Political Influence Towards IFRS Implementation In Asia

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Abstract

The purpose of this study is to examine the political influence to the IFRS implementation is Asia. Indicators used to measure how big the impact of political influence towards the application of IFRS in Asia are political stability and goverment efectiveness. This study uses secondary data from Price Waterhouse Cooper (PWC) in 2012, and analysed 35 listed countries in Asia that have adopted IFRS as a sample. The data analysis that used is logistic regression analysis with dummy variables, and using SPSS program to test the hypothesis. Based on the results of data analysis, it showed that the political stability and government efectiveness have no significant effect on the IFRS implementation in Asia.
Keywords :IFRS, Political, Asia.

1 Background

The International Accounting Standards Board (IASB) was established in 2001 to develop International Financial Reporting Standards (IFRS). A year later, European Union (EU) member states committed to requiring IFRS for all listed corporations in their jurisdictions effective year 2005 (EC, 2002). The first IFRS was issued in 2003, by which time at least 19 countries required compliance with the international standards. Since then, nearly 70 countries (including EU countries) have mandated IFRS for all listed companies. Further, about 23 countries have either mandated IFRS for some listed companies or allow listed companies to voluntarily adopt IFRS. However, as of 2007, at least 40 countries continue to require domestically developed accounting standards over IFRS, and this list includes some large economies like Brazil, Canada, China, Japan, India, and the US. We investigate why there is heterogeneity in countries' decisions to adopt IFRS; in other words, why some countries adopt IFRS while others do not. Understanding countries' adoption decisions can provide insights into the benefits and costs of IFRS adoption.

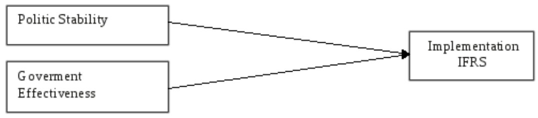
Over the 2001–2012 period, countries have varied in the degree and timing of their commitment to IFRS. There are a number of plausible hypotheses for this variation, including cultural differences, differences in corporate governance environments, technological differences, and differences in countries' natural resources (e.g., Ramanna and Sletten, 2009). In this paper, we investigate how some of these fundamental jurisdictional differences manifest in the international political dynamics that can contribute to countries' responses to IFRS. Using in-depth analysis of data gathered across a series of countries, I develop a framework that can help characterize the international political dynamics of the globalization of accounting standards. The framework can be used to help explain and predict countries' decisions on IFRS implementation. Moreover, the framework can yield insights into the nature of IFRS itself and its potential structure in the future.

The emerging theory presented in this paper is based on an analysis of the IFRS implementation strategies. Using The Worldwide Governance Indicators of six broad dimensions of governance. We first describe unique elements of these Theworldwide Governance Indicators, domestic political that are shaping their IFRS policies. Then, based on this analysis, we isolate two principal dimensions that can be used to characterize the Worldwide Governance Indicators responses to IFRS. The dimensions represent two components of the international political dynamics of IFRS implementation. The dimensions are: a Political Stability and Absence of Violence to existing political powers at the IFRS' rule-making body, the International Accounting Standards Board (IASB); and Political Stability and Absence of Violence own potential political power at the IASB. Based on how countries are classified along these dimensions, I offer predictions, ceteris paribus, for their responses to IFRS.

We use the political stability to develop our hypotheses: adopting a set of standards like IFRS can be more appealing to a country if other countries have adopted it as well (in this sense, IFRS can be a product with "network effects"). In other words, countries do not adopt IFRS all at once, and the observed inter-temporal increase in IFRS adoption across countries can be due to the growing value of the IFRS "network." We focus our analysis on a sample of 30 countries in the continent asiaand Political Stability and Absence of Violence over the period 1996 through 2011. We exclude the EU member states from our tests because their decision to adopt IFRS was closely tied to the establishment of the IASB itself (EC, 2000). Moreover, the EU member states committed jointly to adopting IFRS (EC, 2002) making an analysis of their individual adoption decisions infeasible. In the case of the IFRS adoption decision by a country, we argue the direct benefits are represented by net political value of IFRS over local standards.

The net political value of IFRS is the benefit arising from the potential political nature of international accounting standard setting: if IFRS standard setting can be influenced by political lobbying, more powerful countries are more likely to be able to shape IFRS. The prevailing position of the EU in IFRS standard setting, however, can override this argument. If countries expect the EU to have a dominant role in IASB affairs (Brackney and Witmer, 2005), they are likely to have to cede some authority over standard setting to EU interests. Ceding authority over local standards is, in turn, likely to be less palatable to more powerful countries, which leads to the prediction that more powerful countries are less likely to embrace IFRS.

There is also evidence that political considerations affect IFRS adoption decisions. We find that more powerful countries are less likely to adopt IFRS, consistent with more powerful countries being less willing to surrender standard-setting authority to the IASB. Country-level power is measured as the first principal component of a set of proxies for countries' abilities to influence international decision making (including their size and popularity within the United Nations). In contrast to the results on power, we do not find evidence of countries' cultural closeness to the EU influencing their IFRS adoption decisions, where more Christian countries and countries with long settled colonial relations with EU powers are considered culturally closer to the region.



The hypotheses in this research are :

H_1	=	Political stability influential on the implementation of IFRS
H_2	=	Effectiveness of government influential on the application of IFRS

2 Research Method

2.1 Dependent Variables

The dependent variable is the variable to be tested whether it can be influenced by the independent variable. The dependent variable in this study is the application of IFRS. The dependent variable of the application of IFRS is computed using dummy variables. Where countries have adopted IFRS and are given a score of 1 was given a score of 0 does not apply

2.2 Independent Variables

Independent variables are variables that affect the dependent variable. For independent variables consisting of government effectiveness and political stability is calculated using the Worldwide Governance Indicators contained in the World Bank website. The indicator will show whether the political level will affect the application of IFRS in the countries concerned.

2.3 Sample and Population

The population used in this study is a country – a country that is included in the Asian Continent. The method used in the census sampling method in which the sample is selected is the whole of the total population. The sample in this study amounted to 35 countries listed in the report state implementers IFRS.

The data in this study used secondary data issued from Price Waterhouse Cooper (PWC) in 2012 for the dependent variable that contains the data states - countries that apply IFRS. For the independent variables using the Worldwide Governance Indicators index which can be downloaded from the site worldbank.org.

2.4 Analysis Tools

This test uses a multivariate analysis using logistic regression. This analysis technique does not require the normality test and classical assumption on the independent variables. Logistic regression models were used to test the following hypotheses:

$$IFRS = \alpha + \beta_1 Political + \beta_2 Government + \varepsilon \quad (1)$$

Description:

IFRS	=	IFRS Adoption Dummy Variable
α	=	Constant
$\beta_1 - \beta_2$	=	Regression Coefficient
Political	=	Political Stability Index
Government	=	Government Efectiveness
ε	=	Redisual

3 Results and Discussion

3.1 Research Object Description

Population in this research is a country - a country that is included in the Asian continent. The method used in the census sampling method in which the sample is selected is the whole of the total population. The sample in this study amounted to 35 countries listed in the report state implementers IFRS. Where the state has not applied IFRS 8 and 27 countries have implemented IFRS.

3.2 Hypothesis Testing

Feasibility test the regression model

The first analysis conducted was to assess the feasibility of the logistic regression model to be used. Testing the feasibility of testing the feasibility of logistic regression logistic regression was performed by using Goodness of fit test as measured by the value of Chi-Square test at the bottom of Hosmer and Lameshow.

Results of our test show that the significance level of 0.697, where the level of significance is much greater than the value of α is 5%, then Ho is accepted. This means that the regression model fit for use in subsequent analyzes.

Overall test models

The next step is to test the model overall. Testing is done by comparing the values between -2 Log Likelihood at the beginning of the end value of -2 Log Likelihood. Value of -2 Log Likelihood start dihasilakn in this study is 37.736 and the value of -2 Log Likelihood end amounted to 35.884. Seen a reduction in the value of -2 Log Likelihood that shows that the hypothesized model fit the data.

The coefficient of determination

The coefficient of determination in logistic regression can be seen from the value of Nagelkerke R Square. In this study Nagelkerke R Square value is 0.074 which means that the variability of the dependent variable that can be explained by the independent variables were 7.4% and 92.6% explained by other variables outside our model.

Multicollinearity test

Test multiple correlation in this study is needed to see is there was a high correlation between the independent variables. In this study the results obtained in which the correlation between independent variables is below 0.98. Therefore concluded that there are no symptoms of serious multicollinearity between independent variables

Classification matrix

Classification matrix is used to look at the predictive power of the regression model to predict the possibility of the application of IFRS in negara2 in Asia. In this enelitian obtained the possibility of applying IFRS amounted to 96.3% and the predictive power of the model companies that do not apply the IFRS is 0%.

Test the regression coefficients

Tests conducted by the regression coefficient logistic regression shown in the following table.

Variables in the Equation

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	political	.682	.553	1.522	1	.217	1.978
	government	-.726	.671	1.173	1	.279	.484
	Constant	1.644	.570	8.324	1	.004	5.174

From the table above the two independent variables that were tested did not significantly affect the application of IFRS due to the resulting significance value is more than the value of α of 5%.

Based on this information the equation logistic regression models obtained are as follows:

$$IFRS = 1,644 + 0,682 Political - 0,762 government + \varepsilon \quad (2)$$

3.3 Discussion

Political stability relation to the application of IFRS

Political stability variable test results showed a positive coefficient of 0.862 with a significance level of 0.217. It can be concluded that political stability had no significant effect on the application of IFRS in the country - a country in the continent of Asia. Koefisian a positive value indicates the direction in which the relationship is getting better political stability will increase the possibility of the application of IFRS.

Effectiveness of government relations with the implementation of IFRS

Results of testing the effectiveness of the government on the implementation of IFRS addressing the negative coefficient of 0.726 with a significance level of 0.279. This shows that the government does not affect the effectiveness of the implementation of IFRS. Negative coefficients indicate a relationship in the opposite direction, which means that IFRS will be applied if the increased government effectiveness.

4 Conclusions and Suggestion

4.1 Conclusion

Based on the data analysis and discussion that has been done, it can be concluded that the level of political stability and government effectiveness has no significant effect on the application of IFRS in the country - a country located in Asia.

4.2 Limitations of The Study

Limitations in this study are as follows:

1. Only examined countries - countries in the Asian continent

2. This usage using indices issued PriceWaterhouseCoopers issued April 2012. It is not loaded several countries that have implemented IFRS.

3. This study has a value of R square is small at 7.4% and there is still a 92.6% explained by other variables not tested

4.3 Suggestion

1. For future researchers can examine the state is expected to apply IFRS not only in Asia but other parts of the region aims to get more results varied

2. Subsequent researchers also expected to add new variables such as control of corruption, legislation - laws and regulatory quality.

References

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