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Early Adoption of IFRS as a Strategic Response to Transnational and Local Influences

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Abstract

In recent years, International Financial Reporting Standards (IFRS) have been adopted by nations throughout the world. Proponents and standard setters assert that IFRS will produce a number of benefits including improved transparency, international comparability, market efficiency, and cross-national investment flow. In this study, we examine factors that contributed to the early national-level adoption that occurred prior to broad global acceptance of IFRS. Using a conceptual framework of institutional theory and resource dependence, we propose that the interplay of transnational pressures and local factors influenced the level of adoption. We predict differential adoption as a strategic response at three levels of either require IFRS, permit IFRS, or do not allow IFRS, using a sample of 71 countries. As predicted, countries with greater resource dependency, as evidenced by weak governance structures and weak economies, were the early adopters who were more likely to require the use of IFRS. Further, resource dependence also trumps nationalistic pressures against transnational conformity. Our findings raise concerns that required adoption may not always be accompanied by an appropriately supportive infrastructure; thus, there are implications not only for adoption of IFRS, but also for the diffusion of other transnational regulation that influences global business environment.

Keywords: IFRS adoption; Institutional theory; Nationalism
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1. Introduction

Over the last decade, as International Financial Reporting Standards (IFRS) have been formally adopted by many jurisdictions, the topic of national-level accounting choice has become of greater academic interest. As accounting regulation represents an important corporate governance mechanism, researchers have examined factors that contribute to the adoption of IFRS at the organizational level (see Baker & Barbu, 2007 for a review). However, to date, there are relatively few published studies examining IFRS adoption at the national level (e.g., Hope, Jin, & Kang, 2006; Judge, Li, & Pinsker, 2010; Ramanna & Sletten, 2009).

The EU's mandate that required IFRS adoption for listed companies provided broader legitimization for the standards and was the impetus for the global adoption of IFRS. According to Deloitte and Touche (2013), of the 153 countries with the stock markets, 101 required IFRS for all or some listed firms, and 25 jurisdictions permitted their use (Deloitte & Touche, 2013). Most of these adoptions occurred after 2005 (Simon Fraser University, 2013). Understanding earlier adoptions is of interest, as these occurred before IFRS gained full global legitimacy. A number of prior studies have examined firm-level early adoptions that occurred within the European Union prior to 2005 (Cuijpers & Buijink, 2005; Renders & Gaeremynck, 2007), but factors influencing early adoption decisions at the national level have not been sufficiently explored.

Traditionally, institutional theorists focused on structural conformity and isomorphism. Institutional scholars (Boli & Thomas, 1997; Meyer, Boli, Thomas, & Ramirez, 1997) propose that rational nation-states have similar goals of collective progress and development. While these isomorphic pressures are widely recognized, the impact of local conditions on national choices is also pertinent (e.g., Guerreiro, Rodrigues, & Craig, 2012; Oliver, 1991). We focus on the local factors and their influence on the early adoption of international standards.

Empirically, the study examines the relationship between the level at which countries adopted IFRS and two local factors used as proxies for resource dependence. We find that countries with a greater need for resources were more susceptible to transnational influences and were more likely to *require* IFRS adoption early. Other countries were more likely to demonstrate a lower level of adoption by either choosing to permit or not allow the standards. Nationalism was found to influence the extent of adoption in countries with lower resource dependence; more nationalistic countries were more likely not to permit IFRS. Further, we show that nationalistic pressures are weakened in countries with a greater resource dependency, which contributes to a higher likelihood that IFRS adoption will be required.

This study contributes to the international accounting regulation literature in several ways. We relate most directly to studies that examine factors influencing national-level IFRS adoption (Hope et al., 2006; Judge et al., 2010; Ramanna & Sletten, 2009). Recent studies have called for further examination of transnational regulation and how different nations incorporate it (Alon & Dwyer, 2012; Faulconbridge & Muzio, 2012). Institutional and resource dependence theoretical perspectives have not been broadly applied in this setting but are quite important as they recognize the interplay of transnational isomorphic pressures and the national adoption choices. Institutional theory denotes a more conforming response to transnational isomorphic pressures. Resource dependence perspective recognizes a broader range of responses that are available to countries and are based on local factors. Through the