

THE POLITICAL ECONOMY OF CONVERGENCE: THE CASE OF IFRS FOR SMEs

1.0 INTRODUCTION

This paper examines the processes used by the International Accounting Standards Board (IASB), in achieving widespread convergence to the International Financial Reporting Standards (IFRS) by developing economies. Global convergence of financial reporting standards is a politically motivated agenda. The movement towards standardisation of financial reporting has been described in various ways including, adoption, application, transitioning, implementation (Brown and Tarca 2012), harmonization (Strouhal 2012) and convergence (Stevenson 2012; Street 2012; Pawsey, Brown and Chatterjee 2013). In this paper the term convergence encapsulates the efforts by developing countries to revise their national standards to be the same as IFRSs. The *IFRS for Small and Medium sized Enterprises* (IFRS for SMEs) was partly to facilitate developing economies' commitment to convergence (UNCTAD 2009). Introducing a two-tier system implied by a special *IFRS for SMEs* is the first synthesis of the international convergence process (Rodrigues and Craig 2007). Given that small and medium sized enterprises (SMEs) are increasingly important in the global economy, it is equally important that there is a clear set of principles underpinning financial reporting for these entities. However, there is limited discussion on the development of the *IFRS for SMEs* in the academic literature. Only very recently have academics from developing countries engaged in discussions on IFRS for SME adoption (Phang and Mahzan 2013). Therefore, this paper provides an understanding of the activities that led to the promulgation of the standard and the efforts of the World Bank, the United Nations and other international organisations to bring this issue onto IASB's agenda since early 2000. This paper is timely as the IASB has commenced its comprehensive review of the *IFRS for SMEs* (IASB 2012).

This paper is motivated by the observation made by Tinker and Carter (2003: 578) that academics must ‘undertake the hard theoretical and experiential task of uncovering the political mechanisms by which “thought” is transformed into action’. Hence, we argue that assessing the efficacy of the IASB’s mechanisms to develop the *IFRS for SMEs* entails ‘a blend of social and accounting analysis which is a necessary (but not sufficient) step towards a politically progressive displacement of the present crises of capitalism’ (Tinker and Carter 2003: 578).

The convergence to IFRS supports the current globalised era to the benefit of the transnational corporations and facilitates the positioning of international accounting firms (Martinez-Diaz 2005). We share the sentiment of Brown (2004) that the establishment of standards entrusted exclusively to a small circle of western experts makes it difficult to develop global accounting standards that are inclusive of the needs of all people. Our paper has relevance to the Australasian and international academics, professional accounting bodies and regulators as it uncovers the political interplays in the standard setting processes and, in particular, how the developing economies respond to the pressures of globalisation and convergence to IFRS.

Developing economies are not sufficiently represented in the discussions leading to the formulation of the standard (Chand et al. 2008; Bohušova and Blaškova 2012; Shutte and Buys 2011c). There were limited opportunities for SMEs from developing economies to voice their concerns and make suggestions on how progress could be made. Only in 2007 did the IASB recruit more voices from SMEs and carried out a number of field studies, yet, we believe these efforts have not provided a desirable balance of input into the standard setting process by both academics and developing economies. Whilst developed economies took their time to consider the merits of convergence, most developing economies were compelled through institutional pressures to commit to the convergence (Potter 2005; Zeghal and

Mhedhbi 2006). This paper highlights the political economy of convergence and the lack of empirical research on SME users and their needs in developing economies.

The remainder of the discussion is organised as follows: section 2 provides the background explicating the political economy of convergence; section 3 outlines the development of accounting standards for SMEs; section 4 discusses the lack of voice from developing economies and the lack of academic input in the standard development process; section 5 raises issues confronting the IASB; and section 6 concludes our discussion and suggests a way forwards in the endeavour to achieve convergence of IFRS for SMEs in developing economies.

2. POLITICAL ECONOMY OF CONVERGENCE

There is growing literature on IFRS convergence that focuses on providing an alternative explanation for the diffusion of IFRS incorporating social and political factors within the politics of global governance (Burrowes 2006; Chua and Taylor 2008; Rodrigues and Craig 2007; Brown 2011; Pope and McLeay 2011; Sunder 2011; Pawsey, Brown and Chatterjee 2013). Chua and Taylor (2008) question why the development of a set of global accounting standard is left in the hands of a private sector organisation, IASB, given that in the mid-nineties there were several intergovernmental groups working specifically in the area of accounting such as the Organisation for Economic Co-operation and Development (OECD) Working Group on Accounting Standards, the United Nations Conference on Trade and Development (UNCTAD) expert group on International Standards on Accounting and Reporting (ISAR) and the European Union's Accounting Advisory Forum. The diffusion of IFRS through a private agency is seen as 'largely a political exercise engineered by a coalition of powerful interest groups which included regulators and a globalising accounting and audit industry' (Chua and Taylor 2008: 469). The IASB, by introducing the IFRS, has

‘served to codify the political economic changes’ (Perry and Nölke 2006 :560), which may not be in the best interests of many countries.

IFRS convergence is seen as a ‘profoundly political process which reflects the relative power of organised interests and actors’ (Covaleski et al. 1993: 66). ‘Power’ in this context is seen as the probability that actors, in a social relationship, will be able to carry out their own will, despite resistance (Dillard et al. 2004; Rodrigues and Craig 2007). Chua and Taylor (2008) draw on an institutional theorists’ argument that once powerful first movers act to either adopt or endorse IFRS others follow. Following the European Union’s endorsement of IFRS in 2002 and the International Organisation of Securities Commission (IOSCO) endorsement in 2000 (Camfferman and Zeff 2007), Australia and New Zealand and many other developed economies followed suit in their desire to achieve legitimacy. Similarly, when the World Bank and the International Monetary Fund, recommended the adoption of IFRS, many developing economies in Asia complied (Chand 2005; Singh and Newberry 2008). After IOSCO endorsement, other developing economies, for example, Bahrain (Joshi and Al-Basteki 1999), Zimbabwe (Chamisa 2000), and Egypt (Hassan 2008) were pressured to adopt International Accounting Standards (IAS)¹. The key difference between most developing and developed economies that adopted IAS was that in the developing economies, the application of IAS was imposed on all business entities incorporated as companies under their respective national legislation (IASB 2004). Thus, the process towards a single set of IFRS issued by the IASB is seen as being more about political and social dimensions of globalisation than it is about the alleged economic benefits of IFRS convergence (Chua and Taylor 2008; Rodrigues and Craig 2007).

¹ Standards issued by the IASC. Those issued by IASB are known as IFRS. In this paper, the references to IAS and IFRS are made interchangeably.

In December 1988 IASC embarked on a project to study the needs of developing and newly industrialised economies for accounting standards (Wallace 1993). In April 1989 the IASC Board set up a Steering Committee to develop accounting standards for developing/newly industrialised economies. An Issues Paper was prepared but no further action was taken because ‘the IASC secretariat has to tackle more urgent matters before proceeding with the project’ (Wallace 1993: 121).

As early as 1980 it was argued that a dual standard approach involving primary and secondary standards might be a solution (Enthoven 1981). However, such notions were generally rejected by the IASC. In the context of international harmonisation, it was highlighted that an IAS may be worthwhile for a transnational enterprise but not for a domestic enterprise in a developing economy. The issue was again raised as to whether IASC should prescribe differential rules ‘Why should a local business community operating in a totally domestic environment adopt IASs which are formulated on the basis of operations in an international capital market?’ (Wallace 1993: 136).

It took two decades before the IASB recognised that ‘one size fits all’ is not appropriate (UNCTAD 2009). In 1998, IASC brought back onto its agenda a slightly different version of the project named *Financial Reporting Needs of Emerging Economies and Economies in Transition* (CAPA 2003; Singh and Newberry 2008). A preparatory committee was appointed but no work was undertaken. The issue of ‘political visibility’ of complying with the IASs was an issue.

Many developed economies, despite their technical expertise and more conducive regulatory infrastructure, found the requirements of the IFRS unduly onerous for small entities and implemented a differential reporting regime. For example, in Australia and New Zealand only

those entities defined as ‘reporting entities’ are required to comply with IFRS (CAPA 2003). In Europe, a high level of country-specific differentiation for non-listed companies is also practised (Jermakowicz and Gornik-Tomaszewski 2006). CAPA (2003) noted that none of the developing economies had a differential reporting regime in 2003. This is particularly disturbing when considering the situation in most developing economies where the biggest enterprise is equivalent to, if not smaller than, a relatively small enterprise in a developed economy.

The initiatives towards international convergence of accounting standards were primarily driven by the globalisation of financial markets efforts and to meet securities regulators’ expectations (Hora et al. 1997; UNCTAD 2009). The IFRS, primarily promulgated by and for use in advanced economies, were perceived as not serving the competing demands of developing economies equally well (CAPA 2003). Most of the developing economies are largely supported by SMEs and their capital markets are underdeveloped.

3. DEVELOPMENT OF *IFRS for SMES*

The lack of a developed accounting infrastructure has been identified by many multilateral aid agencies (such as the World Bank, the OECD, and the Asian Development Bank) as a major obstacle to economic development in the developing nations (Kurtzman et al. 2004). UNCTAD contends that a lack of accountability contributes to financial instability, discourages foreign direct investment and acts as a brake on aid panels. From an entity perspective, lack of transparency and inadequate financial disclosure leads to difficulties in obtaining finance and lack of knowledge further hinders entity progress (Kurtzman et al. 2004). To this end, UNCTAD recognised the need for a user friendly, understandable and flexible financial accounting and reporting system that accommodates the needs of SMEs at various stages in their development that will provide reliable accounting records and generate

meaningful financial information. UNCTAD proposed a three-tier reporting framework (UNCTAD 2009). Thus, the key instigator for the *IFRS for SMEs* was the UNCTAD's Intergovernmental Working Group of ISAR, which published an *Exposure Draft on Guidelines for Small and Medium Enterprises* in August 2002 (CAPA 2003).

A Confederation of Asian and Pacific Accountants survey informed that respondents preferred that IASB take up the challenge of issuing the SME standards since it is the global standard setter (CAPA 2003). However, there was resistance in IASB to develop a standard for SMEs: 'the process was also lengthened by the problem that some IASB members were opposed in principle to the very idea of an SME standard and fought every concession that the staff proposed' (UNCTAD 2009: 119).

The IASB first discussed the issue of developing standards for SMEs with the Standards Advisory Committee in July 2001; but it was not until July 2003 that the SME project was added onto their agenda. The IASB discussed the issue with the SAC in February 2004 (Deloitte Touche Tomatsu 2006) and a discussion paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* published on 24 June 2004 (IASB 2004)

A World Bank report (Hegarty et al. 2004) anticipated difficulties were likely to be encountered:

Full IAS/IFRS are not appropriate for use by all reporting entities; full IAS/IFRS should be used unchanged as the standards for public interest entities, and separate standards should apply to other entities (the "Big GAAP/Little GAAP" distinction). National standard-setters thereby become setters of "Little GAAP" until the IASB issues a separate set of standards suitable for use by such other entities. It will be interesting to monitor the experience of national standard-setters in the EU, subsequent to the introduction of IAS/IFRS in 2005, to determine whether a national body limited to setting "Little GAAP" can continue to attract the human and financial resources necessary to do its job properly, as well as ensure that national concerns are properly considered in the IASB's standard-setting process.

The lack of grounded research appeared to prompt the IASB to seek responses to the proposed simplifications by way of a Roundtable Discussion in October 2005 (Singh and

Newberry 2008). There were extensive discussions on implementation strategies to adopt or converge with IFRS and the challenges encountered during the process (IFAC 2004). For example, a Symposium on International Convergence of Accounting in Emerging Markets and Transition Economies was jointly hosted by the IASB and the China Accounting Standards Committee (CASC), in Beijing in July 2007. Representatives from 17 developing economies, the World Bank and the UNCTAD participated. It was noted that strengthening cooperation with emerging markets and transition economies in the development, implementation and training of accounting standards would encourage developing economies to participate in international convergence (UNCTAD 2007:5).

In 2007 the IASB issued an exposure draft (ED), the *ED: IFRS for SMEs*. 116 small entities from 20 countries were invited to field-test the ED. Only nine of the 20 were developing economies. A working group of IASB analysed the results of the trials and submitted their comments to IASB by July 2008. The IASB changed the title of the standard three times: ‘IFRS for Private Entities’ (May 2008) to ‘IFRS for Non-publicly Accountable Entities’ (January 2009) and finally to *IFRS for SMEs*’ (April 2009). Subsequently, the IASB deliberated over the comments and recommendations, and, with 13 of the 14 Board members in favour, the final version of *IFRS for SMEs* was published in July 2009. Whilst the need for the *IFRS for SMEs* was clearly articulated, the time taken for formulating the standard was lengthy, over a period 2003 to 2009, as seen in Figure 1.

Figure 1: Due Process for the IFRS for SMEs

Due process steps leading to the IFRS for SMEs

- Project was carried forward from the former IASC agenda. IASB deliberations began in July 2003.
- **June 2004:** Publication of the discussion paper (DP) Preliminary Views on Accounting Standards for Small and Medium-sized Entities; comment deadline 24 September 2004
- **April 2005:** Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs).
- **October 2005:** Public round-table discussions with the Board on recognition and measurement simplifications.
- **July 2003 - February 2007:** Deliberation of the issues by the Board at 31 public Board meetings.
- **August 2006:** A complete staff draft of the exposure draft (ED) is posted on the IASB website
- **November 2006:** A revised staff draft is posted on the IASB website.
- **February 2007:** Publication of the ED (English language); comment deadline 30 November 2007
- **November 2007:** Translations into four languages posted subsequently.
- **April 2007:** Publication of a staff overview of the ED on the IASB's website.
- **June 2007:** Field-testing of the ED with the participation of 116 small companies in 20 countries
- **November 2007:** End of the comment period; 162 comment letters received.
- **March - April 2008:** Staff present to the Board an overview of the main issues raised in the comment letters and field tests.
- **April 2008:** Working Group submits comprehensive recommendations for possible changes to the ED.
- **May 2008 – April 2009:** Board redeliberations of the proposals in the ED at 13 public Board meetings.
- **April 2009:** Board decides that the name of the final standard will be International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), as proposed in the ED.
- **June 2009:** 13 Board members vote in favour, 1 dissenting opinion.
- **July 2009:** Publication of the IFRS for SMEs

Source: <http://www.ifrs.org/IFRS-for-SMEs/histroy/Pages/History.aspx>

The development process appears to be unduly lengthy because of limited empirical evidence on needs of SME financial report users, an inappropriate capital market assumption, and lack of support from developed economies. The limited empirical evidence on needs of SME financial report users has been well documented (Lungu et al. 2007; Deaconu et al. 2009). Deaconu et al. (2009) analyse the comment letters to the IASB following the 2007 *ED: IFRS for SMEs* to find long-term viability, cash flow estimation and past and future performance were the most important features to satisfy specific needs of 27 owner-managers. However, this has little to say about the ‘real’ information needs or identification of other users of SME financial reports. The European respondents to the IASB standard identified a lack of attention to ‘the stakeholders specific to SMEs and their needs’ (Deaconu et al. 2009:1).

SMEs are very different from global corporations in highly developed capital markets. They have different stakeholders, objectives and accounting demands (Baker and Barbu 2007; Cole et al. 2009; Mage 2010). SMEs are not only different from big business, they are also a heterogeneous group (Devi and Samujh 2010), that are more likely to be focussing on survival than on growth and profit maximisation (Bunea-Bontas et al. 2011; Samujh 2011). Schutte and Buys (2011a) claim the informality of SMEs does not sit well with the adoption of accounting standards for SMEs. They suggest formality could restrict the culture needed for entrepreneurial endeavours. They note SMEs, unless they are trading globally, are close to their cultural communities and roots.

SMEs because of their size and lack of availability of in-house business skills tend to operate locally. They are not interested in international trading (Lungu et al. 2007). Thus, it is claimed that there is no benefit for entities that operate locally to follow *IFRS for SMEs* (Jerman and Ivankovic 2011). Accounting reports for SMEs frequently take their reference point from the national taxation authorities (Briciu et al. 2009). *IFRS for SMEs* are not prepared for use in taxation revenue gathering. Compliance with *IFRS for SMEs* for many SMEs, would require unnecessary accounting reporting (Baldarelli et al. 2007; Jerman and Ivankovic 2011; Lungu et al. 2007). Dick and Walton (2007) question whether IASB has selected appropriate transactions to incorporate in the *IFRS for SMEs*. They believe that the varied natures and sizes of SMEs create the main problems for the IASB. If IASB gathered empirical evidence on the needs of SME financial report users they would have been better positioned to develop a relevant and more acceptable '*IFRS for SMEs*'.

Reduced disclosure requirements of the *IFRS for SMEs*, whilst using the same capital-market orientation of the IFRS, appears to us, to be out of touch with SME operations and user requirements of financial reports. Further, the requirements are still too complex for smaller

entities with a simple business model (Neag et al. 2009). South African research finds that bankers do not need the extensive and complex information provided by adherence to the *IFRS for SMEs* – they require limited purpose reports (Van Wyk and Rossouw 2009). This research reinforces the need to identify users of SME financial statements and then to identify the predominant information needs of those users. Provocatively, Baldarelli et al. 2011), ask if the IASB exercise of simplification is really an exercise in creating information loss for SMEs and their stakeholders! They observe the IFRS do not fit well with an economy based on social ownership or an investor-orientated approach, as in Croatia a developing country.

Access to global financial markets and the expansion of global business has been reliant, to some extent, upon the development of a set of accounting standards, which facilitate the capital markets, both domestically and internationally (Baker and Barbu 2007). It appears that the general purpose of financial reporting is ‘geared to the conventionally assumed interests (per economic and finance theory) of investors.... consistent with the presumption of one type of capitalism, broadly equating to the Anglo-American variant’ (Gallhofer and Haslam 2007: 643). The IASB set out to create ‘technically competent standards to meet the needs of advanced capital markets and the regulation of international capital inflows’ (Richardson and Eberlein 2011: 217) without appropriate cognisance of differing cultural, political, legal and economic structures and beliefs of the developing economies.

The capital market assumption is a stumbling block for SMEs (Alp and Ustundag 2009), which are more concerned with liquidity and solvency (Mage 2010). The diversity of local accounting practices for SMEs (and whether they keep accounting records at all), is affected by a large number of factors (Baker and Barbu 2007) that includes: stage of development of the local economy; legal systems; local and national government regulations; property rights;

social climate; currency stability; existence of accounting laws; a 'recognised' accounting professional body; and education levels.

Bakre (2009) argues that under the influence of transnational commercial firms, and supported by the IFRS those firms use, Jamaica is being forced to follow capitalistic principles of capital accumulation and profit maximisation, which conflict with the local accounting needs and practices. This serves as a warning to other developing economies, who may wish to follow socialist or community-centered values. The IASB has become the recognised authority on international accounting standards even though the standards are neither legally binding nor technically binding (Richardson and Eberlein 2011).

The major shift in accounting policy underlying the IFRS from transaction-based historical accounting to a forward looking fair value basis of accounting (Perry and Noëlke 2006) requires a huge mindset change for SMEs which are still grappling with many of the above factors. As the accounting standards move toward 'relevant' standards based on professional interpretation of future activity (Zeff 2005a, 2005b), there is a sense of separation as advocates for a simplified accounting system for the SMEs argue this should be based upon historical information and be transaction-based, much the same way that accounting has historically been done (Rieger 2006; Hanson 2006). This raises concerns about the impact of globalisation and convergence if the IFRS were adopted unquestioningly without consideration of the possible implications for domestic SMEs.

Addressing accounting standards overload on SMEs is crucial in both developed and developing economies. However, for developing countries which do not have well developed accounting standard-setting mechanisms, the *IFRS for SMEs* could assist by providing a ready-made set of standards. Further, the cost of maintaining national standards would be significantly reduced (Bunea-Bontas et al. 2011). The World Bank supports the adoption of

standards as an easy path for developing economies where no national standards exist (Lungu et al. 2007). However, when sharing the experiences from Romania, Briciu et al. (2009: 316) state the *IFRS for SMEs* come with ‘a lot of interferences, convergences and divergences.’

A significant number of developing economies do not have well-developed capital markets (Saudagaran 2004) or accounting infrastructure in terms of organised professional body, technical expertise and resources (CAPA 2003). For example, the debate in the Philippines revolves around whether accrual or cash accounting is more applicable for SMEs (Cudia 2008).

By contrast, most developed economies have differential reporting regimes in place. In fact, a few developed countries decided not to adopt the *IFRS for SMEs*. In December 2010, the Australian Accounting Standards Board communicated their intention to follow a ‘reduced disclosure regime’ to the IASB (Australian Accounting Standards Board 2010). Similarly, New Zealand moved to reduce the compliance costs for smaller domestic entities. On 31 July 2012, a Financial Reporting Bill was introduced in New Zealand to remove requirements for financial statements to provide a ‘true and fair view’ (NZ Government 2012). Many SMEs in Australia and New Zealand do not need to prepare general purpose financial reports, with partial or full implementation of the IFRS. Instead, they will prepare special purpose financial reports in compliance with taxation regulations. These countries may set a trend by offering options and support for developing economies that do not consider the *IFRS for SMEs* meet their needs. Whilst the developing countries recognised the need for an *IFRS for SMEs*, they generally did not have sufficient representation on IASB.

4. MISSING VOICES (FROM SMES AND ACADEMICS)

The voices of the SMEs have been ignored in debates dominated by the global players (Fearnley and Hines 2007). The IASB is substantially funded by large multinational corporations and elite accounting firms, which engenders a ‘cosy arrangement for a narrow band of stakeholders such as investment bankers, international institutional investors and Big Four accounting firms, but not for other member groups of the global community that IAS/IFRS claim to serve’ (Brown 2004: 385). Like in any capital rationing scheme, sometimes attention is paid to those with the loudest voice or the largest clout. Developing nations, and specifically SMEs, have been largely absent from the international radar simply because they are not significant players in the international capital markets (Brown 2004). They have little influence and hence little impact on the decisions taken. There is a perception, driven in part by IOSCO, that the multi-national enterprises and their needs were most important (Meek and Thomas 2004).

A lack of interest and expertise at IASB to take forward the SME project was observed by UNCTAD (2009: 119):

Some of the SME committee members were somewhat frustrated ... because they thought that the IASB members had little or no experience of SMEs. Also they thought the process would take a long time if done at all, and the IASB would be reluctant to issue what could be seen as a diluted form of their standards when the IASC had had so much trouble with companies adopting IAS voluntarily ...

Developing economies that have experienced the power exerted by the western development and finance agencies may be reluctant to resist the efforts of the IASB to promote the *IFRS for SMEs*. They may feel that they have no option but to embrace the ‘proper’ standards, regardless of any unintended consequences or detrimental aspects, for the sake of ‘global

harmony'. Efforts by local professional bodies in Jamaica and the Philippines to represent the interests and needs of the local communities were seen as opposing the globalisation efforts of the Anglo-American block (Bakre 2008; Dyball et al. 2007).

It may be increasingly difficult for developing economies to sway opinions of those in power at the IASB because 'with the IASB structure already heavily weighted towards European and US interests, countries outside of the US/European realm will find it increasingly difficult to have their voices heard in debate on technical issues and the costs associated with convergence' (Chand and Cummings 2008: 179).

It appears to us that the IASB members have opportunities to learn, as expressed by a Syrian professional accountant (Gallhofer et al. 2011: 391): 'it is more open-minded to learn from the outside world and humble enough to do so. Westerners I have dealt with seem to be more stubborn and portray the situation as my way or no way, consequently, they do not think outside the box'. Even the IASB expanded the 2005 Working Group² to include 'real users' of small company financial statements, but no academics from the developing economies (Deloitte Touche Tomatsu: 2006).

A survey conducted during the World Congress of Accounting Educators and the World Congress of Accountants in Hong Kong in November 2002 had revealed a lack of awareness of key participants in the financial reporting process, specifically, the academic and accounting practitioners about the UNCTAD initiative (CAPA 2003). At that time there was still much resentment to the prospect of 'Big GAAP and Small GAAP' especially among participants from the developed economies (UNCTAD 2009).

² The Working Group's role is to assist IASB in its project to develop a set of financial reporting standards suitable for SMEs. (<http://www.iasb.org/About+Us/About+Working+Groups/Small+and+Medium-sized+Entities>)

Further, involvement of the academic community is hardly visible from the responses to the discussion paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* on 24 June 2004 (IASB 2004). Table 1 summarises various key players that submitted comments to the IASB and highlights the absence of developing economies and academics.

Table 1: Respondents to IASB Discussion Paper

Country	Prof. body	National standard setter	Govern-ment	Practice	Academia	Commerce and Industry	Other	Total
Developed economies	30	9	6	11	4	7	3	70
Developing economies	2	1	2	3	1			9
Others	9	3	3	1			2	18
European org.	2		2	1		3	4	12
International org.	2					1	1	4
International Accounting firms				3				3
Regional accounting bodies	2							2
Individuals							2	2
Total	47	13	13	19	5	11	12	120

Source: Adapted from Singh and Newberry (2008:496-497).

Of the 120 respondents, there were only one academic and eight other voices from developing economies. We conclude, from analyses of the discussions at the IASB Board meetings, the Board members had a scant knowledge of the issues facing the Board and inconclusive evidence to act upon.

More recent declarations from the IASB make it clear that questions and discussion are welcomed (IASB 2012) but cynics suggest that exposure drafts and discussions are merely a means to legitimise standards and that comment letters are a waste of time and effort (Biondi and Suzuki 2007). IASB understanding of ‘the history of accounting thought or of its development in all geographical locations’ is questioned by Stevenson (2010: 311). Further,

Gallhofer and Haslam (2007) report a disturbing lack of willingness to consult by the IASB when lobbied to support transparency within the extractive industries.

Subsequent to the adoption of the IFRS by developing economies, there has been increased monitoring of the implementation of the standards in these jurisdictions by academics. For example, Alp and Ustundag (2009) studied the efforts made in Turkey to adopt the standards. They find a number of difficulties were experienced viz.,

- a) Translation from English, with underlying concepts and terms that are difficult to translate into the local language;
- b) Complexity and structure of the standards, including the conflict with local legislation and interpretation of the principle-based standards; and
- c) Knowledge shortfall – lack of education and training for professional accountants.

These difficulties foreshadow what other developing economies may face when implementing the *IFRS for SMEs*.

Richardson and Eberlein (2011) point out that the operating language for the standards and discussion papers is English, and although the IFRS had been translated into 41 languages, very few of the other outputs of the IASB are translated. By March 2013, translations of the *IFRS for SME* had been completed in 26 languages (IFRS 2013) of which only two relate to developing economies.

A lack of critical examination of issues surrounding the adoption of international accounting standards was uncovered by Biondi and Suzuki (2007). Tongue in cheek they recall how the European Parliament proposal to adopt IFRS in March was passed without serious discussion. ‘Arguably, this may have been the fastest resolution among various influential decisions over business administration in the European Parliament’ (Biondi and Suzuki 2007: 591). Where were the academics commenting on the likely implications and seriousness of

the step that was so un-discussible? Perhaps they were convinced by the rhetoric of such phrases as ‘high quality’ and ‘in the public interest’ and that local national differences could be sacrificed at the altar of the great gods of free markets and global trade!

Dick and Walton (2007: 12) observe that whilst ideally ‘standard-setters should be able to rely on research to shed light on the issues that confront them’ there is a lack of availability of such research. However, they also observe that it is difficult to research issues that might arise whilst proposals are still being developed. Our search for literature on the *IFRS for SMEs* revealed only a few developing countries had been examined in the academic literature since 2008 (see Table 2). The World Bank lists 144 developing countries, yet the literature only refers to 13 (9%) of those countries.

Table 2: Literature on *IFRS for SMEs* from Developing Economies

	Country	Author and Year
1	India	(Masca et al. 2010)
2	Indonesia	(Masca et al. 2010)
3	Korea	(Masca et al. 2010)
4	Malaysia	(Masca et al. 2010; Phang and Mahzan 2013)
5	Philippines	(Deaconu et al. 2009, Masca et al. 2010)
6	Romania	(Albu et al. 2010, 2011a, 2011b, 2012; Briciu et al. 2009; Bunea et al. 2012; Fekete et al. 2012; Masca et al. 2010)
7	Slovak Republic	(Paseková, et al. 2010)
8	South Africa	(Schutte and Buys 2011a, 2011b, 2011c; Stainbank 2011; Van Wyk and Rossouw 2009)
9	Thailand	(Masca et al. 2010)
10	Turkey	(Kaymaz and Karaibrahimoglu 2011; Lutilsky and Percevic 2006)
11	Ukraine	(Paseková et al. 2010)
12	Vietnam	(Masca et al. 2010)
13	Zimbabwe	(Kubičková 2010)

We note that Masca et al (2010) provided commentary on eight of the developing economies.

It appears that Romania and South Africa have received the most attention. Much more

research is necessary to provide the cultural and historical context of accounting in the developing economies to provide understanding to the IASB on the desirability and processes towards development of the *IFRS for SMEs*. While we are cognizant of the limited resources of the IASB, we would argue that not enough has been done and the *IFRS for SMEs* is in danger of becoming a white elephant rejected as irrelevant by developed economies and impractical for developing economies.

5.0 ISSUES CONFRONTING IASB

There are calls to investigate the needs of the most important user groups of financial reports in developing economies and to identify whether these are different from their counterparts in the developed economies (Oni 1986). Who are the users of SME reports and what do these users need from financial statements of SMEs? Finding the answers to these questions is a complex task. There are limited studies that show that different users have very different needs to be met from accounting data due to their various future needs (Evans 2005). Providers have different views on the amount of information that should be disclosed to those user groups.

Given the context of the developing economies, the needs of users of financial statements of SMEs may be very different from the needs of users in developed economies. Additionally, there is a need to examine the internal complexity of user needs. How can the balance between the differing future needs of individuals and the varying abilities to construct financial accounting data be achieved?

Some writers have foreseen difficulties with implementing a set of standards that have not been developed with understandings of the needs, culture and regulatory infrastructures (Sacho and Oberholster 2008), and particularly with standards that are predominately derived from the principle-based Anglo-Saxon models of capitalism (Carmona and Trombetta 2008;

Ezzamel et al. 2007; Sacho and Oberholster 2008). Yet, the engagement of the SME stakeholders for the IASB processes is difficult to achieve. Richardson and Eberlein (2011) identify a number of engagement challenges:

- individual users are remarkably complacent or docile,
- users do not typically participate in due process of forums,
- principal players are relied on for funding, consequently the IASB could be susceptible to lobbying by the main fund suppliers, and
- aggregate representation disguises the extent of opinions being voiced.

Many of the questions raised in this paper appear to be related to the problems experienced by IASB in balancing the many priorities and potential target users' needs for the IFRS for SMEs. Meek and Thomas (2004) call for the international accounting research community to address research issues of interest domestically. Stevenson (2012: 240) highlights the political agendas of domestic standard setters lobbying 'to protect themselves and their future, or simply get changes to IASB standards so that particular existing standards or practices were not affected.'

Increased use of IFRS by developing economies that generally lack technical support and the apparent sophistication required in IFRS raises concerns. Whilst the IASB encourages local professional bodies to canvas their members and provide aggregate feedback, this effort favours preparers of accounts and does not guarantee representation from the SMEs or the users of the accounting reports.

While it is appealing for the IASB to take an evolutionary approach in its endeavours to develop a workable conceptual framework for all reporting entities, if the foundations that were 'evolved' from are inappropriate, the outcomes are unlikely to be satisfactory. Any conceptual framework for accounting must identify the users and their information needs

(Baker and Barbu 2007) before determining the principal focus for financial reports. It seems inappropriate to take the existing framework for IFRSs and try to force it, with minimal modifications, upon SMEs. The mix of the different cultures, stages of development and resources of developing economies appears to us to be a recipe for failure in the attempt to gain convergence to IFRS.

A list of barriers that developing economies could experience in trying to implement IFRS, has been provided by Albu et al (2011b: 80) which includes:

- the lack of expertise and an underdeveloped accounting profession,
- the questionable practices of professionals,
- the lack of resources for regulation and enforcement and for companies,
- the need to educate the business environment about IFRS implications (including tax authorities, investors, and analysts),
- the culture of secrecy and fraud; and
- the link between financial reporting and tax laws

These barriers are real, particularly the lack of link with taxation laws, which has been confirmed by research showing that implementing IFRS in Romania, an emergent economy, has been resisted (Albu et al. 2012; Fekete et al. 2012).

Brown (2004) calls upon IASB members to examine the culturally and historically derived interpretations of the developing world. If IASB board members have experience and understanding of developing country dilemmas, they may be equipped to foster an awareness of the attitudes, feelings and perceptions of those who live in developing economies. As a result of possessing both functional specialised competence and critical sensitivities of developing economies, board members may gain expertise and knowledge to tackle the

economic struggles of the business communities of the emerging and transition world (Brown 2004).

Whilst the IASB lacks political accountability (Gallhofer and Haslam 2007), it is taking many steps to make up for past ‘errors’. For example, a comprehensive set of support and monitoring activities are being undertaken, including guidance notes to the *IFRS for SMEs* written for the users (lenders, creditors, owner-managers), training materials, workshops, on-line presentations, and a SME Implementation Group with the mission to support and monitor the adoption and implementation of the *IFRS for SMEs* (IASB 2012). We commend the IASB for acknowledging that the definition of a SME varies from country to country and for leaving each jurisdiction to provide their own definition with relevance to their local conditions. At the same time, the IASB has to practise restraint as they have no legal power to enforce convergence. This may be why they have been said to be heavy on rhetoric (Biondi and Suzuki 2007), and reproducing myths of what is ‘good for us’ (Richardson and Eberlein 2011).

While it seems easy to agree that the IFRS should conform to certain qualitative characteristics such as reliability and timeliness (aka truth and fairness), it is less easy to determine what is relevant. Without reference to what the data will be used for, any resultant financial statements could be irrelevant and the standards merely produce more useless data. It was suggested that the IASB re-examines the framework on which the *IFRS for SMEs* are based (Singh and Newberry 2008). It seems that the IASB should start afresh, rather than a merely adjust or amend to the current framework, which was designed especially for global trading organisations. Additionally, the focus on user needs is more likely to be on stewardship with a historical focus, rather than on future oriented focus which dominates the

financial statements of public listed entities (FASB 2001; IASB 2005a, 2006; Perry and Nolke 2006).

Justification has been provided for assuming that the conceptual framework upon which the full IFRSs are premised is designed for the reasonably sophisticated financial users to satisfy their information needs on the financial performance and position of the entity in which they have invested. However, applying this assumption to SMEs has not been supported. Whether or not an *IFRS for SMEs* should be based on a new especially developed conceptual framework has not been explored or deliberated at sufficient depth, possibly due to the lack of information on the purpose of financial statements, which must be derived from the needs of target users.

A change in thinking has been called for (Rieger 2006; Hanson 2006; Botosan et al. 2006). Providing increasingly complex and detailed information about large organisations may satisfy user needs and the interpretation of the Conceptual Framework appears to assume this to be the case. But, in the case of SMEs providing complicated and detailed information and calculations and future oriented data that is focused on assets and liabilities, may well not be appropriate for the information needs and balance of the users of SME financial reports. We argue the IASB project should have started with an understanding of the user needs and of the internal balance of needs within the sector, rather than starting with an assumption that a conceptual framework designed for capital market players could be used intact or adapted for the SME sector.

6.0 SUMMARY AND CONCLUSION

In this paper we have reviewed the development of the *IFRS for SMEs*, focussing on the participation of academics and SMEs from developing economies. We examined the

representation of developing countries in the processes involved in achieving widespread convergence to the *IFRS for SMEs* from the perspective of developing economies. Our work fills a gap in the literature on the discussion of the events that led to the promulgation of the standard and the involvement of developing economies surrounding this issue, which has been on the IASB's agenda since early 2004.

It is argued that if SMEs use the *IFRS for SMEs* then confidence in their reports would be enhanced (Bunea-Bontas et al. 2011). Adoption would lead to improved financial reporting, improved national comparability of business results, and improved access to capital (Lungu et al. 2007; Mage 2010). Access to capital is seen as important as 'the boundaries between economies and financial markets have been removed and mutual dependence has increased' (Alp and Ustundag 2009: 681). However, these claims need to be examined more closely. We noted a number of voices (Wallace 1993; CAPA 2003; IFAC 2004; Meek and Thomas 2004; Dick and Wallace 2007; Carmona and Trombetta 2008; Stevenson 2010) calling for research that can provide a strong foundation for the development of accounting standards for SMEs.

There is consensus that the IASC was, and the IASB continues to be, short of sufficient funds and personnel to do all that ought to be done. For example, the IASB did not appear to have anticipated the effects of 'much wider adoption of IFRS would have in terms of testing the applicability of the standards around the world' (Dick and Walton 2007: 11). We appeal to IASB to lobby national governments and global agencies, such as the World Bank, to support academic research that is seen to contribute to the well-being of developing economies.

We consider the lack of empirical research and grounded studies from the developing economies, may have set back IASB's efforts to spearhead the *IFRS for SMEs*. Accordingly, we call for more empirical research to provide understanding and guidance of the

international accounting standard setting processes for the IASB and for national policy makers in developing economies. Many questions remain unanswered, such as:

- Is it appropriate to adapt the existing ‘capital market’ conceptual framework or is a new specially tailored conceptual framework for SMEs needed?
- What are the basic components of a conceptual framework for SMEs?
- What are the implications of convergence from the developing economies’ perspective?
- Who are the users of SME financial information and what are those users’ needs?

It is clear the IASB is facing challenges in achieving convergence for a standard for SMEs. Respondents to the IASB Discussion Paper in 2004 commended and applauded the IASB for taking the innovative step of attempting to develop a standard applicable to the needs of the developing economies. We argue that the underlying assumptions (Big GAAP) drawn from the IFRS need to be reconsidered by the IASB in its` Review of *IFRS for SMEs*.

We raise several issues confronting the IASB, which include the need to develop an appropriate, relevant and coherent Conceptual Framework that will work for SMEs (particularly those from developing economies). In addition to ascertaining the users of SME reports and their needs, the IASB needs to take into consideration the needs, culture and regulatory infrastructures of the converging economies, the political agendas of the standard setting stakeholders and the local barriers to implementation. The capital market assumption adopted for the IFRS is clearly inappropriate, particularly for the SMEs in developing economies.

What is required is evidence on what the public expects from the IASB, whether the IASB initiatives are in the interest of SMEs. Such an investigation could be conducted by user-survey questionnaires, but may also extend to feedback from preparers and representatives of

all stakeholder groups. The literature records that the IASB's attempts to engage with the global SME stakeholders are few and far between and have not been effective. Our key findings are that:

- a) It was only with support from World Bank and UNCTAD that the IASB took on the project but it lacked support from developed countries and the usual big players.
- b) In the political economy of convergence, *IFRS for SME* is a tool to get developing countries on board.
- c) Developing economies lack resources to develop their own standards for SMEs or to establish differential reporting like developed countries such as the UK, Australia and New Zealand. We note that it was the less developed economies that quickly adopted the *IFRS for SMEs*, with little evidence as to how well the *IFRS for SMEs* meets their needs.
- d) Developing countries are not adequately represented.
- e) Academics from developing countries not active in the *IFRS for SMEs* debate.

This paper articulates the need for much more academic input and participation in the IASB processes to develop SME standards. The usual IASB consultative mechanisms appear to have failed to obtain input from the developing economies. Developing economies may have to wait for post-implementation reviews before they can address issues that arise. Unintended consequences have been foreseen; some may not have been discovered yet. We call for academics from developing and developed world to become actively engaged because going forward, the standards when they are finalised will become law in most developing countries which have converged.

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