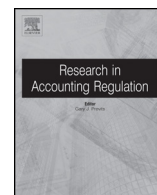




Contents lists available at ScienceDirect

Research in Accounting Regulation

journal homepage: www.elsevier.com/locate/racreg

Regulatory Notes

‘Does accounting regulation matter?’: An experience of international financial reporting standards implementation in an emerging country

Mohammad Nurunnabi ^{a,b,*}

^a University of East London, London, UK

^b Prince Sultan University, Riyadh, Kingdom of Saudi Arabia



ARTICLE INFO

Article history:

Available online 26 September 2014

Keywords:

Accounting regulation

Politics

International financial reporting standards

Emerging country

ABSTRACT

The study investigates the balance between accounting regulation and political influences in the implementation of International Financial Reporting Standards (IFRS) in an emerging country. Forty-three interviews were conducted, from 2010 to 2013. Additionally, enforcement documents from 1998 to 2013 in relation to IFRS were evaluated. The study reveals that lack of accounting regulatory framework and political influences are hindering the effective implementation of IFRS. Most importantly, regarding the balance between accounting regulation and political influences, a high level of political influences is adding more apprehension to the implementation of IFRS. The study contributes to the policymaking agenda of the IFRS implementation literature. The findings are relevant to other emerging economies. In particular, local and international policy makers should rethink the path of the global implementation of IFRS.

© 2014 Elsevier Ltd. All rights reserved.

1. Introduction

“...accounting is a big house that has accommodated many political regimes during the several hundred years of its existence without losing its identity...the politics of accounting unquestionably played an important role” (Ordelheide, 2004, p. 270).

Prior studies have provided a scattered picture of the influences of accounting regulatory frameworks and politics in financial reporting practices in both developed and emerging economies (see Al-Akra, Eddie, & Ali, 2010; Alexander & Archer, 2000; Alexander & Servalli, 2010; Alexander & Micallef, 2011; Ali & Ahmed, 2007; Ali, Ahmed, & Henry, 2006; Ball, 2006; Ball, Kothari, & Robin, 2000; Belkaoui, 1983, 1996, 2004; Beresford, 2001; Boross, Clarkson, Fraser, & Weetman, 1995; Cohen & Hamman, 2003; Colbert & Murray, 2003; Cortese & Irvine, 2010; Dalton, Buchheit, Oler, & Zhou,

2013; Ernstberger, Stich, & Vogler, 2010; Ezzamel, Xiao, & Pan, 2007; Hail, Leuz, & Wysocki, 2010; Hasan, Karim, & Quayes, 2008; Hitz, Ernstberger, & Stich, 2012; Huerta, Petrides, & Braun, 2013; Karim, 1996; Legoria, 2000; McKinnon, 1984; Muniandy & Ali, 2012; Pajunen, 2013; Persons, 1999; Poudel, Hellmann, & Perera, 2014; Previts & Merino, 1998; Rodrigues, Schmidt, & Santos, 2012; Saudagaran & Diga, 1997; Walker & Robinson, 1993; Whittington, 2005; Wilmott, Puxty, Robson, Cooper, & Lowe, 1992; Xiao, Weetman, & Sun, 2004; Zeff, 2007; Zülch & Hoffmann, 2010).

With the pace of highly globalized markets, there is an underlying need for improved corporate transparency and disclosure. International Financial Reporting Standards (IFRS) are highly sophisticated standards which have been adopted in more than 130 countries. To foster the integrity of financial reporting, the adoption and effective implementation of IFRS is required to ensure transparency (Poudel et al., 2014). The implementation of IFRS has been vastly researched in developed countries. However, only a limited number of studies have been conducted on the adoption of

* Tel.: +966 (0)504475779.

E-mail addresses: m.nurunnabi@uel.ac.uk; mnurunnabi@psu.edu.sa.

IFRS, let alone the implementation of IFRS, in emerging countries. This study focuses on the IFRS implementation experience of an emerging country: Bangladesh. Akhtaruddin (2005) investigated the extent of mandatory disclosure by 94 listed companies in Bangladesh and reported that companies did not disclose adequately according to the mandatory disclosure requirements. He found that on average, companies disclosed only 43.53% of required information and concluded that 'prevailing regulations are ineffective monitors of disclosure compliance by companies'. Ali et al. (2006) called for further research on the harmonization of accounting practices in South Asia (Bangladesh, India and Pakistan) regarding compliance with IFRS. Later, Ali and Ahmed (2007) argued that the 'accounting professional bodies within each country have adopted IASs as the basis of national accounting standards, mostly driven external investments need and the policies pursued the governments in recent years within the region'. Hasan et al. (2008) investigated the effectiveness of changes in the regulatory environment in Bangladesh on the quality of compliance with mandatory disclosure requirements. They argued that a significant improvement in the quality of compliance was apparent during the more regulated period in Bangladesh. In addition to ineffective regulation, Bangladesh has gathered unwanted international attention regarding widespread corruption, having been ranked as the most corrupt country in the world by Transparency International. Bangladesh also ranked top for the fifth year in a row in the corruption perception index (http://news.bbc.co.uk/2/hi/south_asia/4353334.stm).

To address the research question, this study employs mixed methodology (interviews and documentary analysis). Thirty-nine interviews were conducted from 2009 to 2013 and enforcement related documents from 1998 to 2013 were evaluated. This period was chosen because IFRS was mandatory in Bangladesh since 1998. This study aims to contribute to the literature in the field and to policymaking.

The paper is structured as follows: Section 2 gives a review of the literature on accounting regulation and political influences. Section 3 describes the research methods (interviews and documentary analysis) utilized by the study. Section 4 reports the findings and discussion of the study and Section 5 offers the conclusions and limitations of the paper.

2. Review of literature

The prior research focuses on different dimensions of accounting regulation. From a historical point of view, researchers like Miranti (1986), Previts and Merino (1998), and Walker and Robinson (1993) have shown that the state in Anglo-American countries (excluding the UK) has had a longstanding involvement with the development of accounting rules. State agencies have helped to create a demand for general financial management services, particularly within regulated firms (Persons, 1999). But, this political involvement raises questions around the existence of a transparent regulatory process (Zeff, 2007). Most studies have confirmed the usefulness of accounting regulatory frameworks. Some of them employ a legal system dichotomy (code law versus common law) to examine the

association of legal systems with financial disclosure (Ball et al., 2000; Jaggi & Low, 2000; Naciri & Hoarau, 2001). Wilmott et al. (1992) examined four capitalist countries (Sweden, the UK, the USA and Germany) and found that accounting regulation in those countries has been shaped by the disciplinary effects of hierarchical control (social order organized through bureaucratic agencies). In a Hungarian study, Boross et al. (1995) concluded that while the impact of the move to the market economy has been a visible factor both in the drafting of the law and in the perceptions of the likely users of the financial statements, the influence of state regulation still remains. Alexander and Archer (2000, p. 555) argue that "*The future of accounting standard setting at the national level may be in question*". The inevitably political nature of standard setting has been considered over many years by researchers across various jurisdictions.

The political nature of accounting standards setting has long been recognized (Fogarty, 1992; Moonitz, 1974), and there has been a continued debate on the subject. Over the years, the accounting profession has sought to control the regulatory process in order to maintain its authority within the traditional boundaries of its discipline, while other interested parties and professions have seen opportunities to expand their spheres of influence (Perry & Nölke, 2006). In China, Ezzamel et al. (2007) analyzed the relationship between political-economic factors and accounting standards setting during the transition from a state controlled economy under Mao to a 'socialistic market economy' under Deng and found that in both eras, accounting has been construed as a malleable object shaped by the force of the dominant political discourse. On the EU experience, Whittington (2005) observed that "*President Chirac of France wrote a much publicized letter to President Prodi of the EU expressing anxiety that the IASB standards were not sensitive enough to European interests and that, in particular, volatility resulting from application of the standards would be damaging to the European economy*" (p. 143). Zülch and Hoffmann (2010) illustrated evidence of the linkages between parliamentarians and interest groups in the course of accounting standard setting in Germany. Hail et al. (2010, p. 575) argued that "*The implementation and enforcement aspects of global accounting convergence are largely missing from the IFRS debate, which we view as a serious shortcoming*". Alexander & Micallef (2011, p. 19) also argued that "*a clear regulatory framework is needed to act as a central source of reference of the accounting principles requiring adherence to, and for a system of enforcement of, those principles. Consequently, greater specification and precision is required when amending an existing regulatory framework*".

Al-Akra et al. (2010) investigated the influence of accounting disclosure regulation, governance reforms and ownership changes resulting from privatization, on the mandatory disclosure compliance of 80 listed companies in Jordan. They found that governance reforms through the mandate of audit committees were a significant determinant of compliance with mandatory disclosure requirements in a developing country like Jordan. They therefore called for further research into the regulatory environment in developing countries. Researchers like Wagenhofer (2011), Leuz (2010), Rahman (2000), Rodrigues et al. (2012), Dalton et al. (2013), and Pajunen (2013) have all argued that more reg-

Download English Version:

<https://daneshyari.com/en/article/1006650>

Download Persian Version:

<https://daneshyari.com/article/1006650>

[Daneshyari.com](https://daneshyari.com)