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ARE U.S. ACADEMICS AND PROFESSIONALS READY FOR IFRS? AN EXPLANATION USING TECHNOLOGY ACCEPTANCE MODEL AND THEORY OF PLANNED BEHAVIOR

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ABSTRACT

International Financial Reporting Standards (IFRS) have been adopted by several countries around the world as a common accounting and financial language. However, the U.S. is yet to do so. In this study, we investigate the acceptance of the U.S. academics (accounting and auditing students and professors) as well as practitioners (auditors, accountants, CPAs, and financial analysts) to embrace IFRS as a common accounting and financial reporting language. We discuss the extent to which they are familiar with IFRS as well as their perception about the usefulness and risks in adopting IFRS. We further touch on IFRS education, training, and information technology role. Finally, we introduce a modified model based on the technology acceptance model (TAM) and the theory of planned behavior TPB to examine the extent to which perceived risk, perceived usefulness, and perceived familiarity with IFRS affect the perception of readiness to adopt the new standards. We do this by surveying 84 U.S. academics and practitioners. The results from structural equation modeling (SEM) show that perceived risk, familiarity, and usefulness are significant determinants of the adoption of the new standards. In particular, perceived risk of IFRS had the strongest power in predicting the readiness to adopt the new standards.

Key words: IFRS, international financial reporting standards, Structure Equation Modeling, WarpPLS, accounting, GAAP.

INTRODUCTION AND BACKGROUND

Differences across nations from language, history to economy have constructed barriers that challenge the ease of doing business globally. As such the accounting standards and financial reporting have been raised as an international issue to be addressed. To overcome international accounting standards problem, establishing mutually acceptable and agreeable commitments among diverse set of countries, existence of an international institution has become crucial (Lange & Howieson, 2006). In order to provide optimum understanding of cross-border business transactions, accounting standards are set accordingly by an independent and internationally recognized accounting standard-setting institution: International Accounting

Standards Board (IASB). The fast pace of globalization and the international financial markets have stimulated the need for a common financial language; IFRS which is under the auspice of IASB, an independent accounting standard-setting body based on London. The IASB morphed from another organization called the International Accounting Standards Committee (IASC) that was established in 1973 (Kennedy, 2010). Several countries around the world have already adopted IFRS and a few are to follow. Around 120 countries have completely or partially embraced International Financial Reporting Standards (IFRS, 2010). The European Union has made it mandatory for publicly traded companies to use IFRS to prepare their financial statements (Brackney and Witmer, 2005). Other countries recently joined including Canada and Korea. Mexico is planning to require all listed companies to report using IFRS in 2012. As for the U.S., the Financial Accounting Standards Board (FASB) and the IASB in their meeting in September 2002 reached an agreement, called the Norwalk agreement, to converge on a single set of accounting standards. They also agreed to make their existing financial reporting standards fully compatible and to coordinate their future work programs to maintain that compatibility (Hermann and Ian, 2006).

There are around 11,000 firms registered with the U.S. Securities and Exchange Commission (SEC), of which about 1,100 are non-U.S. companies (Oracle Corporation, 2008). In 2005, the U.S. SEC allowed non-U.S. firms to submit their financial statements in compliance with either U.S. GAAP or IFRS; on the condition they reconcile discrepancies in the results between the two. But in 2007, the U.S. SEC voted to drop the reconciliation requirement for financial statements for the year 2007 (Smith, 2008). The United States was scheduled to require all publicly traded companies to prepare their financial statements based on IFRS by 2014 as it was announced by the U.S. SEC in 2008 (Kennedy, 2010). However, the U.S. SEC decided in February 2010 that 2015 might be the earliest possible date for IFRS adoption by the U.S., calling for more study of IFRS (Defelice and lamoreaux, 2010).

The U.S. Generally Accepted Accounting Principles (GAAP) and IFRS have some similarities and differences. One of the differences is that U.S. GAAP is rule-based type of standards while IFRS is more of a principle-based set of standards (Arthur, 2005). The U.S. GAAP is intended to enforce compliance by having detailed rules, while IFRS is intended to improve transparency yet subject to implementers' judgment.

The objective of this study is to attempt to investigate the acceptance of the U.S. academics (accounting and auditing students and professors) as well as practitioners (auditors, accountants, CPAs, and financial analysts) to converge to IFRS as a common accounting and financial reporting language. We attempt to determine the extent to which the perception about risks, usefulness, and familiarity with IFRS affect the perception of readiness to adopt the new standards. Specifically, we introduce a modified model based on the technology acceptance model (TAM) and the theory of planned behavior TPB to test the contribution of these factors. TAM has been widely used in information systems research to explain individuals' decision to adopt technology (Davis, 1989). Therefore, it can be a useful model to explain the adoption of IFRS.

LITERATURE REVIEW

IFRS Benefits and Challenges

Convergence to IFRS can provide benefits as well as challenges. One of the advantages of having one common set of financial standards is comparability of apple to apple in terms of financial reporting of global companies (Smith, 2008). Using IFRS can enable cross-border investment and facilitates the flow and access to global capital markets (Anderson, 1993). Other benefits of IFRS to companies include reduction of diversity, complexity, and the possibility of mistakes in the financial reporting process. In addition, the adoption of IFRS for SMEs (i.e. non-listed) is expected to bring in benefits besides international comparability (Grant Thornton, 2010). As such, cross-border trading partners, potential investors and credit agencies can obtain more accurate information about SMEs that adopted IFRS. Accounting standards pose substantial importance as a message conveyed to the market by multinational firms. Cross-border firm activities are not limited to the trade of goods and services in the global market. Capital market has also become an important concern. Because market equilibrium is based on various factors including information and its distribution, market mechanism would response and form a new equilibrium as the new information is inputted into the system reaching to a more efficient market. Thus, disclosing information of business activities through comparable, understandable, and verifiable accounting reports is an essential part of today's businesses (Ding, Jeanjean & Stolowy, 2005).

As for the challenges, they can be cultural, political, and legal (Rezaee, Smith, & Szendi, 2010). The major challenge of converting to IFRS is costs associated with the adoption. These costs can stem from staff training and education to personnel to prepare them to use IFRS and from implementing information technology systems. The U.S. SEC estimates that the transition to IFRS from the U.S. GAAP in the first year of filing will cost U.S. firms between 0.125 percent and 0.13 percent of their revenue, predicting that early adoption will cost a firm $32M in 2010 (Johnson and Leone, 2008). Another challenge to convergence is the overcoming of the resistance to change as both academics and practitioners are used to U.S. GAAP and it will be very hard to change (Rezaee et al., 2010). Several schools of businesses as well as accounting programs here in the U.S. have shortages of professors as well as curriculum that help teach IFRS. In addition, the translation of the actual IFRS into various languages was considered to be a concern (Larson & Street, 2004).

IFRS Education and Training

Training accountants, auditors, financial analysts, valuation experts, and actuaries is a very important step for convergence to IFRS. Industry groups as well as professional associations have started to include IFRS in their training materials and testing, and several universities and colleges started including IFRS in their curricula (Kroll, 2009). Customized courses offered by international subject matter experts are provided by some training firms such as IASeminars. Those seminars can range from one day to several days customized to client's needs. The big four have been a great help in the training and education part of preparation to IFRS. For example, Grant Thornton, in collaboration with IASeminars, has been offering IFRS courses as well as guest speakers in Canada in preparation for IFRS (Grant Thornton, 2010). Deloitte Touché Tohmatsu is offering free e-learning modules on IFRS available to download on its website upon registration as a public service (Deloitte Touché Tohmatsu, 2010). PricewaterhouseCoopers gave $700,000 grants in 2009 to colleges to speed up the preparation of students for IFRS and international accounting (Kroll, 2009). This grant is aimed at updating instruction materials to include IFRS in 26 universities. In addition, PricewaterhouseCoopers is offering "IFRS Ready" program that consists of videos for students that explain IFRS and its impacts (PricewaterhouseCoopers, 2010). In further step towards preparation for IFRS, American Institute of Certified Public Accountants (AICPA) announced in 2009 that CPA exams, starting Jan. 1, 2011, for the first time will include testing on International Financial Reporting Standards (Journal of Accountancy, 2009). Since IFRS are principle-based standards, the way it has to be taught IS to concentrate on reasoning and strengthening the judgment abilities rather than basing it on memorization of rules.

Information Technology Role

Information technology can be a great help for accounting, financial analysts, and auditors in the process of transition to IFRS. Switching to IFRS will require a great amount of information technology applications change. Firms' financial departments will need to identify the scope of the information applications needed by specifying the type of information they need from each application. They will need to decide whether their current software such as Enterprise Resource Planning (ERP), a management information system that integrates different areas such as planning, inventory, purchasing, accounting, financing, marketing, human resources, etc, can accommodate IFRS reporting, consider purchasing over-the-shelf software or customized new systems, or even build in-house information systems. Some of the information technology applications that enable companies to generate reports that comply with current requirements and respond quickly to new changing standards requirements are SAP ERP Financials, Oracle's PeopleSoft Financial Management, and Oracle's enterprise performance management system. Hyperion Financial Management is a web-based application that delivers global financial consolidation, reporting, and analysis in several GAAPs including IFRS (Oracle Corporation, 2008). Firms' financial departments will have to take into account whether to procure from small service providers who might not have the expertise or from well-established and reputed partners. Other things to be considered for the transition process to IFRS from the IT perspective are training, time budget for implementation, and costs.

THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

The proposed model is based on the TAM model and the TPB (Ajzen, 1985, 1991). This model is used to measure the user readiness/acceptance of IFRS by the U.S. academics and practitioners. The theory of reasoned action (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975) morphed into TPB by the addition of perceived behavior control (Ajzen, 1991). TPB consists of three main conceptually independent determinants of intention: attitude, subjective norms, and perceived behavioral control (Ajzen, 1991). Attitude, a behavioral belief, captures the degree to which a person has favorable or unfavorable evaluation of the particular behavior. Second, subjective norm, a normative belief, stands for the perceived social pressure to perform or not to perform a certain behavior (adoption of IFRS). Third, the perceived behavioral control, a control belief, refers to the perceived ease or difficulty of performing the behavior. In other words, the TPB stipulates that the more favorable the attitude and subjective norm with respect to behavior, and the greater the perceived behavioral control, the stronger should be an individual's intention to perform the behavior under consideration (Ajzen, 1991).

Based on the above two theories, Davis (1989) developed a technology acceptance model (TAM) to measure the user acceptance of technology use. The original determinants of intention in TAM were perceived ease of use and the perceived usefulness representing the beliefs of the user. Perceived ease of use refers to "the degree to which a person believes that using a particular technology system would be free of effort" (Davis, 1989). Perceived usefulness refers to "the degree to which a person believes that using a particular technology system would enhance job performance" (Davis, 1989).

Based on the attitude definition by Ajzen (1991) as a determinant of intention which measures the degree to which a person has favorable evaluation on a behavioral belief as well as Davis's (1989) definition of perceived usefulness, we measured accounting academics and practitioners favorite evaluations of the adoption of IFRS. This, in turn, makes up our first construct titled "Perceived Usefulness" of the adoption of IFRS. Perceived usefulness, in this context, refers to the benefits the user perceived will be provided as a result of the adoption of IFRS. We argue that the higher the perceived benefits, the more likely individuals will intend to adopt IFRS. In the technology context, several studies found significant positive influence of perceived usefulness on adoption (Davis, 1989; Moqbel, 2012; van der Heijden, 2004; Venkatesh, Morris, Gordon, & Davis, 2003). This leads to the first hypothesis:

Hypothesis 1: Perceived usefulness of the adoption of IFRS will positively influence perceived intention/readiness to adopt IFRS.

Perceived familiarity in this study refers to the extent to which individuals have understanding of IFRS. We measured the extent to which accounting academics and practitioners are familiar with IFRS in a variable we named "Perceived Familiarity" with IFRS. Our dependent variable is the level to which academics and practitioners are ready/intending to adopt IFRS, which was titled "Intention/Readiness" to adopt IFRS. We argue that perceived familiarity will positively influence the behavioral intention. Literature shows that familiarity is essential in influencing behavioral intention (Arora & Stoner, 1996; Ha & Jang, 2010). This leads to the following hypothesis:

Hypothesis 2: Perceived familiarity with IFRS will positively influence perceived intention/readiness to adopt IFRS.

Familiarity with an issue is a major aspect of losing fear and therefore reducing perceived risk. In other words, familiarity reduces the uncertainty involved with the adoption of a certain behavior. Therefore, we argue that familiarity with IFRS reduces the level of perceived risk of the adoption of IFRS. In support of this argument, Celina, Ana, & Juan (2006) found evidence that familiarity had significant effect on intention. In addition, Lee and Kwon (2011) concluded that familiarity is an important predictor of intention. This leads to the following hypothesis:

Hypothesis 3: Perceived familiarity with IFRS will negatively influence perceived risk of the adoption of IFRS.

The theory of perceived risk, first introduced by Bauer (1960), hypothesizes that perceived risk negatively affects behavior. Perceived risk has been studied in several researches in the consumer behavior literature (Taylor, 1974; Thomas, 2011; Wu & Wang, 2005). In the current study, we measured perceived risk in accordance with Ajzen's (1991) definition of perceived behavioral control, which refers to the perceived ease or difficulty of performing a certain behavior. In other words, perceived risk refers to the perceived difficulty and the behavior refers to the adoption of IFRS. We anticipate that perceived risk will negatively affect the intention of U.S. accounting academics and practitioner to adopt IFRS. In a similar context of the use of perceived risk, Gebauer, Kline, and He (2011) found that perceived risk of an online application had influence on the intention of exerting password-related efforts. This leads to the following hypothesis:

Hypothesis 4: Perceived risk of the adoption of IFRS will negatively influence perceived intention to adopt IFRS.

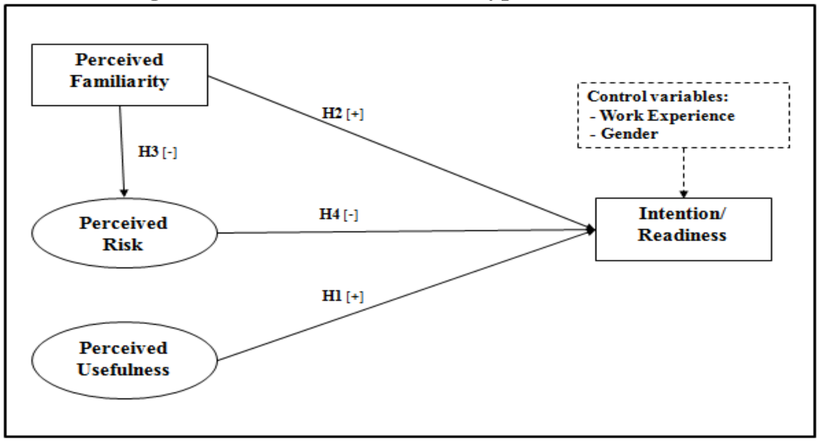
The proposed model presented in Figure1 summarizes the hypotheses and their directions as discussed above.

RESEARCH METHODS

Sample and procedure

A survey was conducted on accounting academics and practitioners to measure their perception on the readiness, benefits, challenges, and ways to adopt IFRS (see Appendix A). A survey was distributed to junior, senior, and graduate level accounting students as well as Ph.D. students and faculty members teaching accounting in a mid-size university in south Texas. We included a brief statement explaining the purpose of the survey and pledging to share the results of the findings.

Figure 1: Research model and hypotheses



We received a total of 84 responses; 31 responses were received from academics and 53 from practitioners. Of the respondents, 37 were males and 47 were females. The average years of work experience among respondents were 5.6.

Variables operationalization

We adopted most of the questionnaire questions from Rezaee et al (2010).

Intention/readiness to adopt IFRS was measured by a single item. Respondents were asked to indicate the extent to which they think auditors, accountants, and accounting students are ready for the convergence of IFRS. The scale ranges from 1 (not ready) to 5 (very ready).

Perceived usefulness of the adoption of IFRS was measured by 5 items. The respondents were asked to rate the importance of the perceived benefits of convergence to IFRS as a single set of accounting standards. The scale ranges from 1 (least important) to 5 (most important).

Perceived risk of the adoption of IFRS was measured by 8 items. The respondents were asked to rate the severity of factors in the move toward complete convergence to IFRS. The scale ranges from 1 (not severe) to 5 (severe).

Perceived familiarity with IFRS was measured by 1 item. The respondents were asked to rate the extent to which they are familiar with IFRS. The scale ranges from 1 (not familiar) to 5 (very familiar).

Model assessment

In order to determine the effect of perceptions about risk, usefulness, and familiarity with IFRS on perceived readiness to adopt the new standards, we used a variance-based SEM technique as our estimating method. Partial Least Square (PLS) is a second generation multivariate technique used to estimate the parameters of a structural model. It maximizes the explained variance of dependent variables by disaggregating the overall causal model into partial equations which are solved simultaneously via regression analysis (Chin, 1998).

Before analyzing the validity and reliability of our model, we need assess the sample size. When using variance-based technique (PLS), the sample size should be ten times the number of indicators in the most complex construct (Gefen, Straub, & Boudreau, 2000) or ten times the number of constructs impacting the independent variable (Chin & Newsted, 1999). Since the number of the most complex construct in our study is six and our sample size is 84, exceeding the minimum requirement, these constraints were satisfied. This study uses WarpPLS 3.0, a nonlinear variance-based structural equation modeling software tool that uses PLS regression algorithm to implement variance-based SEM, to assess the measurement and the structural model (Kock, 2010, 2011, 2012).

Before performing the analysis to investigate the extent to which perception about risks, benefits, and familiarity with IFRS affect the perception of readiness to adopt the new standards, we conducted validity and reliability tests of the measurement model in connection with the latent variables. The results from the reliability tests and factor loadings are shown in Table 1. First, we used Cronbach's alpha and composite reliability to assess the reliability. Our results show that the values of Cronbach's alpha and the composite reliability are larger than 0.7 which satisfy the cutoff values (Nunnally, 1978). The test of the convergent validity of the constructs was performed by factor analysis. All the items have factor loadings higher than 0.5 which satisfies the criteria suggested by Fornell and Larcker (1981).

Table 1: Construct validity and reliability

Construct	Indicator	Loading	Cronbach's Alpha	Composite Reliability
Usefulness	**USEF1**	0.665	0.71	0.81
	USEF2	0.516		
	USEF3	0.769		
	USEF4	0.839		
	USEF5	0.596		
Risk	**RSK1**	0.517	0.81	0.86
	RSK2	0.573		
	RSK3	0.631		
	RSK4	0.746		
	RSK5	0.909		
	RSK6	0.863		

In terms of the discriminant validity, we calculated the square root of the AVE for each variable and compared them to the interconstruct correlations for each pair of variables. As shown in Table 2, the square roots of all the AVE estimates for each variable (in bold) are greater than the interconstruct correlations which satisfy the level of discriminant validity.

Table 2: Correlations between square roots of AVEs and constructs

	Usefulness	Risk
Usefulness	**(0.69)**	
Risk	0.08	**(0.72)**

It is important to ensure that the results are not biased because of multicollinearity problem among variables. Therefore, we assessed the variance inflation factor (VIF) values provided by WarpPLS 3.0 (Kock, 2012). Table 3 shows that the VIF values for all constructs were less than the threshold 5 and the highest VIF value was 4.25 for perceived usefulness.

Table 3: VIF Coefficients

	Intention	Familiarity	Usefulness	Risk
VIF	1.33	1.12	1.09	1.31

The key fitness indices of the research structure model are shown in Table 4. The proposed model in the study is judged to be appropriate to estimate the relations among the variables, because the results show satisfactory levels such as average path coefficient (APC) = 0.18 ($p<0.001$), average R-squared (ARS) = 0.14 ($p<0.01$), and average variance inflation factor (AVIF) = 1.08 which is way less than the 5, which is the threshold recommended (Kock, 2012). The values for the key fit indices were within the threshold of the recommended values, providing evidence of good overall fit.

Table 4: Structural model fit indices

APC	ARS	AVIF
0.18***	0.14**	1.08
Note: ** = P < 0.01; *** = P < 0.001		

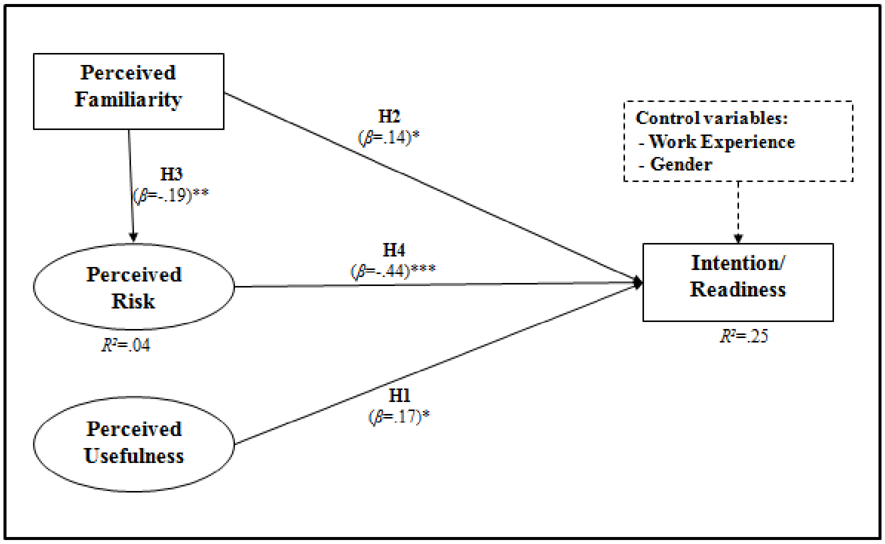
RESULTS

Hypothesis 1 predicted positive association between perceived usefulness of the adoption of IFRS and the perceived intention to adopt IFRS. The result supported the hypothesis at below 10% level (β=.17; $p<.10$). Hypothesis 2 predicted positive relationship between the level of familiarity with IFRS and the perceived intention to adopt IFRS. The result also supported the hypothesis at below 10% level (β=.14; $p<.10$). Hypothesis 3 predicted negative association between the level of familiarity with IFRS and perceived risk of the adoption. The result strongly supported the hypothesis at below 5% level (β=-.19; $p<.05$). Finally, Hypothesis 4 predicted negative association between perceived risk of the adoption of IFRS and perceived intention to adopt IFRS. The result also strongly supported the hypothesis at below 1% level (β=-.44; $p<.01$). The results from PLS estimation is shown in Figure 2.

DISCUSSION AND CONCLUSION

Convergence to a global set of accounting standards can help global comparability in financial reporting. Allowing non-U.S. firms to submit their financial statements in compliance with either U.S. GAAP or IFRS in 2005 was a positive sign by the SEC that it has a serious intention to a complete convergence between the U.S. GAAP and IFRS which in turn contributes to the achievement of global investment comparability. There are still several issues that need to be sorted out before moving towards a complete convergence. The global acceptance of IFRS and its use by several countries around the world urges the U.S. to take serious steps to convergence.

Figure 2: Hypotheses and related coefficients



Notes:

- * p<.10, **p<.05, *** p<.01
- Standardized coefficients are reported
- β = beta coefficient (a.k.a. path coefficient).
- R^2= R-squared.

In this paper, we attempted to investigate the acceptance of the U.S. academics (accounting and auditing students and professors) as well as practitioners (auditors, accountants, CPAs, and financial analysts) to adopt IFRS as a common accounting and financial reporting language. We attempted to determine the extent to which perceived risk, usefulness, and perceived familiarity with IFRS affect the perception of readiness and intention to adopt the new standards. Specifically, we proposed a model based on the TAM model and TPB to test the contribution of these factors. TAM has been widely used in information systems research to explain individuals' decision to adopt technology (Davis, 1989). Therefore, it can be a useful model to explain the adoption of IFRS.

The results from PLS regression show that perceived risk, usefulness, and the familiarity with IFRS are significantly related to the perception of readiness or intention to adopt the new standards. In particular, the perceived risk is a factor that has the strongest impact on the readiness to adopt the new standards.

This study has theoretical contributions to the field of international business in general and to the international accounting in particular as, to the best of our knowledge, this is the is first study to employ the TAM model and the TPB in investigating the determinants of the adoption of IFRS. Future studies can further empirically test our proposed model in other countries that are considering adopting IFRS. Future studies can employ our proposed model by collecting data from multiple industries.

As for the practical implications of our study, the results show that perceived risk is explaining the majority of the variance in the perceived readiness/intention construct. This result suggests that countries should reduce perceived risk in order to facilitate the adoption of IFRS. One mechanism that countries can implement to reduce perceived risk is increasing familiarity and awareness of IFRS. This can be through educating individuals more about IFRS through formal and informal venues. Informal venues can be media in general. Formal venues can be through school curricula. In higher education, injection of international accounting cases in international business courses as well as other accounting courses will develop more robust understanding of today's business. This latter venue may also include specialized training programs that aim to disseminate latest information about IFRS, showcase its practicality and international applications. Hopefully, in the near future the convergence of international accounting standards with the trained businessman-women and accountants will be overcome with minimal costs.

In conclusion, reducing perceived risk, increasing awareness and familiarity with IFRS, and highlighting the benefits of IFRS are essential steps in order to enhance of the intention to adopt IFRS.

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APPENDIX A

Perceived Familiarity

- Please indicate the extent to which you are familiar with International Financial Reporting Standards (IFRS) by circling the appropriate response (1 = not familiar; 5 = very familiar).

Perceived Intention/Readiness to Adopt IFRS

- Please indicate the extent to which you think auditors, accountants, and accounting students are ready for the convergence to International Financial Reporting Standards (IFRS) by circling the appropriate response (1 = not ready; 5 = very ready).

Perceived Risk

Please indicate the extent of severity of the following in a move toward complete convergence to IFRS by circling the appropriate number (1 = not severe; 5 = severe).

- Initial cost of convergence
- Required changes in auditing standards
- Transition plan and issues pertaining to IFRS
- Lack of education, understanding, and experience by preparers of financial reports with the use of IFRS
- Lack of coverage of IFRS in financial accounting textbooks
- Lack of coverage of International Standards on Auditing (ISAs) in auditing textbooks

Perceived Usefulness

Please rank the importance of the perceived benefits of convergence to IFRS as a single set of accounting standards by circling the appropriate number (1 = least important; 5 = most important).

- Minimize barriers to global competition for capital
- Increase global comparability promoting a more informed global marketplace
- Position IFRS to be the globally accepted accounting language
- IFRS enable management and auditors to exercise more professional judgment
- IFRS create uniformity in global financial reporting including audit reports