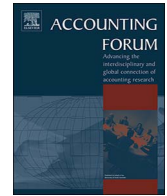


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## Assessing international accounting harmonization in Latin America

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## ABSTRACT

We draw on institutional theory and interviews with key informants to assess international accounting harmonization in the 13 countries of the Group of Latin American Accounting Standards Setters (GLASS). Some GLASS countries have effected full formal adoption of International Financial Reporting Standards (IFRS), but in others, IFRS are not permitted. In several GLASS countries, IFRS are supplemented by national standards for micro-entities and cooperatives. We conclude that it will be difficult to achieve material harmonization in GLASS countries due to a lack of trained accountants, unreliable enforcement systems, and competing institutional logics of taxation systems, banks and insurance companies.

## 1. Introduction

We compare the process of adopting (and/or converging with) International Financial Reporting Standards (IFRS)<sup>1</sup> by countries in Latin America. Our focus is on the countries that compose the Group of Latin American Accounting Standards Setters (GLASS). This organization was formed in 2011. The interviews conducted for the present study were undertaken in 2013, when GLASS comprised 12 countries (Argentina, Bolivia, Brazil, Chile, Colombia, El Salvador, Ecuador, Mexico, Panama, Peru, Uruguay, and Venezuela). Guatemala had observer status at that time and its representative was also interviewed. Subsequently, Guatemala became a full member, as did Costa Rica and Honduras.

There is little published research on accounting in the GLASS countries. Indeed, little is known outside each national setting of the process of adoption or convergence with IFRS in Latin America. Generally, we seek to extend knowledge on this matter by addressing the following four sets of research questions:

- How and why was GLASS formed? Who was the institutional entrepreneur?
- How can the current stage of IFRS adoption or convergence in each GLASS member country be characterized? Using a conceptual framework based on institutional theory, how can accounting harmonization be explained? What agreements between competing viewpoints have been achieved?
- Were the adoption and convergence processes isomorphic? Which institutional logics were central in these processes?
- Does the degree of adoption or convergence depend on whether knowledge discourses about IFRS become power? Who were the

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institutional actors? What are the main sources of resistance?

We interviewed the official representative of each of the 13 GLASS countries in September 2013. To increase reliability, the interview data are triangulated with other evidence (such as archival documents and website information). We explore the process of international adoption or convergence from an institutional perspective. Our intent is to understand how accounting influences, and is influenced by, multiple agents, institutions, and processes (Miller, 1994; Miller and Napier, 1993). We invoke institutional theory because we are attracted to its arguments that efficiency is not sufficient to explain changes in accounting practices (DiMaggio and Powell, 1983; Scott and Meyer, 1991; Rodrigues and Craig, 2007) and that organizations (or in this case countries) adhere to external rules, norms and belief systems to garner legitimacy and an aura of rationality and efficiency (Carpenter and Feroz, 1992).

Our macro-institutional analysis occurs at the organizational field level (Dillard, Rigsby, & Goodman, 2004) to enhance understanding of agreements that have been achieved in GLASS countries. Some GLASS countries have effected full formal harmonization with IFRS, while in others, IFRS are not permitted, but are only used by a limited number of companies in preparing consolidated accounts. We reveal that material harmonization, as opposed to formal harmonization (Fontes, Rodrigues, & Craig, 2005), will be difficult to achieve in coming years because of a lack of trained professional accountants and reliable enforcement systems. Using an institutional perspective and the theoretical framework of Rodrigues and Craig (2007), we find that GLASS countries are at different stages of the adoption/convergence process.

In several countries, in addition to full IFRS and the IFRS for Small and Medium-sized Entities (SMEs), other national standards have been issued for micro-entities and cooperatives. Thus, in national contexts where these types of entities are important, local standards are being issued. Such practice diverges from the institutional logic regarding the appropriateness of standards issued by the IASB for any entity, in different parts of the world. We also find that competitive institutional logics related to taxation systems, and the banking and insurance industries, are important influences in some countries, and that they are delaying the adoption/convergence process.

The next section presents a literature review in two sections: a review of aspects of accounting harmonization globally and in Latin America; and a theoretical framework based on institutional theory. Next, we present the research method and results, before entering conclusions.

## 2. Literature review

### 2.1. Financial reporting harmonization globally and in latin america

Because institutional contexts differ, it is difficult to accommodate accounting diversity and achieve international accounting harmonization. Environmental factors vary widely globally, but play an important role in explaining accounting practices (Radebaugh, Gray, & Black, 2006). The imposition of Anglo-Saxon accounting models on nations with different levels of development and different economic, social, political and cultural context, has been criticized. However, arguments against harmonization were weakened when the IASB began to gain enhanced legitimacy in the mid-1990s. The process of accounting harmonization began to develop more vigorously as regional and national accounting standards setters, and Big 4 audit firms, began to support the IASB more strongly.

The success of IFRS is attributed to its principles-based standards (Carmona and Trombetta, 2008). This feature gives IFRS flexibility and helps them adapt to different institutional contexts and accounting traditions. Despite widespread international adoption of IFRS, there are conflicting opinions about the ensuing quality of financial reporting. Carmona and Trombetta (2008, p. 458) contend that quality depends on whether the adoption is serious or countries are “label adopters”: that is, they seek the reputational cachet of IFRS, but do not innately and fully commit to them. Thus, some companies take advantage of the flexibility of IASB standards to maintain the previous national regulation, but are classified nonetheless as using international standards (Guerreiro, Rodrigues, & Craig, 2012a; Guerreiro, Rodrigues, & Craig, 2012b).

One of the few studies of accounting practice in Latin America (by Sarquis, Luccas, & Lourenço, 2014) reported on accounting systems in Argentina, Brazil, Chile Mexico and Peru – all countries that had adopted IFRS. They concluded that despite efforts to adopt or to converge with IFRS, there were significant differences in the way IFRS were applied, resulting in “national IFRS standards.” Sarquis et al. (2014) concluded that the traditional dichotomy between Anglo-Saxon and Continental European countries remained, even after the adoption of IFRS.

Several studies have analyzed earnings management practices in Latin America. Rathkte and Santana (2015), for example, studied whether earnings management by listed companies in Brazil, Chile and Peru increased or decreased after the adoption of IFRS. They concluded that accounts manipulation was reduced, financial information was more homogeneous, earnings management was reduced, and the quality of financial information was improved. Rodríguez García et al. (2017) analyzed 923 listed companies from Argentina, Brazil, Chile, and Mexico. They concluded that between 2000 and 2014, change from local accounting regulations to IFRS increased value relevance and earnings timeliness in large firms. Silva et al. (2015) concluded that the adoption of IFRS in Brazil and Chile between 2004 and 2012 reduced earnings management, although the effect was only significant for Chilean companies. In view of the above, the general effect of IFRS adoption on listed companies seems to have been positive.

### 2.2. Theoretical framework

The theoretical framework of Rodrigues and Craig (2007) is used for interpretative purposes, together with the concepts of

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