010, and 2011. The cases are all post-financial crisis when calls were being made for regulatory reform in the accounting, auditing and governance field.

The first case, the Cutting Clutter (CC) project, concerned the FRC’s complexity of corporate reporting project. In June 2009 the FRC issued a discussion paper, ‘Louder than words’ (FRC discussion paper 2009) suggesting it was time to reconsider the fundamental purpose of accounting. The project had a primary concern with reducing complexity in corporate reports and it was argued that ‘key messages (were) lost in the clutter of lengthy disclosures’ (Louder than words, FRC discussion paper 2009, p. 2). The second case, the FRC Auditor Scepticism (AS) project (Auditor scepticism: raising the bar, FRC discussion paper 2010), concerns audit effectiveness. In the aftermath of the banking crisis questions were raised as to whether, ex-post, audit firms demonstrated a sufficient degree of scepticism in questioning management’s assumptions in constructing the financial statements (Sikka 2009). The third case examined
company stewardship and the 2011 FRC discussion paper ‘Effective company stewardship: enhancing corporate reporting and auditing’ (ECS). This paper made recommendations regarding the role and responsibilities of ‘directors as stewards of investors’ interests’ and particularly having regard to deficiencies revealed by the financial crisis. Thus, for example, the paper discusses the importance of companies reporting on their risk management activities.

**DOUGLASIAN CULTURAL THEORY**

Mary Douglas, and with other significant contributors (for example, Professor Michael Thompson), developed the ideas associated with DCT over a long period (see, for example, Douglas 1970, 1982, 1994, 2003; Douglas et al. 1999). Central to DCT is the belief we are social beings and our idea of ‘self’ is fashioned by reference to others. Consequently, social relations are of paramount importance and the foundation of the theory is that distinct arrangements of social relations exist; specifically, the diversity of arrangements is limited to four basic (or elementary) forms (6 2014b).

The four basic forms of social relations can be understood by reference to the dimensions of grid and group. The two dimensions relate to the degree to which members of a group are bound to one another (the group dimension) and the extent to which interactions and relationships are regulated (the grid dimension). In their ‘weak’ and ‘strong’ states these two dimensions co-join to create the grid-group matrix of four solidarities. Each of the four solidarities is associated with a particular pattern of social relations which, in turn, determines the worldview of the solidarity.

In the individualistic solidarity (weak grid-weak group) individuals can elect to co-operate with whoever they choose and will place their own interests above those of the group. The
resulting type of society is competitive and there is an expectation that individuals will ‘go forth entrepreneurially, get new ideas, (and) work hard’ (Douglas 2003, p. 1358).

The hierarchical solidarity (strong grid-strong group) has two types of boundary. There is a strong commitment to the group, the external boundary, and this distinguishes who does and does not belong to the group. Internal boundaries are a feature of a high degree of social regulation. Thus, roles and statuses are plainly marked out. There is an expectation that authority will be acceded to and rules abided by, and systems will operate to manage group members who threaten to breach boundaries.

The enclaved solidarity (weak grid-strong group) has minimal internal boundaries and social regulation is low. However, there is a strong external group boundary and as this is the only boundary it has great significance. If this boundary is endangered by, for example, a member displaying disloyalty to the group this person will be dealt with harshly. Enclaved groups are inclined to reinforce the external boundary by defining themselves against the ‘outside world’ and believing they ‘hold the moral high ground’ (Douglas 2013a, p. 31). For this reason ideas related to fairness, integrity and the like are of importance.

The isolate solidarity (strong grid-weak group) has a strong set of internal boundaries and this denotes little margin for self-selecting social roles which is confining. The weak group feature implies a limited sense of being integrated into any group. This results in a feeling that life is intrinsically inequitable and events difficult to control.

By assigning ‘weak’ and ‘strong’ forms to the two dimensions Douglas recognizes this is ‘reducing social variation to a few grand types’ (Douglas 1982, pp. 1-2). However, these four basic forms are the ‘recurrent regularities that the grid-group typology captures’ (Ellis and Thompson 1997, p. 4). Therefore, this classification provides a structure for the meaningful analysis of actions and behaviours associated with the four solidarities.
Importantly, DCT is a dynamic theory. It is expected all four solidarities will co-exist in any community albeit to varying degrees. Cultural dialogues will occur as the four solidarities voice their thoughts about the most appropriate way to live life and the ‘community … engage(s) in a continuous internal dialogue’ (Douglas 2013b, p. 290). For the most part, each solidarity will be looking to win over new converts and to rebut the arguments of the other solidarities. These interactions between the four solidarities serve to bolster the worldviews of the members of each by reminding them of what is important for that solidarity based on its pattern of social relations. Further, any given solidarity may decide to collaborate with another for a period if this helps it achieve its objectives.

Douglas does not regard patterns of social relations as an imposition on individuals. We are active agents with freedom to choose within the prevailing conditions of social regulation and integration. Hence, individuals are at liberty to commit to a different way of life and if a particular solidarity does not fulfil an individual’s expectations, this disruption of expectations ‘may dislodg(e) people from their ways of organising’ (Thompson 2008, p. 81). Hence, change is always possible as people move between or through solidarities. This dynamism implies the solidarity that has dominance at a point in time in any given community will have achieved that position by virtue of the product of the cultural dialogues occurring at that time. Further, it implies that the dominant solidarity in any community may be replaced over time as supporters move across the four solidarities.

DCT-based propositions

A set of hypotheses, or propositions, need to be developed to examine consultation as a part of the policy process. The first proposition is based on the premise that DCT expects all four solidarities will co-exist in any community and will want to voice their respective views on the most appropriate way to live. Placing this in the context of our examination of the FRC
policy consultation process we would, therefore, expect there will be responses to all three consultations exhibiting worldviews corresponding with the four solidarities.

This same hypothesis has been examined by Lodge et al. (2010) and Lodge and Wegrich (2011) in DCT-based papers exploring food safety regulation and financial regulation post-the financial crisis respectively. These two papers identify the different arguments of the solidarities by examining discourses in newspaper articles. We extend this prior work by looking directly at consultation responses. Consulting stakeholders when making policy or regulation is judged important because, in principle, it enables all voices to participate. Therefore, examining consultation responses enables us to establish whether all four solidarities are voicing their views in the FRC consultation process.

Whilst the expectation is that the worldviews of all solidarities will be present in the responses to the three consultations, they may not be present to the same extent. In their examination of financial regulation post-the global financial crisis, Lodge and Wegrich (2011) find the hierarchical worldview more prevalent. Pre-crisis individualistically-oriented free market ideas were dominant and this finding suggests hierarchists, who have a preference for greater regulation, are arguing for increased supervision. It can be argued this should also hold true in this study, as FRC regulation is in the domain of corporate accountability and this has a commonality with financial regulation, and the FRC consultations are all post-crisis.

Further, it can be argued that the isolate solidarity, whilst not always passive, is less likely to contribute to consultations as there will always be a proportion of isolate actors who consider it fruitless trying to have their voice heard. Therefore, the first proposition (P1) comprises three parts as follows:

P1:  
(a) The worldviews of all four solidarities should be expected to be present in the responses to the three consultations.
(b) The worldview of the hierarchical solidarity will be present to a greater extent than the worldviews of the other solidarities.

(c) The worldview of the isolate solidarity will be present to a lesser extent than the worldviews of the other solidarities.

All FRC policy consultations are within the domain of corporate accountability and this implies that, whilst each FRC consultation will relate to a specific topic in this domain, there will be some broad commonalities across all the consultations. Because, in DCT, each solidarity has a distinct worldview associated with its particular pattern of social relations (see, for example, Douglas 2003) an argument can be made that we should, therefore, expect common themes will be identifiable in respect of the arguments presented by each solidarity in their responses across all three consultations. This proposition also permits us to build on the prior work of Lodge et al. (2010) where, in their examination of food safety regulation, patterns of argumentation commensurate with worldviews were observable that ‘could not have been predicted by interest group-based analysis (that would predict “capture” by the regulated industry)’ (p. 263). That is, if themes of arguments in the responses to the three FRC consultations are commensurate with worldviews of the solidarities this provides some support that DCT can contribute to our understanding of regulatory change and provide a different perspective to the regulatory capture by interest group view of regulation. Therefore, the second proposition (P2) is:

P2: The themes of the arguments presented by each of the four solidarities within their responses will have features in common across the three consultations.

In respect of financial regulation, recent research has argued that the ‘traditional’ narrative of regulatory capture by interest group may not adequately explain the policy-making process in
this domain (Kwak 2014). For example, Young’s (2012) research documents how the Basel Committee on Banking Supervision was not ‘systematically vulnerable to influence by transnationally organized special interests … (but) featured more resistance to private sector pressures than is commonly appreciated’ (p. 681). Young concludes by calling for new ways of understanding the policy-making process. DCT can provide a less orthodox understanding that is different to this traditional narrative, as it would suggest the regulator will listen only to voices allied to their own solidarity. This may be unintentional, but arises as each solidarity is looking to perpetuate its own worldview and defend its pattern of social relations. Hence, each solidarity lacks awareness that it is deaf to the voices of other solidarities (Douglas 1994). Therefore, DCT would predict the regulator will enact their own preferred solution(s) in accord with their worldview and this forms the third proposition.

To examine this requires identifying if the FRC holds a worldview commensurate with a particular solidarity, and then comparing this to the worldview associated with the eventual regulatory solutions enacted by the FRC. If the proposition is confirmed this would suggest that there has not been regulatory capture of the FRC; rather, there is a form of ‘self-capture’. This would be a potentially important finding as it would challenge both the regulatory capture narrative and the view that policy consultation is good practice as it inevitably results in regulators hearing the voices of others and incorporating their different ideas into re-drafted policy or regulation.

Therefore, the third proposition (P3) is:

P3: *The worldview of the regulator will influence the outcome of the three consultations.*

Hybridity has been observed in respect of the solidarities in DCT where two or more solidarities unite. This requires an actor to be willing to compromise their worldview by
offering some concessions to another solidarity. However, as Lodge et al. (2010) have noted, this tactic can assist actors in having at least some part of their preferred solution enacted. These collaborations with actors who support an alternative worldview are not permanent and typically they are two-way as there are difficulties in creating hybrids that go beyond this. Strategic hybrid collaborations may be perceived as useful devices for actors in respect of consultation responses as they may then have at least some of their preferences incorporated in the subsequent regulation. Therefore, the fourth proposition (P4) is:

P4: There will be respondents who exhibit hybridity in their worldviews as a means for having at least some part of their preferred solution enacted.

METHOD

Data coding

Across all three projects there were a total of 136 responses submitted. Each paragraph of the responses was coded to Douglas’s typology consistent with the four solidarities. Coding paragraphs was deemed more appropriate than coding sentences, as sentences often constitute only part of an argument. Content analysis is unavoidably subjective and to improve coding reliability the paragraphs in an initial sample of 10 letters was coded to solidarities independently by two of the authors and compared. Minor disagreements are inevitable in coding and these necessitated detailed discussions in respect of the allocated codes followed by re-coding. Coding decision rules were created. A paragraph that had more than one possible solidarity classification was classified into the solidarity most emphasized within the paragraph. A further 40 response letters were coded by the same two researchers and compared. The remaining response letters were then coded by one of the authors based on the decision rules. Inter-coder reliability, as measured by Cronbach’s alpha, was sufficiently high at 81%. For each response letter the number of paragraphs per solidarity was totalled to
identify the dominant solidarity and subordinate solidarity, where applicable. The identification of the subordinate solidarity indicates there is some hybridity.

In DCT each solidarity holds a distinct set of beliefs and values which they adhere to as a means of ensuring their particular pattern of social relations is preserved; for example, hierarchists value rules as this protects the strong boundaries. To code each paragraph a broad, indicative set of characteristics associated with each of the four solidarities was determined, based on the key beliefs and values of each solidarity (table 1). After coding of the paragraphs, key themes the supporters of the different solidarities had proposed in each consultation were then identified. As the indicative characteristics were very broadly defined, this ensured we did not pre-empt what themes might subsequently be identified for the responses.

Table 1 about here

CONSULTATION RESPONSES AND THE THREE FRC PROJECTS

Dominant and subordinate solidarities identified in the responses

The outcome of the coding of the responses is summarized in table 2. The coding identified 53 responses having a dominant hierarchical worldview, 76 responses dominant individualistic worldview, six responses dominant enclave worldview and one response dominant isolate worldview.

Table 2 about here
The lack of responses from the enclaved and isolate solidarities implies the consultation dialogue is partial and has a strong bias towards the policy solutions of the hierarchical and individualistic solidarities. Whilst we would not necessarily expect an equal weighting of responses across the four solidarities, we might have expected the proportion of enclave and isolate responses to have been higher as the consultations concern governance and accountability reforms following the financial crisis; potentially a topic of wide interest. However, policy consultations are (ostensibly) undertaken to encourage a plurality of voices to be heard and as these two solidarities appear under-represented we reject part (a) of proposition P1. Nor do the results confirm part (b) of proposition P1. The results do confirm part (c) of proposition P1.

The notion of hegemonic discourses may explain why there were only six enclaved respondents. Jones and Song (2014) suggest that for some issues there may be a ‘dominating discourse’ (p. 466) which will attract the attention of some solidarities and discourage other solidarities from entering into the debate (see also Song et al., 2014). In respect of regulating business the ‘dominant discourse’ in recent years has centred on arguments for reducing the quantity of regulation, rather than on the content of the regulation; for example, this is evident in respect of the Red Tape Challenge initiated by the UK government in 2011 and in a similar Action Programme for Reducing Administrative Burdens instigated by the European commission in 2007. Framing business regulation consultations in this way is likely to draw hierarchists and individualists into the debate as they are, respectively, strongly for and strongly against greater regulation. However, enclaved respondents may judge this is not the debate they want to have, being more concerned about the intent of the regulation and, particularly, whether it improves matters. That is, enclaved groups will be looking to engage in business regulation-related debates that are framed in terms of discourses of (in)equity, (in)justice and the like. For example, on issues relating to the global financial crisis enclaved
groups might be more keen to debate issues such as curbing excessive bonuses for bankers or the impact of austerity measures on individual households.

That there was only one response identified as fitting with the isolate solidarity might be because isolates are inclined to believe responding is likely to be fruitless as no-one will listen to their comments. The sentiment that their voice will not be heard is apparent in the single isolate reply with the respondent asking that the FRC reconsider the proposals while at the same time anticipating that their suggested ideas will be rebuffed. A further possibility is there may be barriers deterring some from responding such as a lack of technical knowledge in respect of this domain.

*The themes of arguments presented by each of the four solidarities*

Common themes have been identifiable for each of the hierarchical, individualistic and enclaved responses in respect of the three projects, and tables 3, 4, and 5 indicate there is a sufficient degree of commonality to support the second proposition.

The four principal hierarchically-oriented themes relate to the significance of professional expertise and trust, defending regulation, a preference for knowledge to be “complete”, and the importance of common goals (see table 3).

*Table 3 about here*  

The theme present in responses to all three projects relates to professional expertise and, connectedly, to trust in professionals. Hierarchical institutions advocate differentiated statuses and respect for expertise upholds a hierarchical pattern of social relations. In the context of this paper, with the FRC as the regulator responsible for oversight of professional accountancy bodies, such discussions specifically seek to defend the expertise of accountants.
The issue of trust, and particularly in respect of trusting professional judgement, is linked to this defence of professional expertise. It is expected that professionals will have the trust of the public, but also have in place appropriate mechanisms to ensure this trust is warranted (Hughes, 1984). In the case of professional accountants mechanisms associated with their acting with integrity are ‘maintained through membership criteria of the professional institutes, professional exams, continuous professional development and where necessary disciplinary measures’ (Grant Thornton, AS response, p. 2). The notion that disciplinary measures will operate to maintain trust in professional accountants is important in a hierarchical context where it is expected there will be procedures to deal with those who transgress boundaries. Hence, the ICAEW explain accountants can be trusted as there are ‘various pieces of legislation ... (which) provide for regulatory action and even disciplinary action’ (ICAew, ECS response, p. 5).

The theme concerning defence of regulation relates to the hierarchical worldview of rules being a means for both setting out how things should be done and for re-establishing order when a boundary is violated. However, hierarchically-biased responses to the CC and ECS projects go further and, additionally, argue complex regulation can be a force for good as it helps ensure disagreements between different subgroups can be resolved satisfactorily. Thus, regulation is also judged helpful as a means of reducing the possibility of group frictions.

The third theme concerns knowledge and the hierarchical worldview is knowledge should be ‘almost complete and organised’ (Thompson 1992, p. 199). For example, in response to the CC project the ICAEW suggest that before reaching conclusions as to what has caused the increase in volume of annual reports, there is a need to organize our knowledge to assemble a complete picture to identify the causes of the increase. This worldview of both the scope of knowledge and of expertise is also why theory is perceived to be as valuable as practice in a hierarchical context. Expertise is, in part, underpinned by theoretical understanding of that
area of expertise and theory aids in making knowledge comprehensive. The pro-theory position of the ICAEW is evident in their contention that the CC discussion paper is wrong to promote the view that ‘accounting is becoming too theoretical’ arguing that this aids in ensuring there are ‘acceptable boundaries’ (ICAEW, CC response, p. 4) in respect of accounting standards.

The final theme in this solidarity concerns the establishment of common goals. This is important for hierarchical solidarities as shared objectives assist in achieving group unity. For example, this theme is addressed in the CC project in a discussion as to how the project will only be satisfactorily concluded if there is a ‘combined effort to work towards a common goal’ (ICAS, CC response, p. 2).

Individualistically-oriented themes relate to a propensity for less regulation, the importance of providing investor-relevant information, a preference for principles as opposed to rules and a preference for practice rather than theory (see table 4).

**Table 4 about here**

One facet of the individualistic worldview is a preference for self-regulation and there are repeated calls from particular respondents for the FRC to avoid regulation as it is both a burden and a cost. The objections to greater regulation are contextualized within each project. Thus, the arguments surrounding costs of regulation are that these would arise from greater disclosure requirements in respect of the CC project, over-auditing in respect of the AS project and an unnecessarily expanded audit report in respect of the ECS project. The argument for reducing regulation is often supported by contending there is need to ‘avoid ... measures which could limit ... economic growth’ (Deloitte, AS response, p. 6).
The second theme concerns the provision of decision-useful information to investors. The individualistic solidarity has a faith in efficient markets. For markets to be efficient, investors need relevant information. Hence, it is argued that at its core ‘financial reporting should be able to give a clear ... statement of the core activities of the business’ (Ernst and Young, CC response, p. 3). Further, there is a need for accounting regulation to provide ‘information ... comparability across companies’ (Deloitte, CC response, p. 4) to ensure stock prices reflect all available, relevant information. However, government intervention in stock markets is largely seen as unhelpful and markets should be left to self-correct.

The individualistic solidarity’s worldview, with regards to the scope of knowledge, is that it should be ‘sufficient and timely’ (Thompson 1992, p. 199). This is also a reason why theory is of minor interest in the context of this solidarity. Knowledge needs to be timely as individualistic societies perceive markets to be in constant flux, and for markets to be efficient there is a need for timely, price sensitive information. Hence, there are discussions over whether the annual report is fit for purpose or needs ‘to be updated on a real-time basis’ (PWC, ECS response, p. 3).

The individualistic bias towards wanting to have freedom to negotiate underlies the theme of preferring principles to rules. Pragmatic (rather than theory-based) solutions are preferred as they offer a ‘practical and useful framework’ (BT, ECS response, p. 2). Hence, ACCA argue the FRC should ‘avoid over-prescription ... (and permit companies to) incorporate an appropriate element of flexibility ... (how) to frame their reports’ (ACCA, ECS response, p. 3).

The individualistic and hierarchical respondents are professional bodies, audit firms, trade associations, and individuals, and within each of these four categories there is a mix of individualistic and hierarchical responses. This suggests that, for example, audit firms are not working together to capture regulation as an interest group. Ten respondents replied to all
three consultations and another eight replied to two of the consultations. For these eighteen respondents, their dominant solidarity remained the same across the different consultations except for two occurrences where the dominant and sub-dominant solidarity reversed. That their worldviews remained substantially consistent over time tends to support DCT in its contention that groups will want to ensure their particular pattern of social relations is preserved.

Six responses were identified as consistent with the enclaved solidarity, three of which were submitted by the same organisation who replied to all three consultations. This organisation is the Local Authority Pension Fund Forum (LAPFF). Enclaved organisations are prone to classifying the world outside their group as a threat, and are predisposed to take on the role of questioning whether the ‘outside world’ has lost its moral compass. Such a moral zeal is evident within all six responses.

Table 5 provides a summary of the principal themes identified in enclaved responses. Enclaved groups are inclined to argue that we need to understand the wider impacts that actions have on society and this is a key theme identified. For example, the LAPFF makes this claim by stating that the FRC needs to understand that financial reporting affects real-life economics and ‘impacts on ... job creation, working conditions, ... tax receipts, ... the environment and other issues across society’ (LAPFF, CC response, p. 1).

**Table 5 about here**

A second theme concerns the necessity of transparency. The LAPFF argues transparency is vital as it opens up boards of directors to increased scrutiny and requires directors to be ‘responsive ... (regardless) whether they are required to do so by regulation or not’ (LAPFF, CC response, p. 2). The LAPFF also believes there is a need for a ‘change in mind-set from
those boards that have treated shareholders’ views as an inconvenience’ (LAPFF, CC response, p. 3). The LAPFF is anti-simplifying regulation if it permits a ‘box-ticking compliance approach rather than seeking to achieve best practice’ (LAPFF, CC response, p. 6). To emphasize the importance of transparency the LAPFF cite opacity as an important facet of the financial crisis. Blair (another of the enclaved respondents), in replying to the CC project, also provides examples of opacity in annual reports.

The LAPFF response to the AS consultation is as vigorous as its response to the CC project, being especially critical that auditors did not raise any alarm in the run up to the banking crisis. Fundamental to their argument is another recurring theme of resilience. Enclaved groups perceive the world as fragile and, hence, incorporating resilience into the world is judged vital. Thus, the LAPFF argues that to protect the capital base of the business, companies need to have a ‘forward view of the resilience of the business’ (LAPFF, AS response, p. 1-2). The LAPFF make reference to the financial crisis and contend that it has shown that ‘certain banks which received clean audit opinions ... were not in a resilient condition beneath that appearance’ (LAPFF, AS response, p. 2).

The LAPFF response to the third ECS project is arguably even more critical of the FRC than in the first two projects. It claims the FRC has ‘skirt(ed) around the accounting issue to the extent of denying a problem with accounting and audit and the key role that played in the banking crisis’ and is ‘using the consultation to deflect attention from its effectiveness as a regulator’ (LAPFF, ECS response, summary page). The two themes of resilience and transparency are central to the LAPFF response to this project. These themes arise out of the LAPFF’s conviction that the FRCs adoption of International Financial Reporting Standards (IFRS) for preparing financial statements has been harmful and has resulted in ‘capital, pay and dividends .... be(ing) based on unreliable and dysfunctional numbers’ (LAPFF, ECS
response, summary page). The LAPFF judges that accounts are ‘misleading’ and ‘legitimis(e) imprudent value destructive behaviour’ (LAPFF, ECS response, summary page).

In relation to transparency, the LAPFF comment again on the behaviour of directors stating they cannot always be trusted and ‘may make losses, or even make off with the capital’ (LAPFF, ECS response, p. 3). Similarly, another of the enclaved respondents argues that ‘management incompetence can be masked’ and that the auditor ‘(c)osying up to management in the hospitality box etc. is simply not good enough’ (Yaxley, ECS response, p. 3). For the LAPFF this is an important reason why reliably audited financial statements are necessary; namely, they are vital for the effective functioning of the AGM as this is the principal forum for shareholders to hold directors to account.

The worldview of the FRC

The worldview of the FRC, identified through examining the three project discussion papers prepared by the FRC, the FRC feedback and FRCs next steps in respect of the three projects, displays hybridity with the dominant solidarity individualistic and the subordinate solidarity hierarchical. The key themes in the FRC discussions are the same four individualistically-oriented themes previously identified in table 4. However, these discussions are moderated and this is perhaps due to the influence of the subordinate hierarchical worldview.

At the outset the CC discussion paper suggests there is need to modify the annual report so that it presents investors with decision-useful information that will aid investors in allocating capital efficiently and taking into account the risk of a company. The FRC advocates a common sense approach towards the issue of the complexity of annual reports and contends that the regulation should be simplified. It suggests principles are better than rules as a basis for regulation and it is implied regulation should be practically-rooted.
In the AS discussion paper, whilst the individualistic solidarity is still dominant and the subordinate solidarity still hierarchical, the distinction is less marked than in the CC paper. It is proposed that any ‘further move away from “principles” towards “rules”’ (AS, FRC discussion paper 2010, p. 14) will be detrimental, but the discussion of regulation is moderated. For example, the paper suggests Auditing Standards are already sufficiently rigorous, but grants that more guidance on audit scepticism may be helpful for audit firms. Thus, it is acknowledged that some regulation is necessary and the balance the FRC is seeking is for sufficient scepticism to ensure the audit is effective; but not too much scepticism that the auditor carries out additional and unnecessary audit tests. The latter is to be avoided as it has a post-audit cost implication for either the client if they consent to paying an additional fee or the audit firm if the fee cannot be re-negotiated.

The FRC discussions suggest that the hybridity may be a result of the FRC acknowledging interdependence exists between the individualistic and hierarchical solidarities. That is, the individualistic solidarity recognizes that for markets to function efficiently hierarchically-based mechanisms need to be in place to protect against companies misinforming investors with regards to their performance. This relates to ‘threats to the functioning of the market’ (Thompson 1992, p. 200) being a prime concern of the individualist solidarity.

This acknowledgement of a co-dependence is also evident in the ECS discussion paper. At the outset the ECS paper states the proposals are built ‘on existing foundations and are not ... over-prescriptive’ (ECS, FRC discussion paper 2011, p. 5). This is not to say there is to be no prescription. For example, it is explained that investors need more risk- and strategy-related information in the annual report. The paper recommends that to achieve this extra information should not be required through regulation, but rather through a less onerous reporting standard. This standard would then not be too burdensome. This need for investor-focused, decision-useful information is embedded in discussions relating to the information
needs of an efficient capital market. This accords with the worldview of the (dominant) individualistic solidarity, as does the FRC statement that it is not seeking to eliminate the ‘risk of failure’ through its prescriptions. Namely, this is the individualistic stance that risk can bring the opportunity for profit, but success is not guaranteed in a competitive marketplace and failure is possible.

In 2010 the FRC published a feedback statement summarising responses to the CC consultation. The FRC analysis of CC responses notes there was some variation in views received, but the overall FRC message conveyed in the feedback statement is that ‘(t)he principles for less complex regulation were well supported by most respondents’ (CC, feedback statement 2010, p. 2). The FRC performed further CC follow-on work and published the outcomes of this follow-on work in 2011 (CC, FRC discussion paper 2011). In this 2011 paper the FRC position is essentially unchanged from the original pre-consultation proposals paper. For example, the FRC continues to maintain there is a need to simplify the corporate reporting requirements so as to ‘reduce the time, energy and cost of preparing unnecessary disclosures and increasing clarity for investors’ (CC, FRC discussion paper 2011, p. 3).

The FRC outlined its proposed post-consultation actions to the AS project in a 2011 feedback paper (AS, FRC feedback paper 2011) and, again, the fundamentals of the initial position are maintained; namely there must be balance so that there is sufficient scepticism but without causing unnecessary costs to arise. The FRC feedback regarding the responses to the initial consultation is that there was a ‘high degree of consistency in the responses from the accountancy firms and their professional bodies’ (AS, FRC feedback paper 2011, p. 2). The FRC acknowledge there was a range of opinions in the responses from stakeholders, but there is only a very short discussion of these in the feedback paper and which is justified on the grounds that ‘it is difficult to prepare a succinct summary of their responses’ (AS, FRC
feedback paper 2011, p. 5). The key proposed post-consultation action by the FRC is they will provide further guidance on what scepticism means, but maintains a stance of keeping regulation in check emphasising that any requirement would ‘not be overly time consuming’ (AS, FRC feedback paper 2011, p. 10).

The FRC ‘Next Steps’ paper feeding back on responses to the third project was published later in 2011 (ECS, FRC feedback paper 2011). The FRC states that ‘respondents were substantially supportive of the FRC’s proposals and the FRC continues to believe that the approach outlined in its Discussion Paper is correct’ (ECS, FRC feedback paper 2011, p. 2).

In the feedback paper it is acknowledged that the response to one aspect of one proposal was ‘controversial’ in that whilst there was some support from auditors and investors, it was wholly opposed by listed firms. This aspect concerned increasing investor participation in the appointment of a firm’s auditor and the FRC decision was to not proceed with this particular aspect.

DCT suggests any solidarity is likely to only listen to voices that espouse ideas aligned with their own worldview. This is because each solidarity has a primary focus on winning over others to their worldview as they believe their pattern of social relations is the most appropriate. That the FRC summary of responses seems to indicate they have judged most responses as supportive despite the evidence, suggests there may be a lack of awareness that other voices had spoken. Prima facie, the analysis indicates that proposition three appears to hold as the regulator has enacted solutions that correspond with their worldview. This would suggest the regulator has not been captured; instead it is subject to what may be described as self-capture.

It is important to clarify what we mean by ‘self-capture’ in the context of DCT. The financial regulation literature generally suggests that powerful groups in the financial sector have captured regulation and, therefore, the underlying motivating ‘force is ... material self-
interest’ (Kwak 2014, p. 75; see also, Young 2012). From a DCT perspective ‘self-capture’ is, however, different from self-interest. ‘Self-capture’ describes the instinctive reaction of a solidarity to act to uphold its pattern of social relations. For this reason the regulator’s worldview is inevitably (and unwittingly) perpetuated.

*Hybridity*

A significant number of respondents display hybridity, either of the same form as the FRC or of a reverse form with the hierarchical solidarity dominant and the individualistic solidarity subordinate (see table 2). It has been stated that hybridity observed in respect of the FRC may be due to the FRC recognising interdependence between the individualistic and hierarchical solidarities. Those respondents displaying hybridity of the same form as the FRC also appear to frame their responses such that they are acknowledging that the individualist solidarity has a need for some of the solutions of the hierarchical solidarity. For example, hybrid responses of this type in respect of the CC project discuss that whilst their desire is for regulation to be reduced they also accept that some limited measure of regulation is required, and in responses to the AS project the view is not wholly anti-audit regulation but rather that cost-effective audit regulation is as important.

An alternative explanation as to why there is hybridity observable in the FRC is that it is less an acknowledgement of interdependence between solidarities and more a tactical manoeuvre to ensure that respondent groups holding a dominant hierarchical worldview are less likely to raise substantive objections. Namely, the subordinate hierarchical worldview identifiable in the FRC proposals may be that the FRC is deliberately prepared to cede some ground to supporters of the hierarchical solidarity to lessen objections. However, it is difficult to ascertain which of these is the primary reason underlying the hybridity and, therefore, it is difficult to know whether the fourth proposition is supported.
The arguments of hybrid respondents where the hierarchical solidarity is dominant and the individualistic solidarity subordinate can be contrasted with the hybrid respondents who are of the same form as the FRC. The line of reasoning evident in these hybrid responses is apt not to be towards recognition that the hierarchical solidarity has some need for the individualistic solidarity; rather, it errs towards being a justification as to why the individualistic solidarity needs the hierarchical solidarity. For example, when defending regulation the ICAEW state: ‘(b)ut users surely would not want a complete free-for-all and so some level of restriction is required’ (ICAEW, CC response, p. 4). Similarly, in respect of the same project KPMG note that regulation is required as it enables economic activity rather than being a burden on the economy. Therefore, the arguments are inclined to be concerned with clarifying “why you need us” as opposed to “why we need you”. It is possible this category of hybrid respondent construct their arguments in this form as they wish to counter the proposals of the regulator which have been configured based on an inverted worldview where the individualistic solidarity is dominant and not the hierarchical solidarity.

CONCLUSION

The above findings have important implications for policymaking and the regulatory state. In respect of proposition P1 (a) the overwhelming majority of respondents display either individualist or hierarchical worldviews, and the enclave and isolate voices are significantly under-represented. Ostensibly, policy consultations are undertaken to facilitate change through encouraging a diverse range of voices to engage in the consultation process and to offer their insights and propose solutions. These results suggest this diversity of engagement is not occurring despite the policy issues being related to the financial crisis which has been the subject of extensive public debate.
It is feasible the lack of diversity of voices may be a result of the policy context – focusing as it does on accounting, auditing and governance regulation. In this setting the dominant discourse may centre on debates whether more or less regulation is better, and this may not engage enclaved groups. In effect, an agenda is set that precludes the widespread engagement of two of the solidarities. Moreover, the perception that such voices may be registered but not heard might further reduce participation in consultation processes. It could be argued that such agenda-setting (Lukes 2005) stands as a well-rehearsed mechanism for avoiding unwanted challenges to prevailing regulations or policies. Therefore, where different views are sought, policy makers would do well to consider how the framing of consultations is likely to encourage or discourage the participation of particular solidarities.

That we found support for propositions P2 and P3 underscores the need for a diversity of voices to be heard in policy consultation processes. The analysis of responses has distinguished the preferred solutions of each of the hierarchical, individualistic and enclaved solidarities and distinct themes have been identifiable for each. This confirms proposition P2 and substantiates that the different solidarities are constrained in their decision making with the solutions any solidarity offers to a problem being limited in scope. This implies policy blind spots will arise as each solidarity has a restricted view of the world. To solve wicked problems there is a need to find some means of combining the proposals of the four solidarities to craft a clumsy solution. Not only will this be a broader solution; it is also more likely to be acceptable to all four solidarities as no voices are being excluded.

The acceptance of proposition P3 suggests that the FRC has, for the most part, not heard other voices as it makes policy and develops regulation. If the regulator does not deviate from their own worldview following a consultation, DCT would predict that the outcome of the regulation would be sub-optimal and, therefore, unlikely to be in the public interest. This is because it has excluded the voices of the other solidarities.
The LAPFF view is that the FRC must listen to the voices of others and it advocates the FRC partners with a more diverse range of bodies ‘to ensure that no one set of views is dominant in the FRC’s thinking’ (LAPFF Louder than words response, p. 1). That we find support for proposition 3 implies the scope for reform becomes circumscribed as the regulator is enacting its preferred solutions commensurate with its worldview and this places constraints upon reasoning, decision-making and the framing of acceptable options and action (6 2014b). As the victor in the policy debates this results in the better implementation of the status quo. We have described this as regulatory self-capture. Regulatory self-capture runs counter to the common narrative in financial regulation of capture by interest group and this result suggests that DCT can add to existing explanations of how policy and regulation are made.

Finally, in respect of proposition P4 there is significant hybridity observable. For example, the FRC reflects this hybridity with the dominant individualist worldview supported by a hierarchical subordinate worldview. What is difficult to know is if the hybridity on the part of the FRC indicates that alliances are deliberately being enacted or if they are an acknowledgment of a mutual interdependence between the solidarities. Despite not being able to determine which of these reasons holds, it implies that, at best, only two voices are being attended to and two solidarities are effectively excluded; whereas, there needs to be a proactive approach on the part of the regulator to both draw in and listen to all voices. Consequently, these results suggest future research further examining policy and regulatory consultation processes by drawing on DCT is of importance. Studies that examine consultations in other policy contexts might add to understanding of whether there are ways of drawing in responses from all solidarities. Such studies would be valuable as they could recommend ways of ensuring consultations can be framed to encourage full participation. Studies that look to provide examples of the enactment of clumsy solutions would be particularly helpful. Such research would assist in knowing how it is possible to ensure all
four voices respond to consultations and how to ensure all four voices are then heard. These studies would also reveal how we can avoid the possibility of regulatory self-capture.

ACKNOWLEDGEMENTS

We would like to thank the three anonymous referees for their valuable and thoughtful comments. We would also like to thank Perri 6 and Brendon Swedlow for organizing this special issue.
REFERENCES


