# A QUALITATIVE ANALYSIS OF THE GLOBAL IFRS ADOPTION. TRUSTEES PERSPECTIVE

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**Abstract**: *In this article we take a closer look to the possible effects of adopting the IAS / IFRS standards around the globe. The need for a common financial reporting language is not a new idea, being developed since the mid '50 by several scholars of the time. In an international global market, the need for a unified vision on how and what to report is supported especially by the activity of multinationals and their impact in the local host countries. In this respect, the International Accounting Standards Board (IASB) which is the authorized body issuing International Financial Reporting Standards (IFRS) is concerned on the impact of adopting the IFRSs worldwide. In order to determine what is the IASB opinion regarding this impact we turned to the concerns of the trustees. Using 3 interviews conducted with three of the trustees of IFRS on the possibility of creating a global accounting language we realized a content analysis of the responses given. The results obtained after auto coding the responses of the trustees in NVivo, a program used in qualitative analysis highlighted that the standards adoption is an important part of the accounting process in multiple countries, the national experiences being significant to the board of trustees in order to make improvements to standards at a global level.*
**Keywords**: *IFRS, Financial information, adoption impact, Europe, Asia*

## INTRODUCTION

The adoption of IFRS represents an example of accounting standardization among countries with different institutional frameworks and enforcement rules. As a result, the main questions addressed by the researchers in the accounting field is whether the new accounting regulations affected the quality of financial information provided by companies and truly increased the convergence of financial reporting. In fact, these two aspects are the main reasons invoked by IASB – the issuer of IAS / IFRS.

In order to have a complete view about IAS / IFRS and what they represent for the financial world nowadays, we are going to present briefly the idea behind the issuance and the widespread of this set of regulations.

The idea of issuing some international accounting standards respected by companies from every country around the globe aroused in the late 1950s as a response to post World War II economic integration. After 20 years, the idea has materialized with the forming of International Accounting Standards Committee (1973), which became International Accounting Standards Board (2001), an independent international standard setter, responsible for the issuance of International Accounting Standards (IASs) in the previous years and, later, of the International Financial Reporting Standards (IFRSs).

Along with the adoption of IAS / IFRS by multiple countries around the world the academic world, especially researchers in accounting and finance, as well as the financial world, the actors from the capital market, have become interested in the influence that the new set of rules has on the quality of financial information (has the content of financial reports improved?). Of course, IFRSs impact shouldn't be analyzed independently but it should be considered in the light of the usefulness of financial information. Practically, an increased quality concerns more users, especially investors from the capital markets.

As a result, the relationship between IFRS and the quality and usefulness of financial information have become a "hot topic" among financial analysts, investors, national regulation bodies, governments etc. from several countries. In what concerns the European Union, the subject became more debated along with the adoption of the European Regulation 1606/2002 which imposed, starting from 2005, IAS / IFRS in all EU countries in order to "increase transparency in financial reporting (European Regulation 1606/2002)". The adoption of IAS / IFRS required by European Regulation 1606/2002 for all listed companies in the European have been pursued in several studies by researchers, and, in the late period, the subject of IFRS adoption has become a study subject for researchers from other countries.

## 1. DEFINING THE CONTEXT OF THE RESEARCH PROBLEM

The impact of IFRS around the globe was addressed in multiple studies, the results of the researchers varying depending on their approach, mainly the methodology used and the data set considered in the analyze.

According to IASB conceptual framework, the purpose of financial reporting consists in "providing information useful to investors, creditors, and others in order to make decision". Because the number of users interested in financial reporting is increasingly high, IASB gives a special attention to the participants in capital market and, more specifically, to investors. This last category is considered to be the most in need for financial information that cannot be requested directly from the companies and, therefore, want access this kind of information. As a result, the research conducted on IAS / IFRS impact has focused on the link between accounting standards and share price and return in order to identify the best accounting policies.

In the last 15 years, a vast literature on the impact of IAS / IFRS has been created, mainly empirical research on the mandatory adoption of IASB regulation within EU countries. A brief systematization of the most significant studied on this subject has been done by Palea (2013) which identified 18 papers with value-relevance on IAS / IFRS adoption.

After analyzing the 18 papers included in Palea's study, we found out that most researchers had addressed some specific aspects of the topic, mainly:
1. The adoption mode, mandatory and / or voluntary;
2. The single or multi country setting;
3. The period taken into consideration was usually before and after the adoption of the IAS / IFRS;

4. The accounting measures varied across studies, the most used being: book value of equity, earnings per share, book value of assets, book value of liabilities;

5. The methodology used included a quantitative approach of data, regression models being applied as well as different comparisons between book-to-market ratio before and after IAS / IFRS adoption.

6. The results obtained cannot allow generalization. From the eighteen studies taken into consideration, eight shows a positive effect of IAS / IFRS, five indicated no difference after the adoption of the new regulation, three revealed mixed evidence, while two stated minor improvements in the quality of financial information after the adoption of IFRS by several countries.

In our opinion the findings of these studies vary because the data used in the sample come from different countries and refer to multiple period of time. Having these aspects in mind, we consider that the results cannot be generalized, not until an exhaustive study is conducted.

As a consequence, *the mixed results from the financial literature regarding the impact of IAS / IFRS adoption on financial reporting within countries consists the main motive of our research*. While we noticed that there are significant differences between the findings of the researchers we considered that a new study which takes into account an approach more qualitative can be useful in finding new opinions and connections between specific concepts of IFRS.

## 2. RESEARCH AIM AND OBJECTIVES

Providing quality financial information, which represents the most important factor in the process of taking decisions with a low degree of uncertainty, is one of the main conditions for the development of an efficient capital market. As IFRSs adoption has focused on improving the capital markets all around the world our study is focusing on determining which are the biggest concerns regarding IFRS adoption.

IASB, the issuer of IFRS, has a hierarchical structure, being ruled by a Board of trustees from several countries all around the world. They are elected to be part of the IASB in a democratic matter their mandate within the body being for a specific period of time (3 years in the early stages of IASB and for 2 years nowadays). Usually, the decisions regarding the issuance of a new standard or the updates of a standard(s) are following a specific process, in which the data retrieved from the countries which adopted the IFRSs is essential. An important role in the process of adoption is held by the trustees who have to support their decision in an argumentative way. Having this in mind we decided that analyzing the point of view of the trustees regarding the IFRS adoption could be a starting point for further research on the impact of IFRS adoption around the globe.

## 3. METHODOLOGY

The methodology used for conducting this study consists in several points. First, we selected the interviews in which 3 trustees have expressed their vision on the impact

of IFRS adoption after they were elected in this position inside IASB. The full content of the interviews is presented in the last section of the paper – Appendices. The interviews have been retrieved from the official site of IASB, http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Trustee-speeches.aspx, the section dedicated to the trustees.

The method used for analyzing the content of the three interviews is the qualitative analysis in which we employed the dedicated software NVivo Plus.

In the first phase of the analyze we copy-pasted the content of the interviews retrieved from the official page of IASB in 3 text documents and then we introduced them as internal sources in the program. Afterwards we ran word frequencies analysis which counted all the words from the three interviews. This analysis became the starting point for coding the content of the interviews. We then used the function autocode in order to determine the codes which can be attributed to specific segments of the code. After determining the codes and their occurrence within the three interviews we used a matrix coding in order to analyze which codes have appeared in the same time in the three interviews analyzed. Based on that, we were able to determine if the trustees have similar opinions regarding certain subjects. In the end we used the same co-occurrence to find out if they are linkages between the codes identified.
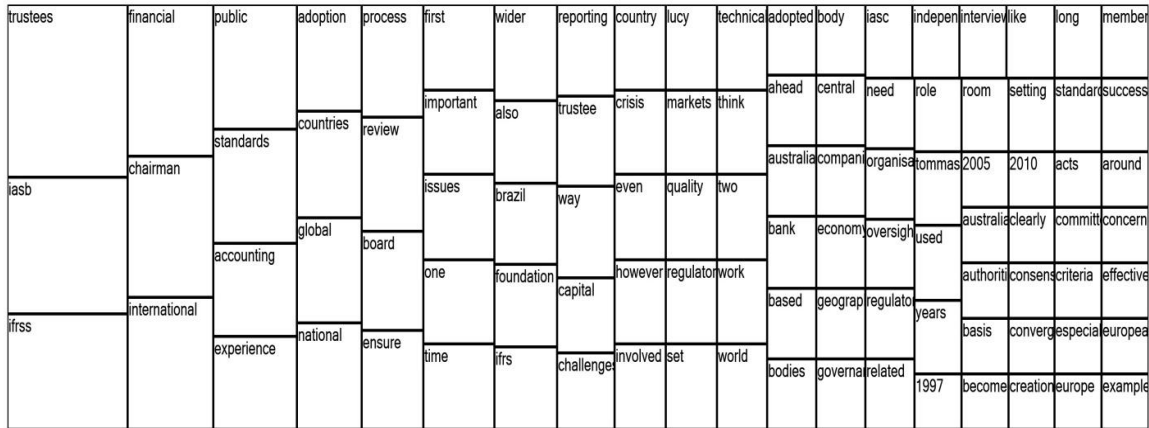
## 4. FINDINGS AND DISCUSSION

In order to illustrate de frequencies of the words encountered in the three interviews analyzed we used the world cloud and tree map view representation from NVivo Plus (Figure 1 and 2).

**Figure 1 World cloud of the most frequent words from the three interviews analyzed**



*Source: author's own processing in NVivo Plus.*

**Figure 2 Tree map view of the most frequent words from the three interviews analyzed**



*Source: author's own processing in NVivo Plus*

According to the summary of the frequencies on which Figure 1 and 2 are based the most words used in the three interviews were: trustees (24 counts), IASB (19 counts), IFRSs (16 counts), financial (15 counts), chairman (14 counts), international (13 counts), public (12 counts), standards (11 counts), accounting (9 counts) and experience (9 counts).

Although the count of the frequencies of the words from the interviews has helped us to identify the most important concepts from the three texts hasn't been very useful in identifying the codes which could be extracted. To solve this matter, we resorted to the auto code function of the NVivo program which has been really helpful in identifying codes in context.

The results obtained, which are highlighted in Table 1 illustrate a total of 33 codes identified in the three interviews conducted.

From this total, 22 codes have been identified in the interview number 1 with Pedro Malan, the Chairman of Brazil, 19 codes in interview number 2 with Tommaso Padoa-Schioppa, the Chairman of Italy, and 13 codes in interview number 3 with Jeff Lucy, the Chairman of Australia.

In order to determine which codes appear in the same time in all three interviews conducted we used a co-occurrence function, the results obtained being highlighted in Table 2.

| | A : Internals\\1st interview | B : Internals\\2nd interview | C : Internals\\3rd interview |
|---|---|---|---|
| 1 : accounting | 1 | 1 | 1 |
| 2 : accounting standards | 0 | 1 | 0 |
| 3 : adoption | 0 | 0 | 1 |
| 4 : body | 1 | 1 | 1 |
| 5 : brand name | 1 | 0 | 0 |
| 6 : chairman | 1 | 0 | 1 |
| 7 : channels | 1 | 0 | 0 |
| 8 : companies | 0 | 1 | 0 |
| 9 : effective | 1 | 0 | 1 |
| 10 : financial reporting standards | 1 | 0 | 0 |
| 11 : functioning | 1 | 0 | 0 |
| 12 : global accounting language | 1 | 0 | 0 |
| 13 : groups | 1 | 0 | 1 |
| 14 : international regulator | 0 | 0 | 1 |
| 15 : issues | 1 | 1 | 1 |
| 16 : market | 1 | 1 | 1 |
| 17 : method | 0 | 1 | 0 |
| 18 : official | 0 | 1 | 0 |
| 19 : organisation | 1 | 1 | 0 |
| 20 : oversight | 1 | 1 | 0 |
| 21 : personalities | 1 | 0 | 0 |
| 22 : process | 1 | 1 | 1 |
| 23 : public authorities | 0 | 1 | 0 |
| 24 : quality | 1 | 1 | 0 |
| 25 : regulator | 1 | 1 | 1 |
| 26 : representation | 1 | 0 | 0 |
| 27 : responsibilities | 1 | 0 | 1 |
| 28 : roles | 0 | 1 | 0 |
| 29 : set | 1 | 0 | 0 |
| 30 : stability | 0 | 1 | 0 |
| 31 : standards | 1 | 1 | 0 |
| 32 : term | 0 | 1 | 1 |
| 33 : tradition | 0 | 1 | 0 |
| Total | 22 | 19 | 13 |

*Table 1.* **Codes obtained for the most important concepts**

Source: author's own processing in NVivo Plus.
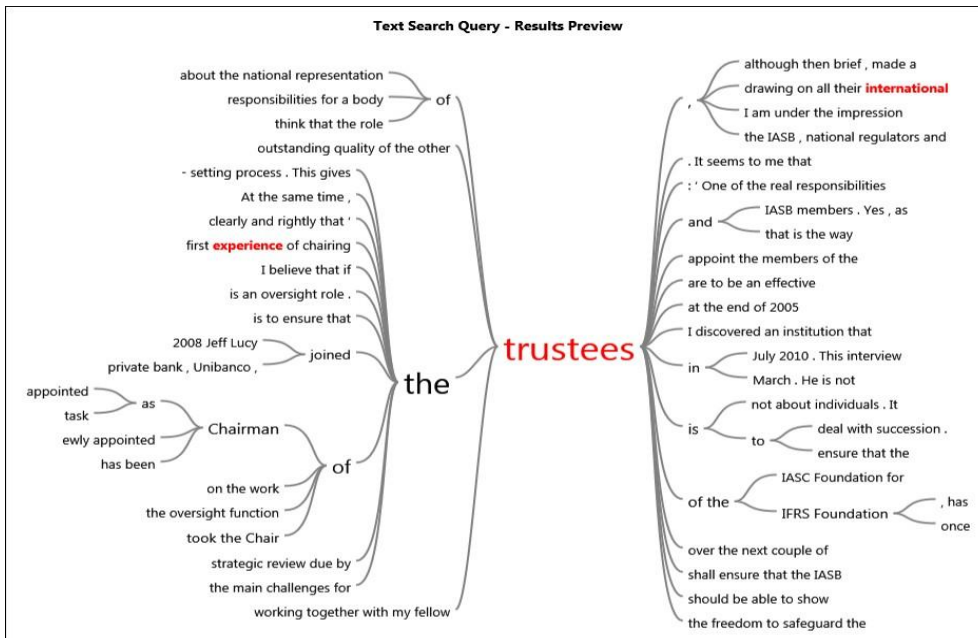
**Table 2. Codes encountered in all 3 interviews**

|  | A : Internals\\1st interview | B : Internals\\2nd interview | C : Internals\\3rd interview |
|---|---|---|---|
| 1 : accounting | 1 | 1 | 1 |
| 4 : body | 1 | 1 | 1 |
| 15 : issues | 1 | 1 | 1 |
| 16 : market | 1 | 1 | 1 |
| 22 : process | 1 | 1 | 1 |
| 25 : regulator | 1 | 1 | 1 |

*Source: author's own processing in NVivo Plus.*

According to data from Table 2 we notice that there are only 6 codes which appear in the same time in the three interviews and they address questions regarding: accounting, body (as in IFRS), issues (related to IFRS), market (regulation), process (of adopting IFRSS) and regulator (with reference to IASB as a regulator body).

Further we took a closer look to some terms where particular terms occur in content. We selected the words from those which had the biggest frequency of occurrence which were highlighted before (trustees (24 counts), IASB (19 counts), IFRSs (16 counts), financial (15 counts), chairman (14 counts), international (13 counts), public (12 counts), standards (11 counts), accounting (9 counts) and experience (9 counts)).

**Figure 3 Occurrence of the most frequent words in context**
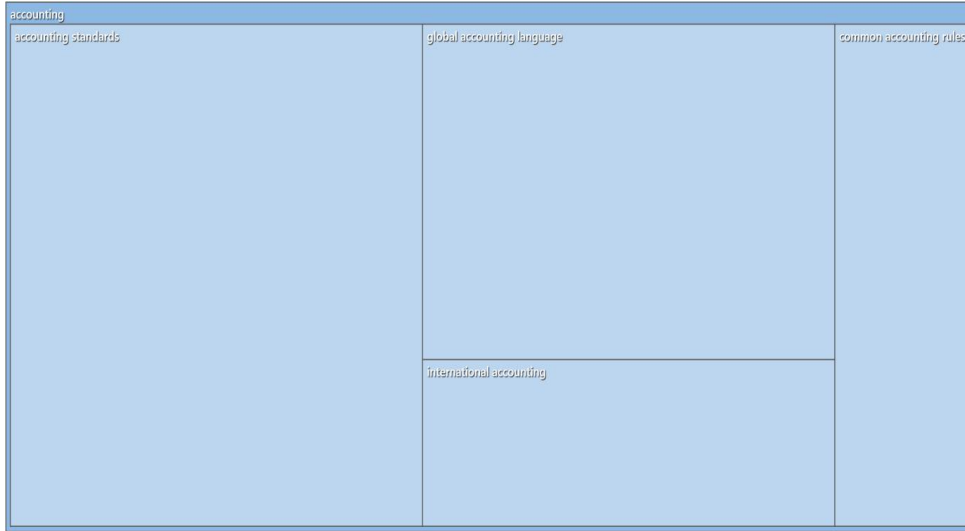


*Source: author's own processing in NVivo Plus.*

The 10 words were cited in 142 places in the texts, their frequency being: 40 counts in the 1st interview, 79 counts in the 2nd interview and 23 counts in the 3rd interview.

Although using co-occurrence is very helpful in identifying the linkages between words grouping certain codes which refer to a specific issue is more appropriate if we take into consideration the number of coding documents.

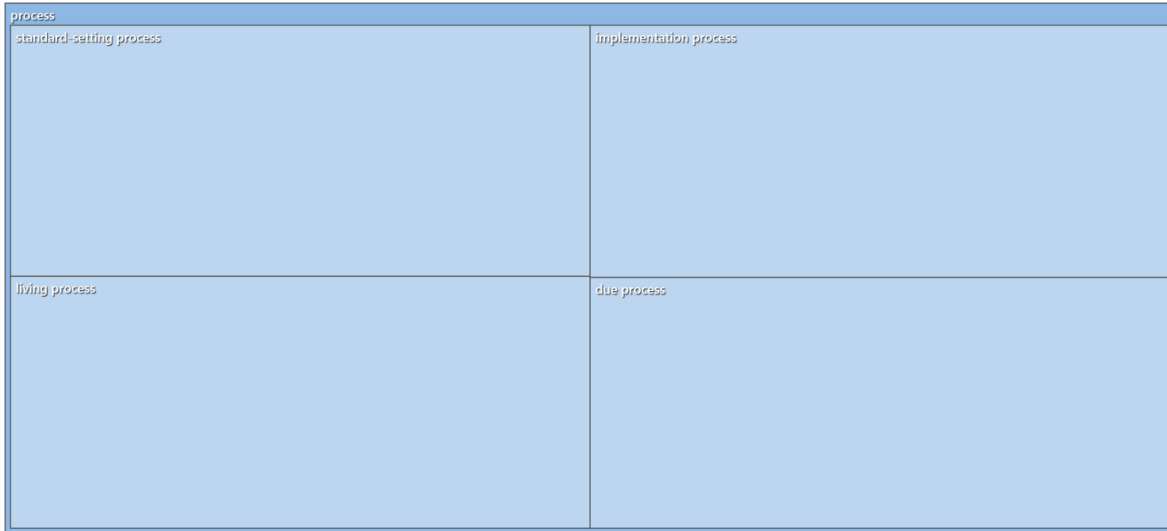In the next figures, we illustrated the grouping of several concepts.

**Figure 4 Nodes compared by number of coding documents for accounting**



*Source: author's own processing in NVivo Plus.*

As we can see from Figure 4 when referring to accounting there are several concepts includes as: accounting standards, global accounting language, international accounting and common accounting rules.

**Figure 5 Nodes compared by number of coding documents for accounting**



*Source: author's own processing in NVivo Plus.*

If we refer to the code "process" we can see that we can have in mind the standard setting process, the implementation process, the due process or the living process. Applying grouping we can find useful linkages between the codes which refer to the same issue.

The analysis conducted can be deepened on higher levels, although this wasn't the purpose of our study. From a global perspective we can say that, based on the analysis conducted, all of the 3 trustees of IFRS have expressed the same concerns regarding IFRS adoption. What does that mean? There is no place for nationalism when developing International Reporting Standards.

## 5. RESEARCH LIMITATIONS AND FURTHER PERSPECTIVES

The research conducted has some limitations. The theme of IFRS adoption impact is very vast and we couldn't take into consideration all the issues addressed in this matter. The number of the interviews analyzed isn't that high so we can't sustain generalization based on just three interviews with the trustee of IASB. Another limitation is due to our experience in using the NVivo Plus program in order to analyze the data. We appreciate that the use of this software has eased our work and we feel strong about using it in the future for further analysis. More than that, we believe that an improvement in our work with the program will help us in conducting more in-depth analysis on the field of IFRS adoption.

In the end, we appreciate that our current findings and future research using qualitative analysis can be useful to formulate some hypothesis for conducting quantitative analysis in our doctoral research.

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