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A theoretical model of stakeholder perceptions of a new financial reporting system

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ABSTRACT

This paper proposes a theoretical model to assess how stakeholders perceive a major change of an accounting regime: for example, the adoption of International Financial Reporting Standards [IFRS] or an IFRS-based financial reporting system. Using a theory borrowing approach, the model evolves from a review of key factors that have been reported to affect perceptions of change. These factors are drawn from literature dealing with management change, institutional arrangements, psychology, information systems, sociology and financial reporting. The proposed model implicates individual, technical, situational, and change process factors as major elements. Thereby, it highlights a multiplicity of matters that influence perceptions of a financial reporting change. The emerging model holds strong prospect of improving understanding of change processes in general, and financial reporting changes, in particular. The proposed model can be used to assess how any major national financial reporting reform is (or will be) perceived, and whether or not the reform will be successful. The practical insights arising from application of the model can be particularly relevant for regulators and standard-setters in devising appropriate strategies for coping with perceived implementation problems.

1. Introduction

Mandatory adoption of International Financial Reporting Standards (IFRS) for the preparation of consolidated financial statements of companies listed in the European Union (effective from 2005) triggered widespread adoption of IFRS-based accounting systems by national governments. Such IFRS-based accounting systems are accepted commonly to be of Anglo-Saxon origin. However, some countries (such as France, Portugal, and Japan) have adopted IFRS-based accounting systems in non-Anglo-Saxon contexts. Traditionally, systems of financial reporting in these countries have focused on the needs of creditors, national tax systems, and a Latin-based legal code. In such countries, the adoption of IFRS represented a fundamental change in the way accounting and financial reporting were perceived.

Little attention has been devoted to ascertaining how fundamental changes in financial reporting systems and associated financial statements are perceived by stakeholders (Rees & Chandler, 2004). This is disconcerting because the views of stakeholders regarding the acceptability and implementation of financial reporting standards are crucially relevant. A growing

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body of change-related literature has acknowledged the importance of understanding how individuals perceive the likely success of a change initiative. Dibella (2007) aptly points out that

> Participant perceptions of change are more critical to successful change implementation than the nature of the change itself. Without the willing or active involvement of participants, change initiatives do not succeed, or they may lead to unintended or counter-productive consequences. Managing participant perceptions is a fundamental element of managing the change itself.

More needs to be known about how stakeholders perceive new financial reporting systems.

In this paper, we develop a multi-factor theoretical model to assist in evaluating stakeholders' perceptions of the financial reporting changes embodied in an IFRS or an IFRS-based model. We develop 22 propositions about factors that influence those perceptions. These are outlined in four categories: individual factors (Propositions 1.1–1.9); technical factors (Propositions 2.1–2.3); situational factors (Propositions 3.1–3.5); and change process factors (Propositions 4.1–4.5). All of the propositions advanced "rely on the work of many others ... are supported by references to various theories and research findings ...[and]... though... aimed at empirical testing, none is subjected to empirical testing here" (Gibbins, 1984). Individually and collectively, they provide a theoretical tool to comprehend and investigate stakeholders' views regarding financial reporting reforms (e.g., national adoption of an IFRS or IFRS-based model).

Most extant research has adopted a macro-oriented approach to understand change processes, using a variety of theoretical underpinnings. These include institutional theory (DiMaggio & Powell, 1983; Oliver, 1991) and resource dependence theory (Pfeffer & Salancik, 1978).[1] To a large extent, micro-level theorizing has been absent in institutional analysis, despite its importance in understanding the influence of the subjective perceptions that individuals have of institutional change (Campbell, 2004). Neves (2009) recognized the limitations of the macro approach and the need to direct attention to more micro analysis of individual issues influencing change. He called for future theories and research to adopt micro *and* macro perspectives. We respond to this call by providing a comprehensive theoretical framework encompassing both perspectives.

The model we propose complements financial reporting literature by reviewing literature in other subject areas that has addressed the way change processes are perceived. These include (in approximate order of reliance) psychology, change management, management accounting, organizational behaviour, information systems, and sociology. To the best of our knowledge, the integration of such diverse literature for this purpose is a new methodological development. Such integration enables construction of a comprehensive theoretical model – one that explains stakeholders' perceptions of local adoption of IFRS or an IFRS-based model as a complex and evolving process affected by individual, situational, technical and change process factors. The model proposed has the capacity to facilitate understanding of the degree of acceptance, by various interest groups, of the adoption of IFRS or an IFRS-based system. Such receptiveness (or lack of it) is likely to influence whether or not implementation of an IFRS or IFRS-based model will be successful in national jurisdictions. Receptiveness will be a key determinant in achieving accounting information quality goals set by the European Commission, International Accounting Standards Board (IASB) and/or International Public Sector Accounting Standards Board (IPSASB).

The proposed theoretical model will help reveal underlying issues that are likely to hinder national accounting settings from attaining full convergence with IFRS and/or effective adoption of IFRS. It will facilitate discussion of how those issues might be resolved in the future. The model can be applied to explain the reluctance of some European and non-European countries (including the USA) to embrace IFRS or IFRS-based systems. As well, it has strong capability to help develop research instruments for use in survey-based research and field interviews.

The paper proceeds as follows. Section 2 reviews extant research on stakeholders' perceptions of financial reporting. Section 3 explains the theory building approach used and the main assumptions underpinning construction of the proposed model. It outlines two fundamental elements of the proposed model (change processes and perception), describes the general features of the proposed model, and elaborates on the dependent variable. A diagrammatic representation of the model is introduced. The following four sections elaborate on the model's major independent variables: individual factors (Section 4); technical factors (Section 5); situational factors (Section 6); and change process factors (Section 7). Section 8 highlights expected contextual variations of the model. Section 9 summarises findings, presents conclusions, and suggests areas for further research.

2. Stakeholder groups and empirical research on stakeholders' perceptions

Three stakeholders' groups are regarded to be the main targets of financial reporting change: users, preparers and auditors. Studies of stakeholders' perceptions of financial statements, and of the adoption of new financial reporting systems, are summarized in Table 1.

Reading of the literature cited in Table 1 leads to a conclusion that more needs to be learnt about stakeholders' perceptions regarding the adoption of new financial reporting systems (such as IFRS-based systems). This is because most previous research has had a limited focus on the relationship between perceptions of new financial reporting systems and only one (or a few) factors, such as environmental factors (e.g., McEnroe & Sullivan, 2006) or technical factors (e.g., Lin, Chen, &

[1] This research has focused predominantly on environmental, organizational, and change process variables (Cunningham, 2006; Oreg, 2006).