



LUND UNIVERSITY
School of Economics and Management

BUSP03, Degree Project
Accounting and Auditing
8 June 2009

Changes in IFRS

– Swedish Listed Entities' Way towards Adaptation

Authors:

Elin Lundberg Toresson
Caroline Mårtensson

Advisor:

Kristina Artsberg

Abstract

- Title:** Changes in IFRS – Swedish Listed Entities’ Way towards Adaptation
- Seminar date:** 8 June 2009
- Course:** BUSP03, Degree Project in Accounting and Auditing, 15 ECTS
- Authors:** Elin Lundberg Toresson, Caroline Mårtensson
- Advisor:** Kristina Artsberg
- Key words:** IFRS, implementation, changes, experiences, adaptation
- Purpose:** We aim to clarify how Swedish listed entities experience and manage changes in IFRS and how they are adapting to new and revised standards as issued by the IASB.
- Methodology:** This thesis has an abductive approach. A qualitative method was selected as a research strategy, and semi-structured interviews were conducted in order to gather relevant information from the respondents; listed entities and auditors.
- Theoretical Perspectives:** The theoretical frame of reference considers the IFRS regulation and existing experiences of the legal framework. Further, theory of change has been a central tool for us when addressing our research questions and purpose. The institutional theory has also been applied, but to a minor extent.
- Empirical Foundation:** The empirical foundation is built upon ten interviews with respondents from listed entities. The respondents have key positions and possess competence within the area of consolidated financial statements. Empirical information is also gathered from four auditors from three international audit firms.
- Conclusions:** The complex nature of IFRS makes it difficult to interpret, and thereby manage and adapt to the ongoing changes in IFRS. Small cap entities have a noticeable degree of resistance towards the changes. These entities are adapting to the changes by observing other listed entities and working closely with their auditors. Small cap entities are dependent on this support in order to keep up with the changes.

Acknowledgement

First of all, we would like to thank our advisor Kristina Artsberg for her great help during this interesting and challenging journey. Her suggestions and advices have been very helpful in order to improve our work. Further, her experiences and specific knowledge in the area of accounting have contributed to the conclusive result of this thesis.

We would also like to express our deepest gratitude to all of our respondents, in particular Hans Pihl, Michael Thorstensson, Maria Ekelund and Ola Bjärehäll for enriching the content of this thesis. Their perceptions and opinions have been a crucial help in our research.

25 May 2009, Lund



Elin Lundberg Toresson



Caroline Mårtensson

Abbreviations

CEO	Chief Executive Officer
EC	European Commission
EFRAG	European Financial Reporting Group
EU	European Union
FASB	Financial Accounting Standards Board
FSF	Financial Stability Forum
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
RR	Redovisningsrådet
SAC	Standards Advisory Council
US GAAP	Generally Accepted Accounting Principles in the United States

Table of Contents

1 INTRODUCTION.....	9
1.1 Background	9
1.2 Problem Discussion	11
1.2.1 Main Problem.....	12
1.3 The Purpose	14
1.4 Positioning	14
1.4.1 Knowledge Contribution	14
1.5 Delimitations.....	15
1.6 Outline	16
2 METHODOLOGY	17
2.1 Choice of Research Approach	17
2.2 Research Strategy.....	18
2.2.1 Qualitative Method	18
2.2.2 Empirical Information.....	18
2.2.3. Focus on Interviews in Person.....	18
2.2.4 Semi-Structured Interview	19
2.3 Interview Guide.....	20
2.4 Additional Considerations	21
2.5 Criticism of a Qualitative Research Method.....	21
2.6 Selection of Participants.....	22
2.6.1. Theoretical Sampling.....	22
2.6.2. Selection of Listed Entities	22
2.6.3 Selection of Audit Firms	24
2.7 Information Gathering.....	24
2.7.1 Primary Data.....	24
2.7.2 Literature.....	25
2.8 Criticism of the Sources	25
2.8.1 Literature.....	25
2.9 Validity.....	26
3 THEORETICAL FRAME OF REFERENCE.....	27
3.1 The EU and the IASB – A Short History and Background	27
3.2 Why has the IASB Issued New and Revised Existing Standards?	28

3.2.1 Improvement, Convergence and Leadership	28
3.2.2 The FASB's Impact on the Developments of IFRS.....	28
3.3 IFRS News.....	29
3.4 IFRS – The Legal Framework	31
3.4.1 What is a Principle-Based Standard?.....	31
3.4.2 Principles-Based Standards and Judgment.....	32
3.4.3 What Does a “True and Fair View” Mean?	33
3.4.4 Principle-Based Accounting Standards and Earnings Management.....	33
3.5 Additional Implementation Guidance – Is it Justified?.....	34
3.5.1 Comparability	34
3.5.2 Verifiability	34
3.5.3 The Success of a Principle-Based Approach	35
3.6 IFRIC – The Interpretative Body of the IASC Foundation	35
3.6.1 IFRIC's Limited Capacity of Issuing Interpretation Guidance.....	36
3.6.2 Questioning the Low Output of IFRIC.....	37
3.6.3 Lack of Guidance – Problematic for the Entities	37
3.7 Interpretation in Practice – Different Solutions on How to Solve Accounting Issues.....	38
3.7.1 The Legal Method.....	38
3.7.2 Who Is the Interpreter?.....	39
3.7.3 The Hierarchy of Accounting Rules	40
3.8 The Nature of Change.....	42
3.8.1 Evolutionary and Revolutionary Change	42
3.8.2 Dimensions of Change.....	43
3.8.2.1 Dimension 1, the Content of a Change.....	43
3.8.2.2 Dimension 2, the Extent of a Change	44
3.8.2.3 Dimension 3, the Time Perspective of a Change	44
3.8.3 Planned Change.....	45
3.8.3.1 Lewin's Change Model.....	45
3.8.3.2 The Action Research Model.....	46
3.8.4 Strategies for Change	48
3.8.4.1 Strategy E.....	48
3.8.4.2 Strategy O	48
3.8.5 Changes in Accounting Routines	49
3.8.6 Resistance to Change	49
3.8.7 Communication – a Part of the Change	50
3.9 Institutional Theory.....	53
3.9.1 Isomorphism.....	54
4 EMPIRICAL FINDINGS	56
4.1 Presentation of the Respondents, Listed Entities.....	56
4.2 Empirical Findings, Listed Entities.....	57
4.2.1 The Initial Implementation of IFRS.....	57
4.2.1.2 Challenges.....	57
4.2.1.3 External Help	58
4.2.1.4 Conclusion	58
4.2.2 The IFRS Legal Framework.....	58
4.2.2.1 Principle-Based Standards.....	58

4.2.2.2 The Complex Nature of IFRS	59
4.2.2.3 Insecurity when Interpreting the Standards.....	59
4.2.2.4 Insecurity Requires External Support	60
4.2.2.5 The English Version versus the Swedish Version of IFRS.....	60
4.2.2.6 Conclusion	61
4.2.3 Changes in IFRS – New and Revised Standards	61
4.2.3.1 The Adaptation to Changes in IFRS.....	61
4.2.3.2 The Time Aspect	62
4.2.3.3 Internal Resources – a Critical Factor	62
4.2.3.4 The Changes Impact on the International Convergence	63
4.2.3.5 Conclusion	64
4.2.4 Knowledge and Technical Expertise	64
4.2.4.1 Interaction with the Auditors	64
4.2.4.2 Conclusion	65
4.2.5 Implementation of New and Revised Standards – a Matter of Costs?	65
4.2.5.1 Different Types of Costs	65
4.2.5.2 Costs versus Benefits of IFRS	65
4.2.5.3 Conclusion	66
4.3 Presentation of Respondents, Audit Firms	67
4.3.1 Experiences of the IFRS Implementation	67
4.3.1.1 The Initial Implementation of IFRS	67
4.3.1.2 The IFRS Legal Framework.....	68
4.3.1.3 Conclusion	68
4.3.2 Changes in IFRS - New and Revised Standards.....	69
4.3.2.1 The Entities’ Adaptation to Changes in IFRS.....	69
4.3.2.2 Conclusion	70
4.3.3 Knowledge and Technical Expertise	70
4.3.3.1 Conclusion	71
4.3.4 The Costs of IFRS Implementation	71
4.3.4.1 Conclusion	71
4.3.5 Managing IFRS, Internally.....	72
4.3.5.1 Internal Support.....	72
4.3.5.2 Insecurity when Dealing with IFRS.....	72
4.3.5.3 Conclusion	73
 5 ANALYSIS	 74
5.1 Experiences of IFRS Implementation	74
5.1.1 The Initial Implementation of IFRS.....	74
5.1.2 The IFRS Legal Framework.....	76
5.1.2.1 The Complex Nature of IFRS	76
5.1.2.2 Is IFRS Perceived as Beneficial?.....	77
5.1.2.3 Why Is IFRS Perceived as a Complex Set of Accounting Standards?	77
5.1.3 Conclusion Experiences	78
5.2 Manage New and Revised Standards in IFRS	79
5.2.1 Solving Accounting Issues in Practice.....	79
5.2.1.1 Who Is the Interpreter?.....	79
5.2.1.2 The Legal Method	80
5.2.1.3 The Hierarchy of Accounting Rules.....	81
5.2.2 Full Compliance with IFRS – Is it Possible?	81
5.2.3 IFRS and Earnings Management.....	82
5.2.4 Additional Interpretation Guidance – Is it Justified?.....	83
5.2.5 Internal Competence and Resources	83
5.2.6 Conclusion Manage New and Revised Standards in IFRS.....	84

5.3 Adaptation to the Current Changes in IFRS.....	86
5.3.1 Understanding the Nature of Change	86
5.3.1.1 Evolutionary Change.....	86
5.3.1.2 Strategy E and Strategy O	86
5.3.1.3 The Time Perspective	87
5.3.1.4 Lewin’s Change Model and the Action Research Model	88
5.3.1.5 Resistance to Changes in IFRS	90
5.3.1.5.1 Fair Value Measurements.....	91
5.3.2 The Importance of Communication	92
5.3.3 Institutional Theory and Isomorphism	93
5.3.3.1 Coercive isomorphism – Regulatory Pressure	94
5.3.3.2 Mimetic isomorphism – Imitating Competitors	94
5.3.3.3 Normative Isomorphism – Emanating from the Profession	94
5.3.4 Conclusion, Adaptation to the Current Changes in IFRS	96
5.3.4.1 The Nature of Change.....	96
5.3.4.2 The Importance of Communication.....	97
5.3.4.3 Institutional Theory and Isomorphism	97
5.4 Addressing our Purpose.....	98
5.4.1 Experiences of IFRS Implementation.....	98
5.4.2 Managing New and Revised Standards in IFRS.....	98
5.4.3 The Adaptation to the Current Changes in IFRS.....	100
6 RECOMMENDATIONS FOR FURTHER RESEARCH.....	103
APPENDIX 1 Questionnaires, Listed Entities.....	110
APPENDIX 2 Questionnaires, Audit Firms.....	116

1 Introduction

This chapter will describe the background to our choice of subject. Further, we aim to clarify the problematization which serves as base for our purpose. The intention with this chapter is also to elucidate our knowledge contribution and describe our delimitations for this thesis.

1.1 Background

As the globalization has speeded up remarkably during the last decade, the discussion about achieving international convergence of accounting standards has become in focus. The objective of convergence of accounting standards is to create a common accounting language for entities in different capital markets. The aim is to have entities in different countries to use the same conventions to measure and report their financial performance and position. Different conventions could negatively affect the comparability of the financial statements and the analysis related to this information.¹ The long term benefits that will result from using a single set of international accounting standards are therefore clear; it will better serve the internationalized capital markets. It is recognized that the global capital market requires one set of high-quality accounting standards to create an efficient capital market and an efficient product allocation of the economic resources.² Further, the international convergence is vital to economic growth.³ The long term benefits achieved will particular be from a cost perspective and a market transparency perspective.⁴

The International Accounting Standard Board (IASB) has been a key player in the process of achieving global convergence of accounting standards. For years⁵ the IASB has been working with an aim to develop, in the publics' interest, a set of high-quality international financial reporting standards (IFRS) for the financial statements.⁶ In 2002 the European Commission (EC) adopted IFRS through the IAS Regulation (EC) No 1606/2002. This involved a mandatory requirement for all listed entities within the EU to apply IFRS for their consolidated financial accounts at the beginning of 2005⁷.

¹ Tokar, M., *Convergence and the Implementation of a Single Set of Global Standards: The Real-Life Challenge* (2005), p. 49

² Volcker, P., *Accounting, Accountants, and Accountability in a Integrated World Economy* (2002)

³ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), p. 25

⁴ G20 (2009), *G20 Working Group 1 Enhancing Sound Regulation and Strengthening Transparency Final Report*

⁵ The International Accounting Standards Committee (IASC), the old structure of IASB, was formed in 1973 to set international accounting standards. From 2001 and onwards the IASB replaced IASC and continues the work to set high-quality international standards. (www.iasplus.com)

⁶ www.iasb.org

⁷ ec.europa.eu

The aim to achieve global convergence through adoption and implementation of IFRS has been recognized by the Financial Stability Forum (FSF) as one of the key components for achieving financial stability on a world basis⁸. The recent G20 meeting that was held in London this year on 2 April has further stressed the importance of using a single set of high-quality accounting standards⁹. The G20 recommendation was published as a response to the ongoing crisis. It is stated that transparency through effective standards on the global financial markets are vital to reach financial stability¹⁰. Hence, the importance of implementing IFRS has become even more in focus due to the current financial crisis¹¹.

Since the start of IASB's developing process and EU's endorsement and adoption of IFRS, countries worldwide have become more open towards adopting the standards. Together, it has contributed to an increased convergence on a global basis. Hence, the global convergence is a process with adoption as the end result.¹² This process, jointly with the current unbalanced global environment has demonstrated how important it is to ensure a consistent implementation of IFRS. Without a consistent implementation, true convergence cannot be achieved and the work to develop high-quality accounting standards could be for granted. Global convergence will not be achieved without securing a uniform and systematic implementation of IFRS among all jurisdictions¹³.

The objective of IASB is to be the leading standard-setter, to work towards an international convergence and to improve existing standards. Further, the IASB wants to reduce the international differences in accounting standards and select standards of best practice from different regimes.¹⁴ Consequently, the IASB is issuing new standards or revising existing ones to achieve these objectives.

Until this year, the work of change with issuing new and revised standards has been static since the year of 2006. Consequently, the "quiet period" of developing new and revising existing standards has passed. For this year, the IASB has therefore issued new and revised existing standards. This implies that listed entities within the EU, and thereof Swedish listed entities,¹⁵ are forced to adjust to these changes.¹⁶ For example has IFRS 8, *Operating Segments* replaced the old standard IAS 14, *Segment Reporting*. This involves a great change of how listed entities shall identify the reportable segments. IFRS 8 is adapted to US GAAP and has been questioned by both the European Parliament and the investors. Areas within the standard have already been identified as potential implementation pitfalls.¹⁷

⁸ www.fsforum.org

⁹ www.iasplus.com

¹⁰ G20 (2009), *G20 Working Group 1 Enhancing Sound Regulation and Strengthening Transparency Final Report*

¹¹ www.fsforum.org

¹² Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), p. 7

¹³ *Ibid.* p. 7

¹⁴ Whittington, G., *The Adoption of International Accounting Standards in the European Union* (2005), p. 133

¹⁵ Sweden has been a member of the EU since 1994 (www.regeringen.se)

¹⁶ www.kpmg.se

¹⁷ www.finansforum.se

Changes and improvements in IFRS are tools in the IASB's process to work towards an international convergence.¹⁸ However, the progress to adapt to these changes and implement them might be easier said than done.

1.2 Problem Discussion

Regarding changes in IFRS, a number of problems concerning the adaption to and the implementation of the standards have been suggested. First of all, the complexity and the length of the standards have been described as problematic and difficult to apply. The structure of IFRS has been described as unpractical and the lack of implementation guidance is considered to negatively affect the implementation process.¹⁹

IFRS is based on principles and has moved towards a fair value accounting model which has further added to the complexity; leading to subjective interpretations and different conclusions. The principle based approach in IFRS has already demonstrated that there is a clear need to resolve matters of implementation issues within the entities. Further, as the standards are being described as complex and difficult to apply, and the facts that new standards are being issued and existing ones are being revised it requires the entities to have available technical expertise and resources.²⁰

A survey²¹ issued by PricewaterhouseCoopers from 2004 demonstrates the implementation problems when dealing with new standards. The survey displayed that only ten percent of more than 300 European companies were confident with the implementation of IFRS prior to the mandatory adoption in 2005.²² This displays that there might be a lack of knowledge when implementing new standards. A lack of technical skills within the entities on how to interpret and implement new standards means that the entities might have to rely on external sources to solve the implementation problems. So far, it is only the International Financial Reporting Interpretations Committee (IFRIC) who is the formal interpreter of IFRS. IFRIC is the interpretative body designated by the IASC Foundation²³ to review accounting issues arisen within the context of IFRS. Today, IFRIC only comprises 14 voting members who are working to reach a consensus on the specific accounting treatment and providing interpretation guidance on the specific issue²⁴. As a result, IFRIC has limited resources to work with interpretation guidance which limits the entities' possibility to find support from this interpretative body. Since June 2006 no more than six projects have been completed by

¹⁸ Whittington, G., *The Adoption of International Accounting Standards in the European Union* (2005), p. 133

¹⁹ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), pp. 4-27

²⁰ Ibid, pp. 4-27

²¹ Wong, P., *International Financial Reporting standards; Ready to Take the Plunge?* (2004)

²² Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), pp. 4-27

²³ IASC, the International Accounting Standards Committee Foundation is an independent body, committed to develop a single set of high-quality standards, in the public's interest, through its standards-setting body IASB. (www.iasb.org)

²⁴ www.iasb.org

the issue of an interpretation (IFRIC 13-18).²⁵ As a result, there is no other formal interpreter to ask. Entities that are not able to handle the implementation issues on their own might have to rely on the auditors' work. Related to this, it has been expressed concerns about auditors' potential knowledge shortfalls²⁶. The IFRS adoption has presented a number of challenges for audit firms as well as individual auditors. Training and developing adequate resources, as well as issuing quality controls are some challenges that have occurred. Coordinating the daily operating activities among the firms and speaking with one integrated "IFRS-voice" is not the easiest process to handle. When new standards are frequently being issued or existing ones are being revised, extensive inputs are generally required. The pace of changes in IFRS is presenting challenges in planning and delivering training in time. Without proper knowledge and training it would therefore be hard to secure an accurate implementation and IFRS-audit.²⁷ When new standards are being issued or existing ones being revised, a lack of "best practice" examples has further contributed to additional restrictions when dealing with the implementing process, both for entities and the auditors.²⁸

1.2.1 Main Problem

The problems mentioned above are central to highlight since the adopting of new IFRSs is once more a current topic. The earlier experiences with the adoption of IFRS display that implementing accounting news is not a straight-forward process.

As the work of IASB has become more in focus within the last year²⁹, the IASB is still eager to develop standards of best practice suitable for the global environment³⁰. Consequently, as the environment changes there is an obligation for the entities to change. Only high-quality standards shall be applied. Hence, we might have identified a contradictory. On one hand, the IASB is continuing to develop new standards and make changes in existing ones to achieve global convergence. On the other hand, the entities have to deal with new and revised accounting standards which are requiring both technical skills and resources. Further, it is vital that the auditors involved are well contemporized to be able to keep up with the changes. New standards might cause problems in the implementation process which in turn could make it difficult for the entities to manage the changes in IFRS. In turn, entities might therefore over rely on auditors that are not trained enough to handle the changes in IFRS. In order to solve the implementation problems of adapting to new accounting standards it has been

²⁵ www.iasb.org

²⁶ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), pp. 18

²⁷ Tokar, M., *Convergence and the Implementation of a Single Set of Global Standards: The Real-Life Challenge* (2005), pp. 50-55

²⁸ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), pp. 13-15

²⁹ G20 (2009), *G20 Working Group 1 Enhancing Sound Regulation and Strengthening Transparency Final Report*

³⁰ Whittington, G., *The Adoption of International Accounting Standards in the European Union*, European Accounting Review (2005), p. 133

suggested that there has to be a balance between the need to improve IFRS and the practical issues arising when implementing it.³¹

Due to the discussion above, we are suspecting that problems might occur due to the changes in IFRS; what happens if there is a knowledge shortfall related to the implementation process, both from an entity's and an auditor's perspective? What happens if the entities need help with the implementation of a new or a revised standard but the auditor involved are not able to provide sufficient help? It has been expressed that there is a heavy reliance on the accountants on how to interpret IFRS³², but are the accountants skilled enough to deal with the new standards that are frequently being issued or revised? Entities that do not have the technical expertise might be dependent on their auditors³³. Are the entities over relying on the auditors? In addition, imagine a scenario when an entity needs help with 100 percent to be able to fully implement IFRS, but the auditors are only able to provide them with 80 percent. The remaining 20 percent would therefore be left for the entities to deal with, meaning that the entities are insecure when managing the implementation of the new or revised standards.

Further, what happens if the entities experience that the costs of implementing IFRS, involving hiring expensive consulting services from audit firms, will exceed the experienced benefits gained with IFRS? Are the entities really aware, or more important, in favor of the suggested long-term benefits achieved with IFRS? Or, could the cost-benefit aspect negatively affect the implementation process of IFRS?

Complex changes takes time to learn how to deal with and a mandatory implementation during a short period may cause problems³⁴. The new or revised standards in IFRS could therefore impair the implementation process of IFRS. Are the entities really able to fully implement the standards? Are the entities and the auditors skilled enough to keep up with the changes? Do the entities have, or are they willing to provide, enough resources to deal with the implementation process of complex standards? Or are the changes in IFRS causing too many restrictions for the entities to manage the implementation? The discussion is leading us towards our question formulations and our purpose for this thesis:

- *How do Swedish listed entities experience the implementation process of new or revised standards as issued by the IASB?*
- *How do Swedish listed entities manage the implementation process of new and revised standards as issued by the IASB?*
- *How are Swedish listed entities able to adapt to the current changes in IFRS?*

³¹ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), pp. 13-15

³² *Ibid.* p. 18

³³ *Ibid.* pp. 4-27

³⁴ *Ibid.* pp. 13-15

1.3 The Purpose

We aim to clarify how Swedish listed entities experience and manage changes in IFRS and how they are adapting to new and revised standards as issued by the IASB.

1.4 Positioning

For the world to achieve global convergence it is central to understand the challenges involved with the adaptation to and the implementation of IFRS. It is not possible to overlook the problems that occur within the entities. It is the entities that have to deal with the day-to-day interpretation and implementation issues of IFRS, and without listening and bringing the problems to the surface it would be hard to achieve true convergence. The challenges that exist within entities must be observed and taken into account so the difficulties and issues with the implementation of the international standards can be addressed in an early stage³⁵. With this in mind we argue that there are clear reasons of why it is central to analyze how listed entities experience, manage and adapt to changes in IFRS. We must learn from the field and listen to the preparers.

1.4.1 Knowledge Contribution

The theoretical contribution for this study is the increased understanding of how Swedish listed entities experience, manage and are able to adapt to changes in IFRS. This thesis is an evolution of available accounting research and is based on theory of change as well as institutional theory. This study will contribute to new knowledge since earlier research has mainly considered the challenges of the *initial* implementation process of IFRS and how entities experienced this change to a new set of accounting standards. Moreover, many studies have only focused on the *expected* implementation problems of IFRS rather than studied what the real challenges turned out to be. Further, there are very limited studies about challenges caused by the recent changes in IFRS. From our viewpoint, it is therefore important to examine the current challenges that entities might face due to the changes in IFRS. Consequently, we aim to do a deep analysis of how entities experience, manage and are able to adapt to changes in IFRS. Furthermore, our study is focusing on listed entities in Sweden which will promote to a knowledge contribution in the research of international accounting. Our study will examine Swedish listed entities since this is almost an unexplored area in terms of challenges caused by the current changes in IFRS. The empirical contribution is based on interviews with both listed entities and auditors since this will conduce to a more comprehensive picture of the challenges.

³⁵ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), p. 4

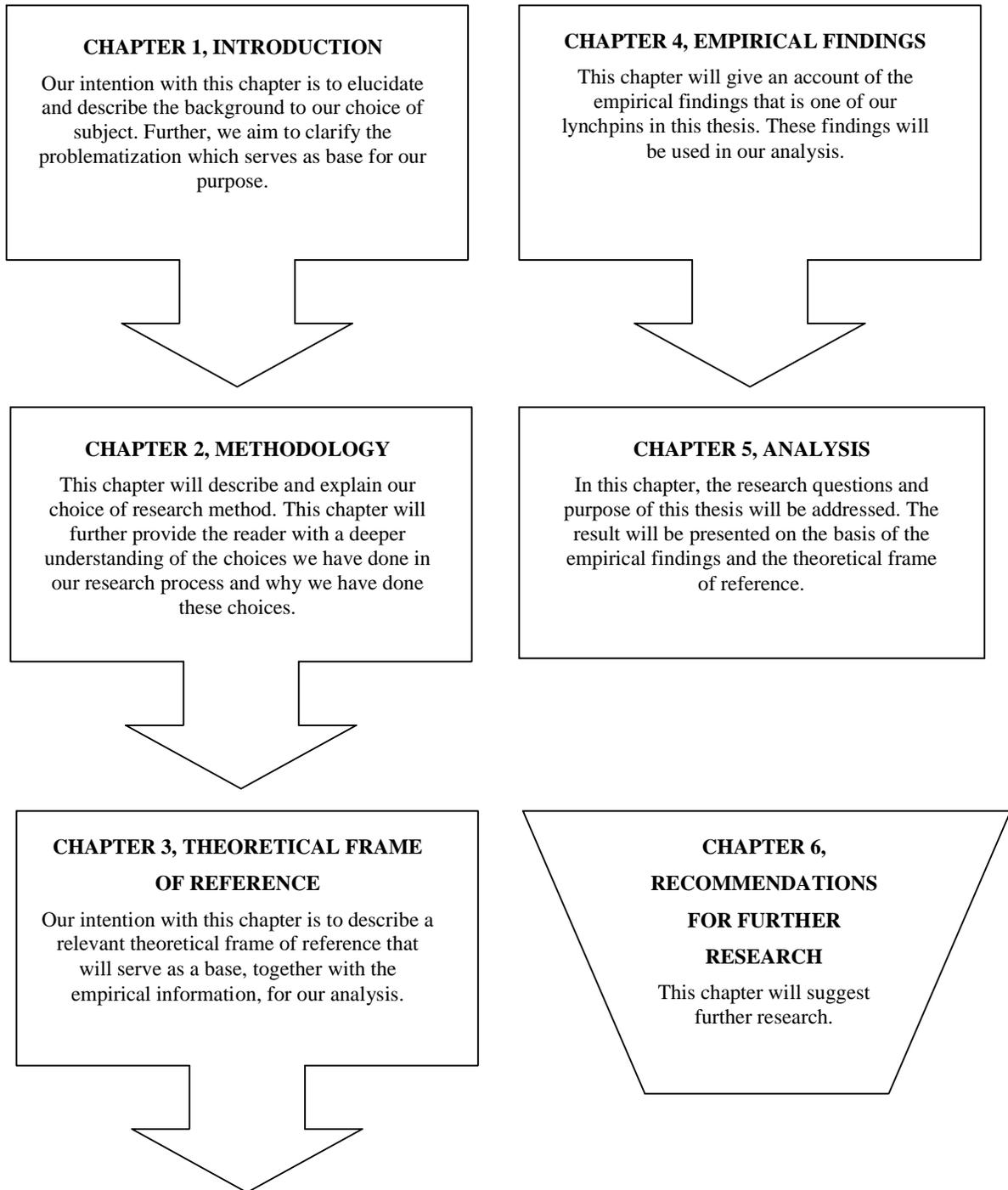
We are convinced that our study will be useful for the standard-setters, the entities and the accounting profession who are dealing with IFRS. First, if practical implementation problems are brought to the surface we are of the view that this will enable the standard-setters to take the problems into account when issuing new standards or revising existing ones. This in turn will contribute to standards that are more adjusted for the entities which will facilitate the implementation process and their adaptability to IFRS. Secondly, as this study aims to clarify how entities experience, manage and are able to adapt to changes in IFRS it will most likely contribute to a greater awareness for the entities of how to handle and be prepared for future changes. In addition to this, we believe that this greater awareness will further strengthen auditors' work when confronting challenges caused by changes in IFRS.

1.5 Delimitations

We will delimit this thesis to examine the implementation problems that might occur within Swedish listed entities when implementing the changes in IFRS. The research will highlight challenges in general caused by the implementation of new and revised standards as issued by the IASB. Therefore, we will not look at the potential accounting effects that might arise due to a specific new or revised standard.

1.6 Outline

We have chosen to organize the outline for this thesis as presented below:



2 Methodology

This chapter presents the research approach, and the research strategy that was applied in our thesis as well as our proceedings. Furthermore, the selection criterion for our respondents will be explained. The chapter will also describe the issues surrounding the validity.

2.1 Choice of Research Approach

This thesis is based on an abductive approach. This approach is influenced by both induction and deduction. However, this is not a simple mix of the two research approaches since it contributes to new elements. During the research process, the empirical standpoint is gradationally progressed and theory refined.³⁶

In order to get a better understanding of this approach it is helpful to describe the inductive- and deductive approach. These are presented below.

The inductive approach differs from the deductive approach since it is conducted without any former expectations in order to get a fair view of the field. With this open-minded approach, relevant theories are formulated after the empirical information gathering. This approach is thereby suggested to minimize the risks of losing valuable information.³⁷ In contrast, the deductive method is based on expectations that derive from theories and earlier empirical observations. Empirical material is gathered to examine if the assumptions are in accordance with the field. However, this approach might cause a loss of important information since the researcher only searches for information that is relevant from his or her point of view.³⁸

Based on this, we soon noticed that the abductive approach would be the most suitable research approach for our study. We started our research process with certain expectations which derived from earlier theories and empirical observations in international accounting. Based on existing theories we were able to get a deeper understanding about our subject area which in turned served as a base when formulating our empirical questions. However, we early noticed during our research process that existing expectations weren't totally in line with the experiences from the field. Hence, we were forced to refine our theoretical frame of reference along with our interviews and adjust it to our findings. However, we could confirm many of our expectations that were based on existing theories but also discover new aspect that we didn't expect to find. For example, we didn't expect to find that many answers from our respondents were related to theory of change or institutional theory. We were surprised by

³⁶ Alvesson, M., Sköldbberg, K., *Tolkning och reflektion, vetenskapsfilosofi och kvalitativ metod* (2008), p. 55

³⁷ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 35

³⁸ *Ibid.* p. 35

some of our findings and were thereby forced to refine out theoretical frame of reference. However, our findings will not be further presented in this chapter; they will follow in the analysis.

Consequently, the abductive approach allowed us to alternate between the theoretical frame of reference and our empirical findings. It enabled us to capture both empirical facts and theoretical understandings.

2.2 Research Strategy

2.2.1 Qualitative Method

The research strategy for our empirical information gathering had a qualitative approach. The focus is on meanings expressed through words, not numbers. This approach allowed us to develop theory from our empirical findings.³⁹ Consequently, the qualitative research strategy was suitable for our study since we aimed to clarify and give a comprehensive description of how Swedish listed entities experience, manage and adapt to changes in IFRS.⁴⁰ The qualitative research strategy enabled us to capture the perceptions of each individual and gather descriptions from the field.⁴¹

Further, as we aimed to examine and understand the individual's experiences, a quantitative research strategy would not be appropriate. This wouldn't enable us to capture the meanings of each word in its context.⁴² Hence, we chose not to use a quantitative method since it would make it hard for us to do a deeper study and to fully understand the experiences of each individual.⁴³

2.2.2 Empirical Information

As we aimed to catch the individuals' experiences and perceptions from the field, both from an entity's and well as from an auditor's perspective, we decided to conduct open-ended individual interviews with respondents from selected entities and audit firms.

2.2.3. Focus on Interviews in Person

Our primarily objective was to use interviews in person when gathering the empirical information. From former experience we knew that interviews by telephone limit the ability to create an intimate and personal conversation. Further, we also knew that information gathering by telephone wouldn't enable us to observe the behaviour of the respondents and

³⁹ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 35

⁴⁰ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 145

⁴¹ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 35

⁴² *Ibid.* p. 272 ff.

⁴³ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 147

the respondents' reactions to the questions.⁴⁴ Telephone interviews would have limited our possibility to receive detailed answers.⁴⁵ The risk of misinterpretations and loss of information is more noticeable when gathering empirical information by telephone interviews. Obscurities could arise, which might lead to unclear answers and in turn cause difficulties when analyzing the information.⁴⁶ Consequently, as we aimed to achieve comprehensive answers from the respondents, interviews by telephone wouldn't be a suitable approach for our thesis.⁴⁷ Therefore, interviews in person have been our main focus through this research.

The open-ended interviews that were fulfilled enabled us to get detailed and relevant answers.⁴⁸ Interviews in person allowed us to create a personal contact with the respondent, which minimized the risk to cross the line of asking inappropriate questions.⁴⁹ By using interviews in person we were able to be more flexible since we could adjust the questions as the interview proceeded. Consequently, we were able to capture relevant information that arose from new aspects during the interview.⁵⁰

Despite the defined disadvantages with telephone interviews, we decided to conduct *one* of our interviews by telephone. The reason for this was that the expected value of the answers would most likely exceed the risks related to this type of interview. The respondent possesses extensive knowledge about IFRS-implementation and has many years of experiences in this area. The respondent is working as an IFRS-expert at a large entity in Stockholm. Consequently, we decided that we couldn't afford to disregard this interview despite the fact that the respondent wasn't available to interview in person. In order to manage the risks related to this type of interview, we conducted the interview late in the process of our empirical information gathering. This enabled us to be aware of what questions that we had experienced to be especially difficult to communicate to the respondents. Therefore, we carefully explained these questions to the respondent in order to decrease the risk of obscurities and unclear answers. In this way we could overcome the risk to lose detailed and valuable information.

2.2.4 Semi-Structured Interview

The interviews that were carried out with the entities and the audit firms have a semi-structured approach. A semi-structured interview starts with a fairly clear focus followed by more specific questions. This approach allows for more flexibility, which implies that the sequence of the questions can be adjusted during the interview.

⁴⁴ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 162

⁴⁵ *Ibid.* p. 161

⁴⁶ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 300

⁴⁷ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 161

⁴⁸ *Ibid.* p. 160

⁴⁹ Denscombe M., *Forskningshandboken – för småskaliga forskningsprojekt inom samhällsvetenskaperna* (2000), p. 243

⁵⁰ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 129 ff.

A semi-structured interview was suitable for our research since we were able to control the interview at the same time as the respondent had the possibility to contribute with his or her meanings and understandings.⁵¹ In contrast, using an unstructured interview wouldn't be adequate for our study since it might generate information that is too general and too comprehensive. Thus, as we aimed to get answers of specific questions, an unstructured interview wouldn't be suitable for our research.⁵²

A semi-structured approach enabled us to get a deeper understanding of subjects that the respondent found especially interesting. Therefore, we considered this as a major advantage compared to a fully structured interview where the empirical information is constrained by standardised questions. As the interviews were carried through we noticed that the semi-structured approach enabled us to capture different aspects of a subject that were not predicted. This further indicates how useful the semi-structured interview was for our study.⁵³

2.3 Interview Guide

When we were conducting a semi-structured interview, a list of questions with specific topics served as a guide for the interviews. Thus, the respondent had a great scope to describe his or her meanings. Further, it enabled the respondent to enter deeply into a subject that he or she considered as particularly interesting.⁵⁴

When the interview guide⁵⁵ was prepared, we first created topic areas in order to get the questions to flow reasonably well. Specific interview questions were then formulated on each topic which enabled us get our specific questions answered.⁵⁶ In order to get well-reasoned answers, the interview questions were sent to the respondents in advance.

As the interview proceeded, we were aware of the importance of acting actively without being too intrusive. Instead, we tried to emphasise interesting topics and questions that were of importance for our research. Thus, the risk of disregarding important information was minimized. Nevertheless, an interviewer who is acting too actively and is not responsive to what the respondent says might disregard important aspects.⁵⁷ Therefore, it was important for us to find a balance between acting passively and acting actively in order to get a successful interview.⁵⁸

⁵¹ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 301 ff.

⁵² Ibid. p. 301 ff.

⁵³ Ibid. p. 301 ff.

⁵⁴ Bell, Emma, Bryman, Alan, *Företagsekonomiska forskningsmetoder* (2005), p. 363

⁵⁵ The interview guides is found in *Appendix 1* and *Appendix 2*

⁵⁶ Bell, Emma, Bryman, Alan, *Business research methods* (2007), p. 483

⁵⁷ Ibid. p. 486

⁵⁸ Ibid. p. 484

2.4 Additional Considerations

There are some additional considerations regarding the qualitative research approach that is important to reflect on. For example, when interviewing managers specific issues such as the status and power held can limit the access to this group of people.⁵⁹ Before we conducted the interviews with the CFOs as well as with the Partners from Deloitte, we were aware of this possible limitation. However, we were considering this group of people as important for our study since we were convinced that they were possessing valuable information. Fortunately, we didn't experience any limited access since the CFOs and the Partners from Deloitte were very opened minded for interviews.

All of our interviews have been conducted in Swedish since this is the primary language of the respondents. Consequently, the respondents' ability to communicate effectively wasn't limited by having to speak in a language they are less familiar with. In order to analyze the information in English, we started to transcribe the interviews in Swedish and then translated the transcript into English. This involves a risk to distort the empirical information caused by differences in the meaning of words between the two languages.⁶⁰ However, we controlled this risk by frequently using a comprehensive dictionary when transcribing the interviews.

2.5 Criticism of a Qualitative Research Method

There are some critical aspects of a qualitative research method that should be emphasised. One problem with a qualitative research method is that it is very time-consuming. There is a risk that the number of respondents is limited since interviews in person require a lot of effort and time. We experienced that it was difficult and time-consuming to find and get access to relevant respondents. Hence, these issues could have caused a negative impact on the representativeness of the sample.⁶¹ However, we controlled these risks by presenting our interview to the potential respondents as "experience-based" rather than "knowledge-based". Many of the contacted persons were afraid of not being able to contribute to our research, but we stressed that it was their experiences that was of importance, not their technical knowledge in accounting.

In terms of relevant respondents within the entities, we were careful to ask for persons who were responsible for the implementation of IFRS and the consolidated accounts. Hence, we finally managed to book enough with relevant interviews for our study that represented a well-reasoned selection.

Another aspect that is important to consider when doing interviews is the interview effect. This is especially remarkable when conducting interviews in person. The respondent might be influenced to answer in a certain way due to the characteristics of the interviewer or by being

⁵⁹ Bell, Emma, Bryman, Alan, *Business research methods* (2007), p. 480

⁶⁰ Ibid. p. 496

⁶¹ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 220 ff.

affected of how the interview is conducted.⁶² In order to minimize these problems, all interviews have been conducted in a similar manner since the same person has acted as the interviewer. Further, it is essential that the respondent is comfortable with the situation in order to give detailed answers and nuanced descriptions. With this in mind, all of the interviews have been conducted at the respondents' offices.⁶³ However, we are of the view that the close contact that arose by interviewing in person generated advantages which exceeded the risks with an interview effect.

2.6 Selection of Participants

2.6.1. Theoretical Sampling

During our information gathering we were using a theoretical sampling. This involved a continuous and careful analysis of the gathered empirical information which was constantly analyzed in relation to our theoretical reflections. The theoretical sampling is therefore an iterative process. Moreover, we were careful to gather information until we achieved a theoretical satiation.⁶⁴ In order to conduct a theoretical sampling, we were required to analyze the gathered information directly after each interview. This type of process enabled us to decide what information to focus on during the next interview.

In this iterative process of information gathering, theory emerged as new information was discovered.⁶⁵ Thus, the theoretical sampling is an ongoing process whereof the gathering of the empirical information is controlled by emerging theory.⁶⁶

2.6.2. Selection of Listed Entities

In order to answer our purpose we were compelled to collect empirical information from listed entities in Sweden. However, we decided to focus only on Swedish listed entities since this would allow us to better compare the gathered information. If we also had interviewed entities from those of other countries it would be difficult for us to analyse and compare the information since diverse countries have cultural differences. For example, the business and financial structure are varying between countries, as well as the accounting- and the auditing culture and the regulatory culture.⁶⁷ Thus, since we only studied Swedish listed entities it allowed us to hold these types of varying, national factors fairly constant.

We chose to mainly focus on interviews with the entities since it enabled us to get a broad insight of the field and how the changes in IFRS are really experienced and managed in

⁶² Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 270

⁶³ *Ibid.* p. 270

⁶⁴ www.ibl.liu.se

⁶⁵ Bell, E., Bryman, A., *Business research methods* (2007), p. 459

⁶⁶ Bell, E., Bryman, A., *Företagsekonomiska forskningsmetoder* (2005), p. 350

⁶⁷ Stephen, A. Zeff, *Some obstacles to global financial reporting comparability and convergence at a high level of quality*, (2007), pp. 290-291

practice. However, we were also of the view that the auditors' experiences would be a great complement to our research.

Further, we based our selection of listed entities on various selection criterions⁶⁸. One of these criterions was related to the industry. We chose to interview entities from different industries since this allowed us to get a widespread perspective. We wanted to get a broad impression and comprehensive information of experienced implementation problems. We were careful not to limit our study to a certain industry as this could have resulted in identical experiences.

An additional criterion was based on the entities' different sizes since we chose to conduct interviews with entities listed on the small cap-, the mid cap- and the large cap⁶⁹ stock exchange in Sweden. This would enable us to achieve wideness and dispersion in our selection of entities since it would represent entities in the three different sizes⁷⁰. We would also be able to observe if there were any nuanced differences between entities of different sizes. Further, it would enable us to see whether the size influences the experienced implementation problems related to the changes in IFRS. We were especially curious to see if there were any major differences in how small cap entities, compared to large cap entities experience possible challenges arising from changes in IFRS. We were suspecting that there could be noticeable differences between these types of entities since their resources in terms of knowledge and expertise might differ.

Besides the criterions mentioned above, the selection of participants has also been affected by a lossy of some of the entities that we wanted to include in our research. Our first intention was to have four entities from each of the three sizes, but some of the large- and mid cap entities that we contacted weren't willing to participate in our research. As a result, the interviews were conducted with respondents from three large cap entities, two mid cap entities and five small cap entities. Our choice of entities was also affected by the time limit of the research and the geographical aspect. Therefore, we chose to interview listed entities situated in the surrounding area of Lund. Further, the respondents were contacted by telephone which allowed us to book interviews early in our research process as well as it allowed us to find the most adequate respondents.

During our research we noticed that the interviews with the small cap entities tended to provide similar information. This might indicate that the selection of the small cap entities was representative since there were no major differences in the empirical information. Concerning the mid- and large cap entities, we were not able to get access to more respondents from these entities due to the limited time we had for our research. Therefore, the number of mid- and large cap entities might be considered as too small for being a representative selection. However, the respondents from the large cap entities tended to

⁶⁸ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 198

⁶⁹ Companies are usually classified depending on their market capitalization value. Large cap companies have a market capitalization value of more than \$10 billion, whereas the value of mid cap companies is between \$2 and \$10 billion. Small cap companies have a relatively small market capitalization of between \$300 million and \$2billion. (www.investopedia.com)

⁷⁰ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 199

provide similar information. This could be a sign of a representative selection despite the limited numbers of these entities.

2.6.3 Selection of Audit Firms

Our empirical information was also based on interviews with auditors from the international audit firms located in the Malmö/Lund area. Our aim with conducting interviews with auditors was to emphasize the auditors' experiences and perceptions of how entities are able to manage and adapt to the changes in IFRS. We were interested to get the auditors' viewpoint since it would allow us to get a wider perspective for our analysis.

We considered that respondents represented from some of the largest international audit firms would generate valuable information for our study. Hence, we were of the view that respondents from the Big Four could provide us with useful information since they are working with entities affected by the changes in IFRS. Auditors from small audit firms would probably not be able to answer our questions since they might have limited experiences of IFRS-audits.

The information from the audit firms is based on interviews with one Authorized Public Accountant from Öhrlings PricewaterhouseCoopers and one Consultant in group accounting specialized in IFRS from KPMG. Further, we interviewed one Partner at Deloitte as well as one Senior Partner from Deloitte who is also the former CEO of Deloitte Sweden.

The respondents from the audit firms were contacted via e-mail. We used established contacts at each firm in order to reach relevant respondents. This kind of approach is called snowball sampling. The snowball sampling enabled us to get in contact with respondents who possess valuable knowledge for our research topic.⁷¹

2.7 Information Gathering

A combination of primary data and literature serve as a base for our study. This combination enabled us to continually compare theory with experiences from the field.⁷²

2.7.1 Primary Data

Primary data was essential to gather in order to reveal the entities' as well as the auditors' perceptions of the ongoing changes in IFRS. By using information from primary sources we

⁷¹ Bell, E., Bryman, A., *Business research methods* (2007), p. 200

⁷² Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 153

were able to adjust the sources directly to our research question.⁷³ In this way, congruence emerged between the information provided and our intention with our study.⁷⁴

2.7.2 Literature

An in depth study of the literature regarding the implementation problems and possible problems due to changes in IFRS were carried out by studying available literature. This was done in order to get a deeper understanding of how listed entities might manage difficulties caused by an implementation of new accounting standards.

Through Lund University, we had access to electronic databases containing business journals, publications and earlier research that was done in the field of our subject area. The database that was used most frequently was ELIN where we collected the majority of the articles. Further, we were using the database of Lund University Library, called LOVISA when searching for additional literature. When searching for information in databases we were using key concepts such as “IFRS adoption”, “IFRS implementation challenges”, “convergence of IFRS”, “interpretations of IFRS”, “changes in IFRS”. The research included articles from the public debate which was of high importance for our study. Journals such as “Accounting in Europe”, “Accounting Horizons” and “European Accounting Review” were used in order to get a deeper insight of the research topic.

2.8 Criticism of the Sources

Different sources have been used as a base when addressing the purpose of our thesis. These sources have been continuously analysed from a critical perspective in order to obtain credible information.

2.8.1 Literature

Literature consists of information gathered by others researcher for a certain purpose. Therefore, it is important that the theoretical frame of reference is based on literature published by approved and established authors. This strengthens the quality of the information as well as the credibility of the sources. The articles and publications that are being used are published in well-reputed journals such as “Accounting in Europe” and “European Accounting Review”. The authors of these articles and publications are composed by experts in the field such as Mary Tokar and Katherine Schipper, which further contributes to the quality and credibility of the sources.

⁷³ Ibid. p. 152

⁷⁴ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 162

Concerning the electronic documents, it is essential to try to form an opinion about the author of the document since information from electronic documents might be hard to control. The level of quality of electronic documents and articles might differ due to varying degrees of quality controls. Therefore, it is important to use well-known journals and articles written by well-reputed authors. The publication date of the articles is another aspect that is essential to control in order to get as updated information as possible.⁷⁵

2.9 Validity

Validity measures whether the empirical findings have derived from a consistent and well-reasoned research.⁷⁶ There are two kinds of validity; internal and external. Internal validity addresses whether the findings are truly representing the phenomenon that would be measured or explained. By using interviews in person as a part of our research strategy, it contributed to a higher validity of the research since it allowed us to secure that we received relevant information.⁷⁷ In order to strengthen the internal validity, the questions for our interviews were elaborated after the problem discussion and purpose was written. As a result, we were able to achieve adequate information from the interviews which enabled us to fulfil the purpose.

External validity involves to what extent the findings of a study can be generalized and applied in other contexts.⁷⁸ The respondents in our study are obtaining a high level of professional experience and extensive knowledge of the subject. Consequently, this increases the likelihood to obtain accurate information and in turn a representative selection.⁷⁹ Nevertheless, it is essential to assume that the information from the primary sources is not necessary valid. By using independent sources for information, we were able to get different descriptions and interpretations of the implementation problems related to the changes in IFRS. It is the collective information from several independent sources that contributes to a more valid description of the subject.⁸⁰

⁷⁵ www.ub.uu.se

⁷⁶ Bell, E., Bryman, A., *Företagsekonomiska forskningsmetoder* (2005), p. 48

⁷⁷ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), pp. 190-191

⁷⁸ Bryman, Alan, *Samhällsvetenskapliga metoder* (2006), p. 258

⁷⁹ *Ibid.* p. 259

⁸⁰ Jacobsen, Dag Ingvar, *Vad, hur och varför?* (2002), p. 261

3 Theoretical Frame of Reference

Our intention with this chapter is to create a theoretical tool in order to increase the understanding of how Swedish listed entities experience and manage the implementation process of changes in IFRS. Our intention is further to create a deeper knowledge of how entities are able to adapt to new or revised standards as issued by the IASB.

3.1 The EU and the IASB – A Short History and Background

In order to understand the current accounting environment we are going to describe a short history and background of the IASB. We are further going to explain why the IASB has issued new standards and revised existing ones and give a brief presentation of the changes.

As a part of the Financial Services Action Plan, the European Commission announced in 2000 an intention to require all listed companies within the EU to use the International Accounting Standards (IAS) for their consolidated financial accounts. The standards were issued by the former IASB, the International Accounting Standards Committee (IASC) which was founded in 1973. The creation of IASC was motivated by the argument that the increasingly internationalized capital markets desired a common accounting language. The increased demand of comparability between entities in different countries and informative financial information was the main reasons for this demand. Further, international standards would also benefit the countries that did not have a well-functioned set of national accounting standards.⁸¹

After nearly three decades of work the IASC was replaced by the IASB in 2001. The new board continued to take a more active part in the process towards creating and improving international accounting standards.⁸²

The proposal of a mandatory adoption for all listed entities within the EU to apply the IFRS was formally approved in 2003 and became mandatory in 1 January 2005.⁸³ The proposal was formally approved by the European Commission and became mandatory through the IAS-Regulation (EC) 1606/2002.⁸⁴ The intention of the EU to adopt the IAS wasn't new. The International Organization of Securities Commissions (IOSCO) already promoted in 2000 that its members⁸⁵ should allow multinational preparers to use the IASC standards for cross borders listings and offerings. The adoption of IAS/IFRS within EU was further anticipated

⁸¹ Whittington, G., *The Adoption of International Accounting Standards in the European Union* (2005), p. 128

⁸² Ibid. pp. 129-130

⁸³ Ibid. p. 127

⁸⁴ ec.europa.eu

⁸⁵ Sweden is an IOSCO member, whereas the Finansinspektionen is the formal cooperation partner.

by the capital markets. Before the adoption of IFRS a variety of national standards existed, reflecting different institutional arrangements, traditions and cultures. Hence, there was a clear need for a common set of accounting standards to provide the capital market with comparable information.⁸⁶ Today, the IAS/IFRS has become the base for achieving a global accounting language around the world.⁸⁷

3.2 Why has the IASB Issued New and Revised Existing Standards?

3.2.1 Improvement, Convergence and Leadership

Convergence and improvement are the two main objectives that underlie the work of IASB. By “improvement”, the IASB is referring to the improvement of existing standards which has become an important part of the IASB’s work. By the word “convergence”, the IASB refers to the reduction of international differences in accounting standards. The IASB wants to reduce the differences by selecting standards of best practice, or by developing new standards when needed. The convergence process includes adopting the best practice available from relevant national regimes. The convergence projects are often based on collaborations and discussions between the IASB and national standard setters or groups of national standard setters. This collaboration shall ensure that the IASB are considering different national approaches when improving standards.⁸⁸

The third and last objective that underlies the work of IASB is “leadership”. Leadership in the context of developing new standards for not yet adequately addressed problems. The IASB aims to be the leading standard setter that develops new solutions if there are no appropriate national standards to converge with.⁸⁹

3.2.2 The FASB’s Impact on the Developments of IFRS

The US has naturally affected the work of IASB since the country is a big player in the world economy and since their standard-setter, the Financial Reporting Standards Board (FASB), is well-resourced. A large part of the IASB’s work towards improvements and convergence has been influenced by the FASB. A formal interaction between the IASB and the FASB started for many years ago.⁹⁰ In September 2002, the journey towards a global convergence of accounting standards started for real. The FASB and the IASB made an agreement to work towards creating high-quality financial reporting standards, fully compatible and useful for domestic and cross-border reporting. The agreement was called the Norwalk Agreement and

⁸⁶ Whittington, G., *The Adoption of International Accounting Standards in the European Union* (2005), p. 129

⁸⁷ *Ibid.* p. 128

⁸⁸ *Ibid.* p. 133

⁸⁹ *Ibid.* p. 133

⁹⁰ *Ibid.* p. 133

became the starting shot for a major convergence process between the two standard-setters that still hasn't come to an end.⁹¹ The goal of the convergence process between the IASB and the FASB is to "... make US GAAP and IFRS financial reporting standards as nearly as possible the same across jurisdictions while also improving the overall quality of those standards".⁹² However, the convergence process is not intended to be a process for the convergence's sake. The agreement shall contribute to improve the quality and the consistency of financial reporting worldwide. It has been suggested that the most difficult accounting issues for the standard-setters are the issues concerning fair value measurements and the differences of accounting policies.⁹³

The convergence between the IASB and the FASB further involves short-term and long-term projects. The short-term projects are intended to remove minor differences between IFRS and US GAAP. In contrast, the long-term engagements involve joint projects that intend to develop more accounting guidance. Examples of long-term projects are the project concerning the revenue recognitions and the coordinated project on share-based payments. Consequently, the process of the ongoing convergence between IASB and FASB is contributing to the outcome of new and revised standards, issued by the IASB.⁹⁴

3.3 IFRS News

The IASB are constantly issuing new standards and revising existing ones as a result of its objective to be the leading standard-setter, to improve standards and to work towards global convergence.⁹⁵ However, in the summer of 2006 the IASB decided to introduce new and revised standards at the earliest day of 1 January 2009.⁹⁶ The changes that are relevant for this year are presented below:

New Standard:

- IFRS 8 *Operating Segments* (replacing IAS 14)⁹⁷

This standard shall be applicable for financial years that start from the 1 January 2009 or later.⁹⁸

⁹¹ Schipper, K., *The Introduction of International Accounting Standards in Europe: Implications for International Convergence* (2005)

⁹² Ibid.

⁹³ Alexander, D., Jermakowicz, E., *A True and Fair View of the Principles/Rules Debate* (2006), pp. 154-155

⁹⁴ Schipper, K., *The Introduction of International Accounting Standards in Europe: Implications for International Convergence*, (2005), pp. 101-103

⁹⁵ Whittington, G., *The Adoption of International Accounting Standards in the European Union* (2005), p. 133

⁹⁶ www.kpmg.se

⁹⁷ Ibid.

⁹⁸ Ibid.

Modifications/Amendments of Existing Standards:

- IAS 1 *Presentation of Financial Statements*,
- IAS 23 *Borrowing Costs*,⁹⁹

These standards shall also be applicable for financial years that start from the 1 January 2009 or later.¹⁰⁰

- IFRS 3 *Business Combinations* will come into effect the 1 July this year.¹⁰¹
- IAS 27 *Consolidated and Separate Financial Statements* is applicable for those reports with a financial year starting from the 1 July 2009 or later. Earlier adoption is allowed if it is endorsed by the EU.¹⁰² This amendment is likely to be endorsed by the EU after the 1 July 2009.¹⁰³

IFRS 8, *Operating Segments* discusses the identification of operating segments and the extensive disclosure requirements that are demanded in this context. The changes in this standard involve recalculations of the comparative figures. This is done if there is sufficient information available and if the cost is not unacceptable high. The major difference between the previous standard, IAS 14, is that entities now have to use a “management approach” when identifying operating segments. IFRS 8 is allowing the preparers to group operating segment with similar features and segments that are equivalent. This involves a process which is suggested to require a deep line of thought on how one should group the operating segments of the entity.¹⁰⁴

IAS 1, *Presentation of Financial Statements* cause changes mainly in the consolidated statement of income and how the entity shall give an account of the changes in the common equity. The standard requires a new way of presenting the consolidated statement of income.¹⁰⁵

Further, the modifications of IFRS 3, *Business Combinations* and IAS 27, *Consolidated and Separate Financial Statements* are based on the cooperation between the IASB and the FASB which involves some noticeable changes. For example, the definition of what a business combination is has changed which might lead to situations where preparers now have to account for a business combination that wasn't allowed before the modification.

⁹⁹ www.kpmg.se

¹⁰⁰ Ibid.

¹⁰¹ www.irev.se

¹⁰² www.kpmg.se

¹⁰³ EFRAG, *The EU endorsement status report, position as at 3 April 2009*, (2009)

¹⁰⁴ www.kpmg.se

¹⁰⁵ Ibid.

3.4 IFRS – The Legal Framework

Our intention with the following sections is to provide the reader with a greater knowledge about IFRS as a legal framework. Our intention is further to strengthen the understanding of what a principle-based set of accounting standards is since this will provide the reader with a broader picture of how IFRS could be experienced in practice.

3.4.1 What is a Principle-Based Standard?

What might be widely known today is that IFRS is viewed as a principle-based set of accounting standards rather than a rule-based. However, the term “principle” might not be as well-known since this term has a long history of definitions in the context of accounting. Today, accounting principles can be seen as normative statements which are “... *either expressing an objective of financial reporting, or a desired qualitative characteristic of the outputs of the accounting process, or even a general statement about accounting treatments that standard-setters propose should be applied, albeit with occasional qualifications or expectations...*”.¹⁰⁶ Further, principle-based accounting standards can be described as standards that apply the terminology “substance-over-form.” This type of principles-based approach is suggested to be more general concerning wordings and guidance compared to rules-based accounting standards. Rules-based accounting standards are described as being more direct in their requirements of preparers and are more specific in their wording. Accounting standards that are based on principles normally contains relatively few rules which put a heavier reliance on the preparers to use his or her judgment. Moreover, the intent of the standards should serve as a base for the preparer when applying the standards. In contrast, the rules-based approach is forcing the preparers to follow specific rules and details when determining the accounting treatment.¹⁰⁷ US GAAP has been criticized for being overly detailed with extensive implementation guidance and exemptions. In turn, this has led to unnecessary complexity and burdensome details.¹⁰⁸ The chairman of the IASB, Sir David Tweedie has described the rules-based approach as a “...*cookbook approach*” that tell you what to do. Moreover, the rules-based approach has been criticized for obscuring the underlying principles “... *and encouraging literal interpretation and scope for avoidance*”.¹⁰⁹

However, IFRS is also providing implementation guidance and examples as well as exemptions. Consequently, IFRS is not purely based on principles but are less detailed than US GAAP.¹¹⁰ Which type of standard that is most effective and preferable is still an ongoing discussion.

¹⁰⁶ Walker, R., *Reporting Entity Concept: A Case Study of the Failure of Principles-Based Regulation* (2007) pp. 53-54

¹⁰⁷ Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004), pp. 76-77

¹⁰⁸ Schipper, K., *The Introduction of International Accounting Standards in Europe: Implications for International Convergence* (2005), pp. 101-103

¹⁰⁹ Alexander, D., Jermakowicz, E., *A True and Fair View of the Principles/Rules Debate* (2006), pp. 133-134

¹¹⁰ Schipper, K., *The Introduction of International Accounting Standards in Europe: Implications for International Convergence* (2005), pp. 101-103

3.4.2 Principles-Based Standards and Judgment

The substance-over-form terminology has been identified as a key criterion¹¹¹ in accounting standards. However, resistance to the principle-based approach is not unusual. Concerns have been raised about the vagueness of such standards since it might lead to misuse. The imprecision of the standards might produce biased information about the entity since the general wording and guidance might lead to a greater insecurity when applying the standards. More reliance is put on the preparers and the accountants since they constantly have to use their judgment and justify their acting.¹¹² Moreover, principle-based standards that lack detailed implementation guidance will most likely lead to a scenario where preparers and auditors have to try to look more carefully on the real intent of the standards. Preparers and auditors who are applying IFRS may therefore be forced to look into the IASB Framework to be able to implement it correctly. As the fair value measurement has become even more in focus, the numbers of required judgments and estimations have increased. The increased focus on fair value measurements in IFRS in a combination with insufficient guidance will most likely force the preparers and the auditors to develop a common understanding about how to apply the standards. It will require the parties to develop a certain expertise in order to implement IFRS.¹¹³

The discussion about effectiveness of principle-based standards has resulted in interesting questions. It has been questioned whether there is an impact on the preparers' judgment due to the principle-based standards. Further, what impact does the principle-based approach have on the preparers' consolidation judgments? Is there a difference on the judgment of preparers if the preparer is applying rules-based accounting standards rather than principles-based standards?¹¹⁴ Research is suggesting that principle-based standards in a combination with vague guidance tend to affect the assessments of case specific information of the preparers.¹¹⁵ In other words; preparers tend to "... vary their assessments of case specific information to fit with their judgments."¹¹⁶

Related to this, it is suggested that auditors tend to allow a more "aggressive reporting recommendation" when there is a greater scope for interpretations.¹¹⁷ The meaning of "aggressive reporting recommendation" can be described as a recommendation where "... the

¹¹¹ The Australian Accounting Research Foundation is one of the parties that have placed much faith on the substance-over-form terminology. Further, the support to this principle-based approach has come from standard-setters, practitioners and academic. (Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004))

¹¹² Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004), pp.76- 78

¹¹³ Schipper, K., *Principle- Based Accounting Standards*, *Accounting Horizons* (2003), p. 69

¹¹⁴ The authors of the discussed article aims to "...examine the impact of accounting standards on the judgment of very experienced preparers via two laboratory experiments in a consolidated accounting setting." Hence, the authors want to study if the preparers "... vary their interpretation of substance-over-form accounting standards and case specific information depending on their financial reporting recommendation?" However, since we aim to examine the experiences and implementation of IFRS, we will focus on the experiences of IFRS. (Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004))

¹¹⁵ Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004), p. 82

¹¹⁶ Ibid. p. 90

¹¹⁷ Ibid. pp. 77-78

*accountant selects the reporting disclosure that portrays events favorably when that position is not indicated clearly by the facts and the relevant professional literature.”*¹¹⁸ Further, auditors may apply an extreme interpretation of an accounting standard to justify their “aggressive reporting recommendation.” In other words; auditors might apply an extremely narrow or broad interpretation of a standard for the justification of the preferred reporting position.¹¹⁹

3.4.3 What Does a “True and Fair View” Mean?

A discussion of importance in the context of principle-based standards is the discussion about the meaning of words, since the meaning of the same word might change in different situations. The prime legal requirement within the EU for financial reporting is to provide financial statements that show a “true and fair view”.¹²⁰ The meaning of showing a “true and fair view” involves understanding the word “fair” which could be described differently in different situations. What is interesting to notice is that not even the EU has defined the meanings of the notion “true and fair view”. Hence, its meaning has been interpreted in different ways by preparers, auditors and users.¹²¹

3.4.4 Principle-Based Accounting Standards and Earnings Management

Research in terms of principles-based versus rules-based standards and the impact of the preparers’ judgments have been made in the context of earnings management. The different approaches of accounting regulations have demonstrated that preparers’ and auditors’ incentives, and thereof their impact on the accounting reports, have been varying due to differences in the accounting approaches.¹²² A large number of previous researches on earnings management have recognized that the outcomes of financial reporting are affected by both incentives of the management and the degree of precise requirements of accounting standards. It is suggested that IFRS permits enough with judgment for the preparers to fulfill what is required by the standards and still be able to control the outcomes as desired.¹²³

Regarding likely benefits with implementation guidance, it has been suggested that detailed guidance decrease the possibility for earnings management since the scope for judgment

¹¹⁸ Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004), p. 82

¹¹⁹ Ibid. p. 82

¹²⁰ The legal requirement to show “a true and fair view” of the financial statements has been established through the Fourth Company Law Directive (78/660/EEC) and through the Seventh Company Law Directive (83/349/EEC). (Alexander, D., Jermakowicz, E, *A true and fair view of the principles/rules debate* (2006))

¹²¹ Alexander, D., Jermakowicz, E, *A True and Fair View of the Principles/Rules Debate* (2006), p. 140

¹²² Psaros, J., Trotman, K., *The Impact of the Type of Accounting Standards on Preparers' Judgments* (2004), p. 79

¹²³ Schipper, K., *The Introduction of International Accounting Standards in Europe: Implications for International Convergence* (2005), pp. 107-108

decrease.¹²⁴ In contrast, it has been suggested that extensive implementation guidance may lead to “subversive” implementation of the standard. This will instead increase earnings management since it allows the preparers to follow the standard “correct” but still be inconsistent with the standard’s intent.¹²⁵

3.5 Additional Implementation Guidance – Is it Justified?

Continuing the discussion about implementation guidance, it is stated that there is a demand for additional guidance since the number of IFRS-enterprises is constantly arising. Also, the increased complexity of the capital structure and organization within the entities as well as the increased degree of accounting sophistication are further affecting the demand for additional implementation guidance.¹²⁶

3.5.1 Comparability

In terms of comparability, it is argued that detailed implementation guidance is beneficial since it will increase the quality of the financial reports. Specific guidance will increase comparability since it reduces the effects of professional judgment which normally causes differences in the financial reports. Still, adding extensive implementation guidance might only result in “surface comparability” and arrangements that are forced into an accounting treatment that are not correct in terms of its real substance. The key empirical question to address would therefore be to study how much comparability is really obtained from additional detailed guidance. Will additional implementation guidance increase the quality in the financial reports in terms of comparability, or will it only create comparability on the surface? Is the demand for additional implementation guidance justified, or should we safeguard the principles-based approach in IFRS? Clear answers to these questions will not be easy to find and they will most likely differ from each other.¹²⁷

3.5.2 Verifiability

Verifiability is another benefit that is suggested to arise from detailed guidance. Detailed guidance will likely contribute to an increased consensus about measurements. Hence, it provides preparers and auditors with a common knowledgebase which could decrease the differences in measurements.¹²⁸

¹²⁴ Schipper, K., *Principle- Based Accounting Standards, Accounting Horizons* (2003), p. 68

¹²⁵ Ibid. p. 68

¹²⁶ Ibid. p. 103

¹²⁷ Ibid. pp. 67-68

¹²⁸ Ibid. p. 68

3.5.3 The Success of a Principle-Based Approach

The success of a principle-based approach is not only dependent on the preparers' work of applying the standards correctly. The effectiveness of the principle-based standards is also suggested to be dependent on the auditors' willingness to ensure compliance. Further, the importance of enforcement¹²⁹ actions is also identified as a crucial part in this context.¹³⁰

3.6 IFRIC – The Interpretative Body of the IASC Foundation

The IASC Foundation (IASCF) aims to work in the public's interest, through the IASB, to develop a single set of high-quality international accounting standards, IFRS.¹³¹ The IASB is further supported by the external interpretation committee, IFRIC, and the Standards Advisory Council (SAC)¹³². The IFRIC¹³³ is designated by the IASCF to work as an interpretative body which now comprises 14 members, people from leading accounting firms as well as accounting officers, analysts and academics.¹³⁴

IFRIC is mandated to review widespread accounting issues that occur within the context of IFRS on a timely basis.¹³⁵ Further, the IFRIC shall work to reach a consensus on the specific accounting issue and provide guidance through IFRIC interpretations.¹³⁶ IFRIC's authoritative status regarding its interpretations is equal to the IFRS standards. Financial statements may not always be described as complying with IFRS if not all requirements in an IFRIC interpretation are being met.¹³⁷ It is stated that IFRIC's interpretations shall cover both new financial reporting issues not dealt with in IFRS, as well as issues considered as unsatisfactory or regarded as conflicting interpretations.¹³⁸ IFRIC's interpretations are developed in accordance with a due process. The due process includes identification of the issue, setting the agenda, meetings and voting, developing draft interpretations, issue a comment period and deliberation. The last step in the due process involves comments from the IASB before the interpretation is definitely being issued.¹³⁹

¹²⁹ The discussion about enforcement is important in this context. However, enforcement should not be in focus for our thesis. We will leave this discussion to other researchers since it is an essential area in terms of ensuring compliance with IFRS.

¹³⁰ Walker, R., *Reporting Entity Concept: A Case Study of the Failure of Principles-Based Regulation* (2007) p. 69

¹³¹ www.iasb.org

¹³² The SAC is a supporting forum to the IASB with consultants from a wide range of groups. Preparers, auditors, financial analysts, as well as professional accounting bodies and academics that are affected by, and interested in, the work of IASB are involved in this council (www.iasb.org)

¹³³ In 2002, the IASCF Trustees announced the creation of the new IFRIC. IFRIC was replaced by the previous Standing Interpretations Committee, SIC.

¹³⁴ Bradburt, M., *An anatomy of an IFRIC Interpretation* (2007) pp. 110-112

¹³⁵ www.iasb.org

¹³⁶ www.iasb.org

¹³⁷ Bradburt, M., *An anatomy of an IFRIC Interpretation* (2007) pp. 110-112

¹³⁸ www.iasb.org

¹³⁹ *Ibid.*

The IFRIC is encouraging preparers, auditors and other parties with an interest of IFRS to refer issues to IFRIC when “...they believe that divergent practices have emerged regarding the accounting for particular transactions or circumstances or when there is doubt about the appropriate accounting treatment and it is important that a standard treatment is established.”¹⁴⁰ IFRIC is not considering accounting issues that are specific to a certain entity. An analysis is prepared by the IASB staff on the reported issue to determine whether or not the specific issue meets the agenda criterions.¹⁴¹ The criterions are listed below:

- The accounting issue has to be widespread and have practical relevance.
- The accounting issue shall indicate that there are significant diverse interpretations. Clear IFRS issues will not be added to the agenda.
- The financial reporting would be improved through removal of the dissimilar applications.
- The accounting issue can efficiently be resolved with the support of the existing IASB Framework and IFRS, as well as with the demands of the interpretation process.
- It must be likely that the IFRIC can solve the issue on a timely basis.
- The IFRIC will not add an item to its agenda if the IASB is expected to solve the issue through its projects in a shorter period than IFRIC would have for complete its due process.¹⁴²

3.6.1 IFRIC’s Limited Capacity of Issuing Interpretation Guidance

IFRIC’s work to resolve matters of interpretation of IFRS has been criticized of being too slow. IFRIC doesn’t have the capacity to deal with more than a few numbers of interpretation issues per year. Normally IFRIC arranges two-day meetings, six to ten times a year where typically eight issues are being discussed per arrangement. However, it normally takes three meetings before IFRIC is able to agree on a solution or approach. After consultation with the IASB, the interpretations are subject to public comments. After the comments have been analyzed the IFRIC finalizes and publish the reached conclusion. Normally, it takes one year for IFRIC to develop and finalize an interpretation on an accounting issue.¹⁴³

Many of the issues that are proposed to IFRIC are not added to IFRIC’s agenda (compare with the agenda criterions above). The predominantly issues are rejected, and only a small amount of issues are being approved interpretations. For example, over the period March 2002 to March 2006, IFRIC decided to reject 120 accounting issues. IFRIC’s most common reasons for not taking on an issue to its agenda were that IFRIC considered the existing accounting guidance as “sufficient”, “adequate”, “satisfactory” or “clear”. Other reasons for rejections are that IFRIC hasn’t considered the issue to be “widespread enough” or not “pervasive in practice.” IFRIC has also rejected issues due to the fact that it has been a

¹⁴⁰ www.iasb.org

¹⁴¹ Ibid.

¹⁴² Ibid.

¹⁴³ Bradburt, M., *An anatomy of an IFRIC Interpretation* (2007) pp. 110-113

question of a “detailed application”, rather than being a question of principles. IFRIC is designated to take a principle-based approach, not creating too many details and extensive guidance.¹⁴⁴

The accounting issues that have been most questioned regarding interpretations has been the IAS 39, *Financial Instruments: Recognition and Measurement* and the IAS 17, *Leases*. The major parts of the issues concerning leases have been added to IFRIC’s agenda rather than being rejected. In contrast, issues concerning financial instruments have involved more issues rejected from the agenda than accepted. As IFRIC is only taking on widespread accounting problems this means that IAS 39 is a complex standard that requires more judgment.¹⁴⁵

3.6.2 Questioning the Low Output of IFRIC

The low outputs of IFRIC have been questioned. What are the real reasons for IFRIC to provide this little guidance? One thing to take into account when discussing the output of IFRIC is that the IASB aims to produce principle-based standards and is therefore careful not to provide a large number of interpretations. When clarity is needed there is a preference to amend wording in IFRS instead of issuing a large extent of interpretation guidance. IFRIC does not want to operate or be viewed as an urgent issue group.¹⁴⁶

3.6.3 Lack of Guidance – Problematic for the Entities

It has been suggested that IFRIC has to be more cooperative with the IASB in the context of providing IFRS guidance. The IASB has been criticized by preparers and auditors to provide too little implementation guidance since the standards are very complex. Implementation guidance is expressed to be particular important when applying new standards for the first time when there is a lack of suitable expertise and “best practice examples”.¹⁴⁷ However, IFRIC’s mandate is to support the principle-based approach in IFRS, avoiding details and extensive detailed guidance¹⁴⁸. This has created a tension where the entities and the auditors don’t think the guidance is sufficient and are asking for more interpretation guidance. At the same time, the IFRS has to be a principle-based set of accounting standards with little or no details. The IASB and the IFRIC are careful to support this principle-based approach.¹⁴⁹

¹⁴⁴ Bradburt, M., *An anatomy of an IFRIC Interpretation* (2007) pp. 112-113

¹⁴⁵ Ibid. pp. 114-116

¹⁴⁶ Ibid. pp. 118-119

¹⁴⁷ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), p. 19

¹⁴⁸ Bradburt, M., *An anatomy of an IFRIC Interpretation* (2007) pp. 112-113

¹⁴⁹ www.iasb.org

3.7 Interpretation in Practice – Different Solutions on How to Solve Accounting Issues

Different methods are suggested to facilitate the process of interpreting and implementing accounting standards. The legal method is suggested to be one of those since it will provide us with guidance of how certain accounting issues can be solved in practice. Further, a hierarchy of accounting rules and guidance will also help us to understand how preparers and auditors might interpret and manage the implementation of IFRS in practice.

3.7.1 The Legal Method

Accounting can be described as a discipline which involves different rules to be applied in practice. When solving accounting issues it is useful to apply a method that is appropriate for practical cases. The legal method is suggested to be useful since it is a “dialectic process” which helps us to understand and interpret different cases and thereafter decide what rules to apply in the specific case. Hence, since accounting is regulated it is important to understand the individual case and interpret related rules, or standards, for the specific case.¹⁵⁰ Consequently, the legal method is useful in the context of solving accounting issues.

Four steps are suggested to be important for the solution of an accounting issue. First of all, the correct accounting standard has to be identified. Secondly, the content of the standard must be understood. Thirdly, the chosen standard will determine what type of circumstances that has to be regarded in the specific case. Finally, the practical problem has to be interpreted.¹⁵¹ Accounting is generally based on technical expertise and knowledge. Hence, a certain level of knowledge about accounting and accounting theory is required in order to solve an accounting issue. In practice, it is therefore important to have knowledge about concepts of accounting and how these shall be interpreted.¹⁵²

The legal method is naturally using a juridical approach to resolve issues. Further, the legal scholar is applying a certain hierarchy for this purpose. Below, the hierarchy is listed in order.¹⁵³

- Words of the Act
- Preparatory Work
- Legal Usage
- Doctrine¹⁵⁴

¹⁵⁰ Artsberg, K., *Redovisningsteori - policy och - praxis* (2005), p. 41

¹⁵¹ *Ibid.* p. 41

¹⁵² *Ibid.* p. 41

¹⁵³ *Ibid.* p. 41

¹⁵⁴ *Ibid.* p. 50

In terms of accounting, it might be difficult to solve an accounting issue by only using the juridical assault approach. For example, when applying the Swedish accounting legislation there is only a frame law to use.¹⁵⁵ A frame law requires additional rules and interpretations to solve the specific issue. Further, the preparatory work and the legal usage are limited in accounting, which makes it even more difficult to solve an accounting issue by only using the legal method. Further, accounting is normally technical complicated which causes a demand for supplementary inputs from the doctrine and expert opinions.¹⁵⁶

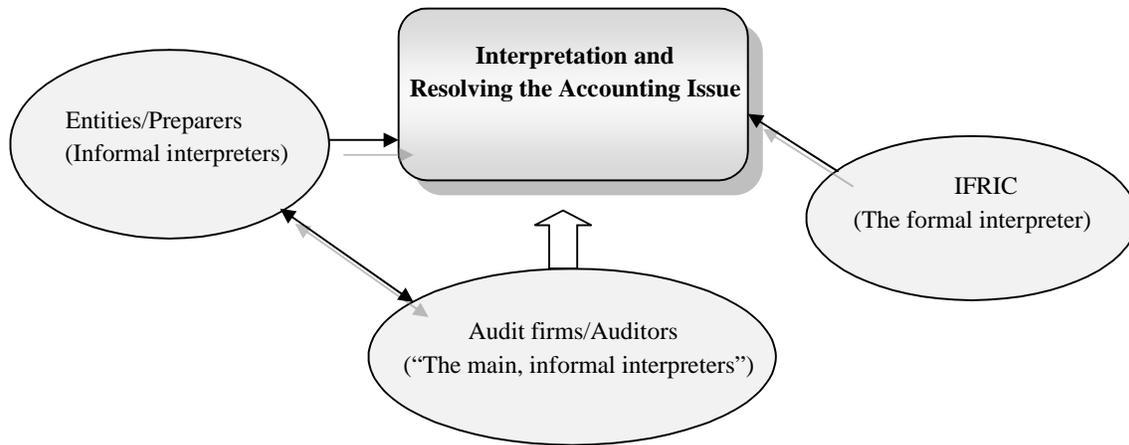
3.7.2 Who Is the Interpreter?

As mentioned above, solving an accounting issue requires an interpretation of the specific standard. As the formal interpreter, IFRIC, has a limited capacity of providing interpretations, more engagements and interpretations from the preparers and the auditors are required. Further, since IFRIC's interpretation guidance are not always considered as being "satisfactory" or "clear" it naturally implies that entities and auditors have to take more responsibility when managing the daily interpretation and implementation problems of IFRS. As a result, entities and auditors have become the informal interpreters of IFRS, since the IFRIC is not able to provide sufficient guidance. Additionally, entities which are not capable enough to deal with the interpretation and implementation issues on their own have to rely on the auditors.¹⁵⁷ For this reason, it has been suggested that the informal "main interpreters" are the auditors since they are the ones that have the final word of what is concerned as a "correct" interpretation of IFRS. Preparers are only required to interpret issues for their specific case, while the audit firm and the auditors involved are forced to choose side of how issues shall be interpreted. Further, the auditors are affecting the preparers as they are providing services related to the interpretation and implementation of IFRS. Thereof, the power of implementation is suggested to lie in the hands of the audit firms, especially the Big Four since they are mainly working with the IFRS-entities. The figure below demonstrates how the involved parties could conduce to interpretations and solutions of accounting issues.

¹⁵⁵ The Swedish Annual Accounts Act is an example of a frame law.

¹⁵⁶ Artsberg, K., *Redovisningsteori - policy och - praxis* (2005), p. 51-52

¹⁵⁷ Tokar, M., *Convergence and the Implementation of a Single Set of Global Standards: The Real-Life Challenge* (2005) pp. 56, 67



Source: Basic ideas from Claes Norberg's Seminar two, Interpretation, HARN 10 Accounting and Law (2009-02-03)

3.7.3 The Hierarchy of Accounting Rules

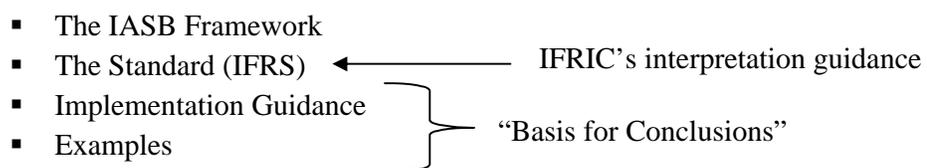
In addition to what has been discussed above there is a proposed hierarchy of how accounting issues shall be resolved. It has been suggested that the *IASB Framework* should be on the top of the hierarchy since the basic concepts in the Framework shall work as an underlying base for the financial statements of the preparers.¹⁵⁸ The IASB Framework shall also serve as a main guidance for the IASB when developing standards. Further, the IASB Framework shall act as a guide for the IASB and the IFRIC when resolving accounting issues that not yet has been addressed.¹⁵⁹

After the preparers and the auditors have considered the *IASB Framework*, the preparer should start to study *The Standard (IFRS)* and related *IFRIC-interpretation guidance* if available. The third element in the hierarchy is the *Implementation Guidance* that is attached to the original, English version of IFRS. The fourth element in the hierarchy is *Examples*, which is also attached to the original version. These types of guidance are named "Basis for Conclusions" and should be viewed as extra guidance when applying IFRS. It has been suggested that the *Implementation Guidance* and the *Examples* are especially important for the users when implementing IFRS, since the standards are too vague and difficult to interpret. Concrete examples and extra guidance are suggested to facilitate the implementation of IFRS.¹⁶⁰ The suggested hierarchy of accounting rules and guidance is described below.

¹⁵⁸ Norberg, Claes, HARN 10 Accounting and Law, Seminar one, Regulatory Techniques (2009-01-27)

¹⁵⁹ www.iasplus.com

¹⁶⁰ Norberg, Claes, HARN 10 Accounting and Law, Seminar one, Regulatory Techniques (2009-01-27)



Source: The authors' illustration

3.8 The Nature of Change

In order to understand how the Swedish listed entities experience, manage and adapt to the changes in IFRS, it is important to understand the nature of change. By using theory of change we aim to describe how varying types of organizational changes can take form in different types of organizations.

The pace of global, economic and technological development creates inevitable changes in the market and the environment where entities are operating.¹⁶¹ With the view of the entity as an open system which is cooperating with the environment, the ability to change is an important feature. The ability to change is essential in order to compete on the international market and to keep up with the rapidly changeable environment.¹⁶²

Entities are in general highly influenced by external forces involving rules and regulations, agreements and decisions. Different types of organizations, comprised of people with a certain education or profession, are contributing to changes.¹⁶³ For instance, the IASB is issuing accounting standards, IFRS, which have to be adopted by all member countries in EU. Hence, the IAS-Regulation (EC) 1606/2002 causes organizational changes and challenges for the involved entities.¹⁶⁴ Consequently, regulative bodies are often an important driving force when understanding an organizational change.¹⁶⁵

Organizational changes are also caused by the international development and the aim to achieve a stronger economical integration between continents, nations and regions. Consequently, a factor affecting one country influences other countries as well.¹⁶⁶ IFRS is a result of the ongoing globalization as well as the need for an international convergence of accounting standards between countries.¹⁶⁷ Since entities must abide by rules and decisions made by international bodies, the changes in the political environment have a high influence on the single entity.¹⁶⁸

3.8.1 Evolutionary and Revolutionary Change

Changes emerge in different forms dependent on the content of the change. An organizational change might involve changes of objectives and strategies or structures and power configurations¹⁶⁹. In general, a dividing line can be drawn between evolutionary and

¹⁶¹ Cummings, T., Worley, C., *Organization Development and Change* (2005), p. 22

¹⁶² Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerar* (2008), p. 412-413

¹⁶³ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 66-69

¹⁶⁴ Wong, P., *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), pp. 4-27

¹⁶⁵ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 66-69

¹⁶⁶ Ibid. p. 66-69

¹⁶⁷ pdfserve.informaworld.com

¹⁶⁸ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 66-69

¹⁶⁹ Ibid. 414-415

revolutionary changes.¹⁷⁰ The evolutionary change is incremental and involves slow, gradually changes over time. The change evolves through the mutation and adaption of existing routines within the organization.¹⁷¹ A decision constitutes of several minor decisions which in turn influence other decisions in other parts of the organisation. The evolutionary approach makes allowances for unpredicted changes in the environment and permits small decisions in the last minute.¹⁷² In contrast, a revolutionary change occurs when the organisation has to go through a radical change, often in a short period.¹⁷³ A revolutionary change is largely unpredictable and involves major shifts in routines and institutions within the organization.¹⁷⁴ In general, this involves a change of objectives and strategies in the organisation.¹⁷⁵

3.8.2 Dimensions of Change

Changes can take very different forms, even when comparing similar organizations. Some organizations introduce new technology; others change the organizational culture or reallocate assignments and responsibilities.¹⁷⁶ An organizational change can therefore be described from three different dimensions. These dimensions are presented below:¹⁷⁷

3.8.2.1 Dimension 1, the Content of a Change

The view of an organization as an open system is based on two assumptions. First, organizations consist of four different elements; technology, individuals, assignments and structure. These elements are nearly linked to each other since a change of one of them normally leads to changes of the others. For instance, a new computer system involves changes of the structure, the assignments as well as the requirements of competence of the employees. Consequently, the change of one element involves changes of the other elements caused by an internal pressure.¹⁷⁸ The second assumption is that organizations are affected by external forces, such as rules and regulations as well as political decisions. These forces oblige the entities to adapt to changes.¹⁷⁹ Consequently, the meaning of this assumption is that an organization is dependent on its environment. The majority of all organizations are further dependent on the resources of the environment such as money and personnel. As a result, this

¹⁷⁰ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 115

¹⁷¹ Scapens, R.W., Burns, J., *Towards an understanding of the nature and processes of management accounting change* (2000), p. 57

¹⁷² Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 256

¹⁷³ *Ibid.* p. 415

¹⁷⁴ Scapens, R.W., Burns, J., *Towards an understanding of the nature and processes of management accounting change* (2000), p. 57

¹⁷⁵ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 415

¹⁷⁶ *Ibid.* p. 125

¹⁷⁷ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerar* (2008), p. 414

¹⁷⁸ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 89-91

¹⁷⁹ *Ibid.* p. 66

creates interdependence between the organization and the parts of the environment which are controlling the resources.¹⁸⁰

3.8.2.2 Dimension 2, the Extent of a Change

During the organizational lifecycle, different types of changes occur. Some changes are of a more revolutionary approach involving technological and strategic changes, whereas others are of an evolutionary approach with gradually changes.¹⁸¹ Further, changes include formal as well as informal elements where formal elements consist of technology, strategy and various rules. In contrast, informal elements involve values, norms and assumptions.¹⁸² It might seem exacting and complicated to change values and norms in an organization whereas a change of formal elements is simpler in comparison. At the same time, changes of formal elements might result in new values and norms if the implementation is successful. On the other hand, if the new rules are incompatible with existing ways of thinking it might be very challenging to succeed with the implementation of the change.¹⁸³

3.8.2.3 Dimension 3, the Time Perspective of a Change

This dimension concerns the question of whether the change is based on assumptions, a proactive change, or if it's a reaction of a change, a reactive change. A reactive change takes place when the organization responds to something that has already occurred in the environment or internally in the organization.¹⁸⁴ Consequently, the organization changes when it is forced to.¹⁸⁵ A proactive change implies that internal changes are made due to changes in the environment.¹⁸⁶ Consequently, the change occurs before the incident takes place and is based on assumptions of what is going to happen in the near future.¹⁸⁷ These assumptions are relatively uncertain which increase the likelihood for objections against the change. Therefore, a proactive change might encounter resistance since it lacks the urgency of a change that a reactive change has.¹⁸⁸

¹⁸⁰ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 91

¹⁸¹ Ibid. p. 115-116

¹⁸² Ibid. p. 116, 123

¹⁸³ Scapens, R.W., Burns, J., *Towards an understanding of the nature and processes of management accounting change* (2000), pp. 58-59

¹⁸⁴ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerar* (2008), p. 416

¹⁸⁵ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 177

¹⁸⁶ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerar* (2008), p. 416

¹⁸⁷ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 177

¹⁸⁸ Ibid. p. 178

3.8.3 Planned Change

Changes in the political environment in terms of new regulations and new prerequisites are factors that put pressure on organizations to change and adjust to the new requirements. This type of external pressure enforces a planned change.

A successfully planned change is based on communication and awareness of the change throughout the organization. Organizational members should be aware of the meaning of the change and there should be a strong coalition behind the change. The process of a change is progressing step by step with a continually communication of the results between the parties involved.¹⁸⁹

3.8.3.1 Lewin's Change Model

Different models of planned change have been provided by researchers. These models can be applied in the work of change since they are increasing the understanding of the organizational change. Kurt Lewin is one of the researchers that have produced a general model on the process of planned change and the implementation of a change.¹⁹⁰

The first step in Lewin's model is *unfreezing*. This step normally involves actions to reduce the forces that maintain the present level. In order to unfreeze the current level it is important that organizational members are motivated and positive involved in this first step. The second step is *moving*, where the organization moves from one level to a new level. This process normally includes steps to change the behavior of the organization, departments or individuals. The final step in Lewin's model of planned change is *refreezing*. This step shall stabilize the organization at the new level. The stabilization is frequently supported by mechanisms such as new structures and policies.¹⁹¹



Source: Cummings, T., Worley, C., *Organization Development and Change* (2005), *Lewin's Change Model*

¹⁸⁹ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerer* (2008), pp. 445-446

¹⁹⁰ Cummings, T., Worley, C., *Organization Development and Change* (2005), pp. 21-24

¹⁹¹ Ibid. pp. 21-24

3.8.3.2 The Action Research Model

Another model that focuses on the implementation of a planned change is the action research model. Action research normally aims to help organizations to implement changes and to develop additional knowledge that can be used in other situations. The model focuses on planned change as a cyclical process, including initial research about the organization which will further guide the organization to adequate actions.¹⁹²

The process contains of eight main steps of which the seventh step, the *action phase*, is focusing on the actual implementation phase of the change. Before focusing on the action phase, it is useful to describe how a modern organization might work with a planned change.

First, the *problem* needs to be identified. Identifying the problem is normally made by a key executive in the organization which explains that a problem has to be solved and that it is necessary to get help from external expertise.

The second step is containing *consultation with a behavioral science expert*. This is of extra importance when the external consultant and the client start the collaboration for the first time. In this stage, the client and the consultant are carefully assessing and getting to know each other.¹⁹³

The third step consists of *data gathering and preliminary diagnosis*, which involves information gathering within the organization that is useful for understanding the problem. The ensuing phases, phases four and five, consist of *feedback to a key client or group* and *joint diagnosis of the problem*. These phases involve feedback to the client, the organization, about the diagnostic data that is useful for the continuing process. The feedback is then discussed between the client and the external expert. The collaboration is vital within the change process since the client has to be open towards the solution provided by the expert, otherwise the client might be resistant to the change. This phase is consequently followed by the fifth phase, the *joint action planning* which is the phase before the central *action phase*. The joint action planning is the phase where the client and the external expert jointly agree on what actions that are needed to be taken in order to implement the change. What specific actions decided to be taken depend on the environment, the culture and the technology of the organization. It also depends on the expenses and time schedule for the change.

Further, the vital *action phase* is the next phase in this model, step seven. The action phase involves the actual change, where the organization moves from one level to another. The action stage may involve implementing new procedures and installing new methods as well as reorganizing structures and work designs. It may also involve reinforcing new organizational behaviors. Normally, actions like these can't be implemented for a short period; it requires a

¹⁹² Cummings, T., Worley, C., *Organization Development and Change* (2005), pp. 24-26

¹⁹³ Ibid. pp. 24-25

transition period where there is time for the organization to move from the present to desired state.¹⁹⁴

The action phase is followed by the last step, the *data gathering after action*. This final step is important in the action research model since the data must be gathered after the actions have been taken in order to determine and measure the effects of the actions. This last step is essential in the cyclical process since it will determine if new actions are going to be necessary.¹⁹⁵

As noticed, the action research model involves many steps and sometimes extensive work. However, the action research model is applicable in diverse situations and to a variety degree of changes. The model can be redefined with new or revised settings and applications in order to be suitable for all types of organizational changes.¹⁹⁶ In smaller settings, such as movements in sub-units in an organization, the action research model is not as complicated as it might be in a larger context such as reorganizations of total systems and communities.¹⁹⁷ This is important to have this in mind since not all phases in the action research model might be applicable when implementing changes in an organization. The model has to be adapted to the specific organization.

The contemporary action research model has increased the degree of participation from the organizational members. Even though external consultants are involved with the changing process there is an increased tendency to involve the members in how they shall learn to handle the ongoing and future changes. This type of process is sometimes called “action learning” which emphasizes an internal learning where the party or parties involved need to learn how to adapt to changes. Further, the action research model emphasis that external consultant needs to work with the members to increase the level of knowledge about how to adapt to changes. Both parties can be described as “co-learners” as they cooperate to diagnosing the organization, designing and implementing the changes as well as assessing them together. This involves a situation where both parties are combining their knowledge and skills to learn how to change the organization. Each party has different perspectives and skills which both parties benefit from. Organizational members can refine and improve their implementation process and external consultants learn how to facilitate complex changes in organizations.¹⁹⁸

The two models; Lewin’s change model and the action research model overlap each other. Both models have a preliminary stage (unfreezing or diagnosis) which precedes the action and implementing phase. This in turn is followed by a closing stage (refreezing or evaluation.) Organizational members are involved in varying degrees in the changing process. Lewin’s model is perceived as less focused on the organizational involvement for changes. Further,

¹⁹⁴ Cummings, T., Worley, C., *Organization Development and Change* (2005), pp. 24-25

¹⁹⁵ Ibid. pp. 24-25

¹⁹⁶ Ibid. p. 25

¹⁹⁷ Ibid. p. 26

¹⁹⁸ Ibid. p. 26

Lewin's model is more focused on the general process of changes rather than on specific activities as the action research model is.¹⁹⁹

3.8.4 Strategies for Change

Two main strategies are identified when explaining how a process of a change might be conducted within an organizations; Strategy E and Strategy O. Strategy E, where E means *economic*, aims to increase the economic value. Strategy O means *organization* where the purpose is to develop the human capital and create a learning organization.

3.8.4.1 Strategy E

The focus in strategy E is on the formal structure and systems within the organization. A top-down approach is being used where the change is primarily driven by the top management supported by external help.²⁰⁰ The external help often involves experts which have former experience of similar problems and know what actions to undertake.²⁰¹ Strategy E involves a linear process, where the change can be divided into different phases following each other. This process implies that an objective is formulated which is followed by necessary actions to achieve this objective. Finally, the actions are controlled and evaluated.²⁰²

3.8.4.2 Strategy O

By developing the human capital in the organization, Strategy O aims to get the individuals to apply the strategy and learn from the experiences of the change.²⁰³ As in Strategy E, this strategy is rational in the sense that objectives are formulated and actions are undertaken to achieve the objectives. However, the focus in Strategy O is on development rather than on change. The change isn't considered as an isolated case, but as a continuous process of learning.²⁰⁴ The top management's primarily task is to create an engagement among the employees in the organization rather than to conduct the change.²⁰⁵ Further, there is less reliance on external expertise than in Strategy E. Instead of providing the organization with solutions, the consultants support the organization so it is able to solve the problems by itself.²⁰⁶

¹⁹⁹ Cummings, T., Worley, C., *Organization Development and Change* (2005), p. 28

²⁰⁰ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 229

²⁰¹ Ibid. pp. 244-245

²⁰² Ibid. pp. 239-240

²⁰³ Ibid. p. 229

²⁰⁴ Ibid. p. 245

²⁰⁵ Ibid. p. 250

²⁰⁶ Ibid. pp. 260-261

Strategy E and O can be seen as ideal types of how changes should be carried out. However, there might not be any empirical examples of these types of strategies. Instead, a mix of the strategies is more common, meaning that the both strategies overlap each other.²⁰⁷

3.8.5 Changes in Accounting Routines

The implementation of new accounting standards might lead to new practices and routines within the organization. Activities and routines deviate from already established rules or will emerge as a consequence of the new requirements.²⁰⁸

During an implementation process of new accounting standards, new rules are introduced and implemented in the organization. In turn, new routines and procedures might emerge along with the changes. These routines must work alongside other already existing organizational procedures in order to be widely accepted and institutionalised. A change that is consistent with existing routines tends to be easier to implement than a change that challenges the existing ones. In either case, the already existing routines tend to influence the new routines and procedures.²⁰⁹ Consequently, an implementation problem of new or revised standards could be a question of how well these standards are consistent with existing accounting routines.²¹⁰ Further, if the new routines become widely accepted over time they are considered to be institutionalised.²¹¹

3.8.6 Resistance to Change

A change is often associated with insecurity since it leads to a confrontation with the unknown. Consequently, fear and resistance often follow when change comes into view.²¹² Individuals naturally defend the status quo if they feel a threat against their security and status. In general, individuals are suspicious of the unfamiliar, but also concerned about the risk to failure when learning something new. Consequently, this suspiciousness and anxiety increase the likelihood of resistance.²¹³ If the need of a change is distinct and clear it is more likely that there will be less resistance involved. Further, if employees are well aware of the necessary actions and the effects of the change they are more willing to cooperate.²¹⁴

In general, an organizational change leads to a change of the personal compacts between management and their employees. These personal compacts are comprised of job descriptions

²⁰⁷ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 228

²⁰⁸ Scapens, R.W., Burns, J., *Towards an understanding of the nature and processes of management accounting change* (2000), p. 35

²⁰⁹ Burns, J., Scapens, R. W., *Conceptualizing management accounting change: an institutional framework* (2000), pp. 3-4

²¹⁰ Scapens, R.W., Burns, J., *Towards an understanding of the nature and processes of management accounting change* (2000), pp. 40-41

²¹¹ *Ibid.* pp. 40-41

²¹² Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerar* (2008), p. 427

²¹³ www.newfoundations.com

²¹⁴ Jacobsen, Dag, Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), pp. 211-212

and employee contracts as well as norms, values and business practices in the organization. A disruption of these compacts might upset the balance and cause resistance to the change.²¹⁵ Changes in accounting rules which are consistent with the existing routines and norms of behaviour make the adaptation of new rules easier. Consequently, changes which conflict with existing routines as well as existing ways of thinking make the implementation process more difficult to manage. Three types of resistance to changes are identified; *overt or formal resistance* that occurs from competing interests within the organization, *resistance derived from a lack of knowledge and experience within the organization*, and *resistance due to established ways of thinking and doing expressed in existing routines and institutions*. These elements of resistance have effects on the adaptation which are, to a great extent, difficult to predict. In order to explain the actual process of change, it is necessary to examine the organization's existing routines, rules and institutions as well as analysing potential conflicts and challenges that arise. In turn, it will enable the parties involved in the changing process to be aware of the problems and difficulties in the change process.²¹⁶

3.8.7 Communication – a Part of the Change

Understanding the organizational communication process will increase the insight of how modern organizations are able to adapt to changes since communication is a part of the work of change. Effective communication is an essential prerequisite for an organization to adapt to changes.²¹⁷

Communication is defined as an ongoing process where the members maintain and change the organization through communication with internal and external parties. Hence, this involves communication with other external parties that is relevant for the organizational change. The traditional way of describing communication is that it is a process where people exchange information and where focus is on the information transfer. However, this is suggested to be an incomplete definition since communication also involves intermediation of ideas, feelings and attitudes between parties. These features are affecting the information transfer since it affects the interpretation of the received information.²¹⁸

Many parties within an organization are important for the implementation process of new standards. The finance department is not the only department that is affected by the process of implementing changes. Instead, other parties of the organization are in one way or another affected. Therefore, it is especially important for the management to understand the changes and the new numbers that are presented in order to communicate to the involved parties.²¹⁹

²¹⁵ www.newfoundations.com

²¹⁶ Scapens, R.W., Burns, J., *Towards an understanding of the nature and processes of management accounting change* (2000), p. 55

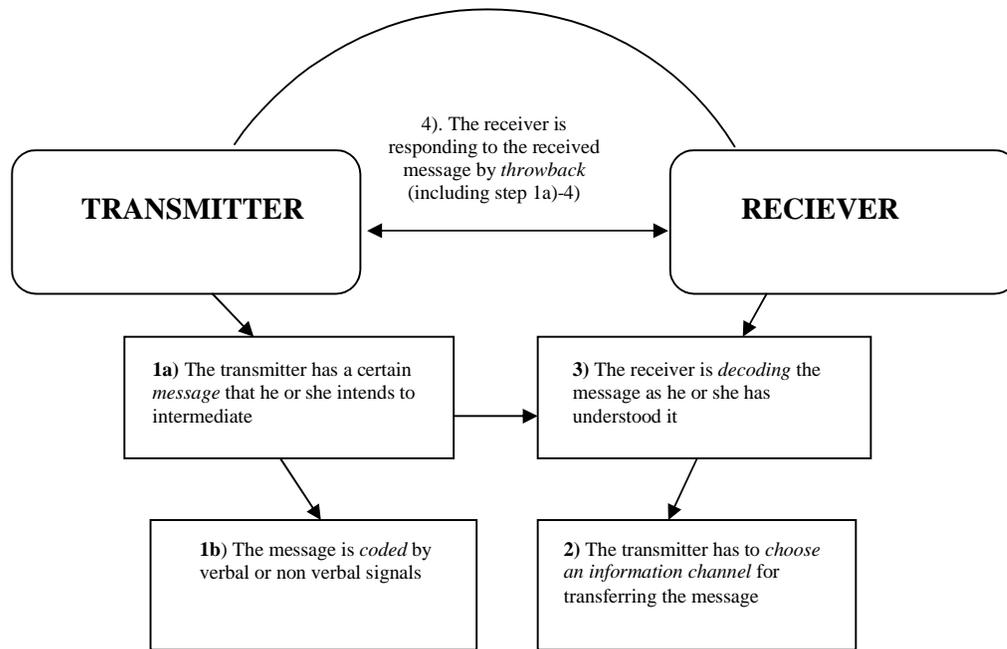
²¹⁷ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerar* (2008), p. 295

²¹⁸ *Ibid.* p. 295

²¹⁹ Rippe, J., *Vägen mot IAS – skjut inte upp konverteringsprocessen!* (2001), pp. 28-33

Further, during the communication process information is transferred from a transmitter to a receiver. A person might shift between the role as a transmitter to a receiver and vice versa where he or she alternates between providing and receiving information.²²⁰ Below, the communication process is described (step 1a-4) to demonstrate how it generally works within a modern organization.

(POSSIBLE) COMMUNICATION PROBLEMS



Source: Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerer* (2008), Figure 8.1 (supplementary designed by the authors)

As demonstrated in the figure, it is not always sure that the receiver interprets the information as the transmitter intended to. Communication problems might arise due to many factors.²²¹ Generally, one can say that communication problems arise when the receiver is of the view that the information is not of value or of interest. Further, communication problems might also arise when the information channels are overloaded with too much information. Thus, when the information received is experienced as too extensive.²²²

Communication channels are traditionally divided into written or oral channels. The main difference between these types of communication channels is the possibility to transmit generous information and avoid communication problems. Written information is considered to be more risky since it provides a relatively limited scope for providing generous

²²⁰ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerer* (2008), pp.296-297

²²¹ Ibid. p. 297

²²² Ibid. pp. 324-325

information. With other words; there is a limit on how much information that could be transmitted in one message. Further, the throwback process normally takes more time when the information channel is on record. In contrast, oral communication provides possibilities to transfer extensive and generous information. Many studies of communication have demonstrated that oral communications, face-to face conversations, is the most efficient way to communicate, especially if there is a shortage of time. Moreover, if the message is complex, vague and easy to misinterpret it is especially important to communicate face-to face. Oral communications facilitates the information transfer since the receiver is allowed to immediately respond to the message and thereof straighten possible misinterpretations.²²³ In addition to this, inappropriate information channels could cause difficulties for the receiver to understand the entire information. Some channels, such as written reports might limit the either-way communication which in turn might lead to misinterpretations.²²⁴

²²³ Jacobsen, D., Thorsvik, J., *Hur moderna organisationer fungerer* (2008), pp. 298, 300

²²⁴ *Ibid.* p. 300-303

3.9 Institutional Theory

The institutional theory is applicable when analyzing the social processes and the formal structures that are applied within an organization in the context of adaptation to the institutionalized environment. Further, the institutional theory is applicable in the context of economic change and economic processes and is based on the theory that institutions are affecting the human behavior and the market.²²⁵

An institution can be defined as an established system which consists of social praxis, both rules-based and standardized. As a result, institutionalization can be described as a process, where the expected praxis is developed and learnt.²²⁶ Further, the institutional theory is focusing on the process of institutionalization and how this could create new praxis on the field. The institutional theory can also be explained by the process of how organizations act in an institutionalized environment and how they react on the institutional process.²²⁷

Further, institutional theory is focusing on the human activities within organizations which imply a certain degree of inertia within organizations. Inertia occurs since people are normally in favour of doing procedures as they are familiar with. People are in favor of old procedures since they normally find them to be more correct. Hence, old structures might impede a change.²²⁸ To add to this discussion, knowledge has been identified as one of the key human feature that is essential in a change process. The absent or presence of knowledge is an indicator of the degree of institutionalization. If the members have enough knowledge to perform and to recognize the consequences of that performance, the degree of institutionalization is higher. Hence, the importance of internal knowledge within an organization is clear.²²⁹

An organization might apply a formal structure since it is important to achieve legitimacy or to adapt to coercive regulations. Accounting could therefore be seen as a formal structure.²³⁰ Accounting standards can be viewed as a formal structure whose developing is reflected and dependent on the economic trends within the society. For the organization to survive in a society with different demands it is essential to cooperate with environment in a way that is accepted.²³¹

²²⁵ Söderlund, C., *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor* (2007), pp. 66,83, 122

²²⁶ Ibid. p. 66

²²⁷ Ibid. pp. 75,79,83

²²⁸ Artsberg, K., *Redovisningsteori - policy och - praxis* (2005), pp. 431-432

²²⁹ Cummings, T., Worley, C., *Organization Development and Change* (2005), p. 195

²³⁰ Söderlund, C., *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor* (2007), p. 83

²³¹ Ibid. p. 65

3.9.1 Isomorphism

A change that occurs from an institutional environment makes organizations look more similar. This phenomenon is explained by isomorphism. Isomorphism is affecting organizations since it contributes to a society where organizations tend to act similar when they are forced to adapt to similar rules and regulations. Further, isomorphism is occurring from the “organizational field” and its structure of it. It is the institutionalized environment and its social pressure within the society that are causing institutional isomorphism.²³²

Pressure from regulatory environment is described as a source for isomorphism. Pressure from the regulatory environment limits diversity since the environment regulates and prescribes common standards and how these shall be applied.²³³ The regulatory pressure in the context of isomorphism is applicable in our thesis since the EU requires listed entities within the EU to apply IFRS for their consolidated financial statements. Hence, as Sweden is a member of EU it is mandatory for Swedish listed entities to apply IFRS. Consequently, there is pressure from the regulatory environment to adapt to the changes in IFRS which is affected by the expectations and the pressure from the society.

To further describe isomorphism, it can be divided into three different categories:

- 1) Coercive Isomorphism
- 2) Mimetic Isomorphism
- 3) Normative Isomorphism²³⁴

The *coercive isomorphism* derives from laws and regulations. This is similar to the regulatory pressure since it forces organizations to adapt to the legal requirements within the society²³⁵. For example, the EU requirement, through the IAS Regulation (EC) No 1606/2002, is a coercive regulation which is putting pressure on the organizations to adapt to the requirements which in turn leads to coercive isomorphism²³⁶. In our thesis, coercive isomorphism is practiced through the European Commission and the Swedish body politic.

The *mimetic isomorphism* arises from insecurity. Organizations are controlling their insecurity by finding a common solution on the problem. Organizations imitate successful competitors, use external consultants or hire new employees to reduce the insecurity.²³⁷ The use of external

²³² Söderlund, C., *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor* (2007), p. 75

²³³ Olivier, C., *Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views* (1997), pp. 706-707

²³⁴ Söderlund, C., *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor* (2007), p. 76

²³⁵ Ibid. p. 75

²³⁶ Ibid. p. 75

²³⁷ Ibid. pp. 76,78

consultants is contributing to an increased isomorphism.²³⁸ This type of imitation might not always be done consciously.²³⁹

The *normative isomorphism* is emanating from the profession. Auditors can be seen as group or key actors within the profession that strive towards a common definition of methods and relationships.²⁴⁰ Today, the demand on the accounting profession from the market has changed and is constantly changing. The diversity in accounting services and the increased pressure from the regulators has further enlarged the pressure on the profession. Uniform training, industry-wide ethical codes, rules and standards, interchange of ideas and methods are just examples of how the professional associations reduce heterogeneity.²⁴¹ Further, the accounting profession is subject to the same coercive and mimetic isomorphism as other organizations.²⁴²

²³⁸ Olivier, C., *Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views* (1997), p. 708

²³⁹ Söderlund, C., *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor* (2007), pp. 76,78

²⁴⁰ Ibid. pp. 76,78

²⁴¹ Olivier, C., *Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views* (1997), p. 79

²⁴² Söderlund, C., *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor* (2007), pp. 77-78

4 Empirical Findings

This chapter will present the most relevant empirical findings that we gathered from our realized interviews. This chapter aims to clarify the respondents' perceptions and opinions in order to give a fair view of the field. The empirical findings from the selected entities are presented in the first section of this chapter, whereas the findings from the auditors follow.

4.1 Presentation of the Respondents, Listed Entities

Below, the ten respondents from the reviewed Swedish listed entities are presented. The respondents are anonymous and are only introduced by their position and by a fictitious name (Alfa-Kappa). The size of the entity as well as the type of industry is presented. The questionnaires related to the interviews are found in *Appendix 1*.

Interviews in Person									
Entity/ Respondent	Alfa	Beta	Gamma	Delta	Epsilon	Zeta	Eta	Theta	Jota
The respondent's position	Chief Consolidated Accounts	CFO	CFO	CFO	CFO	Chief Consolidated Accounts	CFO	CFO	Chief Consolidated Accounts
Size of the entity	Mid cap	Small cap	Small cap	Large cap	Large cap	Small cap	Small cap	Small cap	Mid cap
Industry	Health Care Industry	Health Care Industry	Information Technology Industry	Manufacturing Industry	Real Estate Business	Information Technology Industry	Information Technology Industry	Information Technology Industry	Real Estate Business

Interviews by Telephone	
Entity/Respondent	Kappa
The respondent's position	IFRS-expert
Size of the entity	Large cap
Industry	Health Care Industry

4.2 Empirical Findings, Listed Entities

4.2.1 The Initial Implementation of IFRS

All of the reviewed entities implemented IFRS when it was mandatory in 2005. In general, the initial implementation of IFRS wasn't considered as a major challenge for the entities. According to the respondents in Gamma and Eta, the implementation didn't involve any complex accounting issues. The respondent in Epsilon as well as in Jota were of the same view and explained that the previous set of accounting recommendations, issued by the Swedish Financial Accounting Standards Council²⁴³ (RR)²⁴⁴ reminded a lot of those in IFRS. Further, the Swedish Financial Accounting Standards Council has always been a translator of the IABS's accounting standards, IFRS, which naturally facilitated the adoption of IFRS.

4.2.1.2 Challenges

Despite these experiences of the adoption of IFRS, some of the entities highlighted specific problems related to the initial implementation. In particular, the fair value measurements in IFRS were identified as a remarkable challenge. The respondents in Delta as well as in Eta were of the view that IAS 39, *Financial Instruments: Recognition and Measurement* caused the most remarkable problem, in particular concerning the derivatives. Furthermore, the respondent in Alfa identified a major issue in IFRS 2, *Share-based Payment*, whereas Theta highlighted the recalculation of historical numbers as a remarkable challenge.

The issue of fair value measurement, where market value serves as a base, was also a problematic area for Epsilon as well as for Jota. The respondents explained that this is a typical hurdle that Swedish listed entities have to struggle with since it's a new accounting principle, compared to the recommendation from RR. Before the mandatory adoption of IFRS, the prudence principle was used as the main accounting principle. The respondents further explained that the adoption of IFRS introduced fair value measurement for the evaluation of investment properties, IAS 40, *Investment Property*, as well as financial instruments, IAS 39, *Financial Instruments: recognition and measurements*. Further, the respondents explained that this measurement requires estimations and sometimes extra calculations if no market value is available. Additional concerns were expressed about the volatility of the market values since this could have a negative effect on the results. The respondents further explained that fair value measurements normally required additional work and resources.

²⁴³ Now called the Swedish Financial Reporting Board

²⁴⁴ Redovisningsrådet

4.2.1.3 External Help

The majority of the small cap entities required support from auditors and IFRS experts during the initial implementation of IFRS. The main reason was that these entities didn't have sufficient knowledge in IFRS to be able to manage an implementation by themselves. In contrast, entities with a high level of competence in the area of accounting were able to handle the adoption of IFRS without any additional external help. This was the case for Gamma, Delta and Kappa.

4.2.1.4 Conclusion

Some standards and accounting issues such as IAS 39, IAS 40, IFRS 2 and recalculation of historical numbers were emphasised as being especially challenging during the initial implementation of IFRS. The move from RR's recommendation of using acquisitions costs towards fair value measurements was considered to be the most remarkable change and challenge that occurred due to the mandatory adoption of IFRS. Those entities which possess a high level of internal competence in IFRS were able to handle the first time adoption without external help. On the other hand, those entities with insufficient knowledge of IFRS required external help from auditors and IFRS-experts.

4.2.2 The IFRS Legal Framework

4.2.2.1 Principle-Based Standards

Regarding the IFRS as a principle-based set of accounting standards, the respondent in Epsilon explained that this is difficult to apply in a large entity due to the requirement of a consistently application throughout the organization. Further, the respondent admitted that it is very challenging to keep a consistently IFRS-interpretation, since the standards allow more personal interpretations. The respondent in Zeta agreed and explained that "*...the scope for personal interpretations frequently disturbs the implementation process of IFRS*". Further, the respondent was of the view that the implementation of IFRS is sometimes very challenging since "*...there are no clear rules or praxis to follow*". Therefore, entities are forced to "create" their own praxis. The respondent in Beta did also agree and believed that the great scope for interpretations implies a practice of "*...creative accounting...*" in many entities.

The respondents in Gamma, Kappa as well as Delta were of another view. These respondents were positive to principle-based accounting standards and a scope for own interpretations. The respondent in Kappa, who has many years of experience in the area of accounting, explained that IFRS is much easier to manage than rule-based accounting since the latter involves a lot of effort in order to comply with all the rules. The respondent in Delta agreed and meant that detailed standards as in US-GAAP are very dependent on consultation.

4.2.2.2 The Complex Nature of IFRS

The respondents in Zeta as well as Jota experienced IFRS as very difficult to manage due to the complexity of the standards. The respondent in Jota explained that “...it is sometimes necessary to read a standard at least ten times before it is even possible to understand the meaning of it”. The respondent meant that some terms and expressions in IFRS are really hard to interpret. Consequently, the respondent explained that there is always insecurity involved when implementing a new standard. The respondent in Zeta was concerned that IFRS should result in annual reports that were difficult to understand since “...a deep understanding of both the IFRS framework and the conditions of the specific entity is required”.

The respondent in Beta was of the view that small cap entities in particular are facing more challenges related to the implementation process, due to the complex structure of IFRS. Instead, the respondent suggested that an “*IFRS light version*” would be more suitable for small entities to apply. The respondent in Gamma had also identified a similar issue for small entities. The respondent explained that instead of trying to fully comply with IFRS, which is almost impossible, it should be sufficient for these entities to keep a “...*good enough level*”. In contrast, the respondent in Delta was of the view that “...*there is no such thing as a good enough level*”. Instead, entities that aren’t able to achieve a full compliance with the standards have to engage external help. The respondent in Kappa agreed and meant that “...*a full compliance with IFRS isn’t a problem*”.

According to Delta and Zeta, the complexity of IFRS derives from the theoretical approach of the standards. IFRS is not sufficiently rooted in the reality since it is written by theoreticians in accounting. Further, many of the preparers don’t have sufficient theoretical understanding of IFRS which in turn causes difficulties when applying the legal framework. The respondent in Delta explained that the implementation guidance in the English version of IFRS indicates that IFRS is far too complex. Instead, entities should be able to manage an implementation of the standards without this type of additional information and guidance.

4.2.2.3 Insecurity when Interpreting the Standards

In Epsilon’s case, the fair value measurement in combination with unclear standards, give rise to insecurity of how to manage the interpretation of the standards. The respondents in Jota and Zeta were of the view that IAS 39 involves expressions and notions that makes the interpretation very complicated. The respondent in Zeta also meant that the change of some notions in IFRS give rise to difficulties when interpreting the standards. As an example, many of the titles of the financial statements have changed in IASB’s revised version of IAS 1, *Presentation of Financial Statements*. The balance sheet is from now on called *Statement of Financial Position* and the income statement has become *Statement of Comprehensive Income*. The respondent was concerned that these new notions are going to create confusions among the readers of the annual reports.

The respondent in Delta experienced that the insecurity of how to interpret the standards is especially noticeable when implementing new standards since “...*there are no former examples to refer to*”. The respondent in Beta on the other hand, gave an example and explained that it is difficult to know how to present research and development in the financial statements. The respondent’s main reason was that there are “...*vague criteria to base your decisions on*”. Instead, the final interpretation of a standard becomes a matter of how the management wants to present the figures in the financial statements.

4.2.2.4 Insecurity Requires External Support

The majority of the respondents, seven out of ten, managed their insecurity by having continually discussions with their auditors. In turn, the auditors have to discuss many of the interpretation issues with their internal IFRS-experts. Five out of ten respondents did also look at examples of how other entities, in different sizes and industries, have interpreted a certain standard. However, the respondent in Zeta explained that there aren’t always “...*best-practice example to use*”. This was the case with IFRS 7, *Financial Instruments: Disclosures*. As a result, it might be difficult to get a straight-forward opinion from the auditors if they haven’t seen praxis from the field of how to interpret a certain standard. According to the respondent, the reason is that auditors in general are afraid of doing something wrong. Instead, the respondent explained that the auditors is only contributing to some input; they aren’t always willing to give a straight-forward opinion about an interpretation issue. In turn, this has led to situations where the respondent in Zeta has been insecure whether a standard has been implemented correctly.

Despite external help from auditors, the interpretation and implementation of a standard is an extensive process with a lot of effort involved. The respondent in Zeta explained how this process normally works. First of all, the entity itself has to make the interpretation of a certain standard. Nevertheless, most entities have a continually dialogue with their auditors during the implementation process. In addition, the respondent explained that they normally observe annual or quarterly reports from those of other entities in order to use best-practice examples. Finally, the suggested interpretation and solution of the accounting issue are presented to the auditors. Thereafter, it is possible for the entity and the auditors to reach a conclusion of how the standard should be interpreted.

4.2.2.5 The English Version versus the Swedish Version of IFRS

Among the respondents in the research, Delta is the only one who uses the English version as a primary guidance when interpreting and implementing IFRS. The respondent in Delta explained that the Swedish version of IFRS “...*is not comprehensive enough*”. Nevertheless, the standards in the English version are very complicated and “...*the text has to be read at least three times before it is understandable*”.

The respondent in Gamma uses the Swedish version of IFRS, but believed that the original standards written in English are more comprehensible since these consist of additional material and extra guidance. Further, the respondent in Gamma explained that the Swedish version often is insufficient and some notions are used in a wrong way. The respondent was of the view that translation of words and meanings from the Swedish version to the English version is not always done correctly.

4.2.2.6 Conclusion

The lack of clear standards and best practice examples of the principle-based IFRS makes the implementation process very challenging for some entities. This is extra challenging when it comes to the interpretation and implementation of new and revised standards. Entities are sometimes forced to “create” their own best practice examples when implementing IFRS. This problem was especially remarkable among the small cap entities. In contrast, entities with a high level of internal knowledge in accounting were positively disposed towards the principle-based approach since it allows a scope for own interpretations. Hence, it was described that the final interpretation of a standard sometimes becomes a matter of how the management wants to present the figures in the financial statements.

Small cap entities in particular have more difficulties to implement IFRS since they lack sufficient internal knowledge to deal with its complex nature. Instead, these entities tended to settle for a “good enough level”.

Further, the theoretical approach of the standards was considered as one of the main reason to the complex structure in IFRS. For the majority of the entities, the insecurity of how to interpret certain standards were managed with external help from auditors and the IFRS-experts. The English version of IFRS was considered as more comprehensible than the Swedish version, since the former consists of additional implementation guidance on how to interpret and implement IFRS.

4.2.3 Changes in IFRS – New and Revised Standards

4.2.3.1 The Adaptation to Changes in IFRS

The respondents in the small- and mid cap entities in particular, were of the view that the new and revised standards require a lot of effort and time to adapt to. The respondents in Jota, Eta and Zeta explained that the time for handling the changes is very limited since the additional workload is put on top of the regular job assignments. The respondent in Zeta was of the opinion that the changes in IFRS “...*don't contribute to any added value...*” due to the extra efforts and time needed. Further, the respondent in Jota explained that one of the major challenges with the changes in IFRS is to keep oneself updated. A lot of information has to be

handled and important aspects are therefore easily disregarded. The respondent in Beta explained that a major challenge is to separate the general news from IASB and the standards endorsed by the EU which are thereby applicable. Therefore, continually dialogues with the auditors, information from seminars and websites, newsletters, and additional education within the organization is required to manage the changes in IFRS. The entities are also provided with lists of summaries of the changes in IFRS, issued by the audit firms' technical departments. Furthermore, the respondent in Alfa explained that the audit firms also provide certain frameworks to rely on in order to manage the changes. This was explained to be especially helpful for the revised version of IAS 1 since this standard involves changes of how to present the financial information. The respondent in Zeta also explained that it has been helpful to look at examples of how other entities have interpreted a certain standard.

In contrast to the small- and mid cap entities, the large cap entities didn't experience the ongoing changes in IFRS as disturbing or difficult to adapt to. The respondent in Kappa referred to their internal policy which states that all IFRS standards allowed for earlier adoption shall be implemented as soon as it is practicable. Normally, the respondent looks at exposure drafts and earlier version of IFRS in order to keep oneself updated with the standards. Consequently, the early preparations for the upcoming changes facilitate the implementation process since Kappa's internal accounting department is well prepared when the changes becomes mandatory. Instead of engaging external help, training of the internal accounting staff is the most effective way to adjust to new or revised standards. However, the respondent in Delta gave an example of the entity's early implementation of IAS 39 *Financial Instruments: Recognition and Measurement*. The content of this standard was changed in the last minute which forced the entity to remake the implementation. In turn, this process was considered as disturbing since it required external help from auditors.

4.2.3.2 The Time Aspect

IFRS was generally experienced as very time-consuming, and as the respondent in Theta explained "... *there is always a shortage of time*". Further, the respondent in Eta experienced that "...*decisions sometimes have to be taken in the decisive moment*". In contrast, the respondents in Gamma as well as Kappa claimed that there is always enough time for adapting to new or revised standards. In general, the timeframe is approximately one year according to the respondent in Gamma. Further, the respondent in Kappa explained that newly issued or revised IASB standards are not always directly endorsed by the EU. Thus, the EU has normally a backlog which further means that there is plenty of time to adapt to the changes in IFRS.

4.2.3.3 Internal Resources – a Critical Factor

In particular, the small- and medium cap entities are not equipped with sufficient internal resources in terms of knowledge and expertise in IFRS to be able to adapt to the changes in

IFRS by themselves. According to the respondent in Beta, a lack of resources in combination with the complexity of IFRS could limit small- and mid cap entities to adapt to new changes in a proper way. This makes these entities very dependent on the external support from auditors and IFRS-experts when implementing the changes in IFRS. Gamma is an exception since this entity holds a high level of competence in the accounting area. Regarding the large cap entities, a high level of internal knowledge of IFRS makes these entities more able to adapt to the new requirements and are thereof less dependent on external help.

However, the respondents in Gamma and Alfa were of the opinion that no entity is able to achieve full compliance with IFRS. The respondent in Gamma was of the opinion that this is also the case for large cap entities with many subsidiaries. It's not possible to have control of each and every subsidiary to achieve full compliance with IFRS, due to the complexity of the organisation. Further, the respondent in Theta believed that many entities most likely keep "*...a good enough level*" and implement the standards as well as they can.

The respondent in Epsilon explained that all new requirements and changes have to permeate the entire organization. Otherwise, the attitude towards the changes will disturb the implementation process. Further, the respondent believed that changes in IFRS might result in a need for changes in the daily activities as well as of the way of thinking. This might not always be the easiest thing to do since people in general are resistant to changes. The respondent further explained that a change often implies additional work and if the benefits of the change are not clear enough, people might not be willing to adjust to it. Consequently, a successful implementation of IFRS might be hard to achieve.

4.2.3.4 The Changes Impact on the International Convergence

Regarding the changes' effect on the international convergence of IFRS, the respondent in Jota believed that "*...similar entities might interpret and apply IFRS differently*". In turn, the international convergence will be negatively affected since the implementation of the standards isn't consistent.

The respondents in Epsilon and Eta were of the view that different incentives and objectives with the presentation of the financial reports will contribute to different financial presentations among the entities. In turn, this will negatively affect the comparability and thereof the international convergence. According to the respondent in Zeta, certain industries might create their own interpretations of IFRS which could lead to a convergence only within the industry. In turn, the implementation of IFRS will differ from industry to industry.

The respondent in Delta meant that entities with insufficient competence of IFRS "*...aren't able to keep up with the frequent changes of the standards*". In turn, if insufficient knowledge in IFRS leads to different interpretations which might have a negative effect on the convergence.

In contrast, the respondent in Theta was of the view that there aren't any remarkable differences in the interpretations of the standards since "...the auditors control the implementation of IFRS". Therefore, the international convergence will not be affected.

4.2.3.5 Conclusion

The respondents in the small- and mid cap entities were especially concerned of how to adapt to and manage the changes in IFRS since a lot of effort and time is required. Consequently, it is vital with additional support from the auditors involved. In contrast, the large cap entities relied on their internal resources in order to manage the changes.

The time schedule for adapting to and implementing a new or revised standard was considered as an issue for the majority of the reviewed entities. However, some of the entities experienced that there were enough time since the new or revised standard, issued by the IASB, isn't directly endorsed by the EU.

In terms of international convergence, it was expressed that certain industries might create their own interpretation of a standard. This could affect the international convergence negatively since the interpretations will differ from industry to industry. Further, it was explained that different incentives and objectives with the presentation of the financial reports will contribute to different financial presentations among the entities.

4.2.4 Knowledge and Technical Expertise

4.2.4.1 Interaction with the Auditors

In general, the auditors were considered as insecure of how to interpret the new and revised standards. According to many of the respondents, the auditors are dependent on IFRS-experts since they don't have the technical expertise required to manage the changes in IFRS. The respondents in Beta, Zeta as well as in Epsilon claimed that the involved auditors sometimes has less knowledge of IFRS compared to the financial department within the entity. Consequently, discussions about interpretations of new standards don't always lead to clear answers. In contrast, the respondent in Eta was of the view that the auditors are very competent and always provide sufficient help.

According to the respondent in Jota, the auditors always make suggestions of how the implementation should be carried out. However, these suggestions aren't always in accordance with how Jota have planned the implementation. Normally, the auditors wish for greater disclosure than Jota is willing to give. However, there is always a demand for an ongoing dialogue between the two parties. The respondent highlighted IFRS 8, *Operating Segments* as a standard where a dialogue with the auditors is central. The reason is that it is

difficult to identify clear operating segments that will fit into the requirements of this standard.

The opinions differed regarding a need of an interpretative body besides IFRIC. On one hand, an additional interpretative body could simplify the implementation process of new or revised standards. On the other hand, there would be too many different interpretations of the standards which might cause confusion.

4.2.4.2 Conclusion

The auditors weren't considered as sufficiently skilled in IFRS. Instead, they are dependent on support from their internal IFRS-experts. However, some of the entities didn't consider an additional interpretative body as necessary whereas some entities believed that it would facilitate the implementation process.

4.2.5 Implementation of New and Revised Standards – a Matter of Costs?

4.2.5.1 Different Types of Costs

According to the respondent in Kappa, large entities have well reserved resources for the implementation of IFRS compared to small entities with fewer resources for this purpose. Consequently, the additional costs might constrain small entities to fully implement IFRS. The respondent in Theta was of the view that IFRS is too resource-demanding and experienced the standards as unnecessary complicated.

Three types of costs related to the changes in IFRS were identified by the respondent in Kappa. First of all, major changes in IFRS require updates of the internal accounting systems. If new standards are being issued it might be necessary with additional external support for the current accounting system in order to gather enough information. Secondly, training of the staff within the accounting department is another cost factor. Finally, the time for these procedures as well as the time required to keep oneself updated is costly. Entities also identified remuneration for auditors and other consultants as well as costs for seminars and literature as necessary costs in order to keep up with changes in IFRS.

4.2.5.2 Costs versus Benefits of IFRS

There were different opinions regarding the question whether the benefits with IFRS will exceed the additional costs that the changes require. The respondent in Kappa was of the view that the comparability between entities is the major benefit that justifies the costs. In contrast, the respondent in Theta believed that the benefits achieved with IFRS don't exceed the costs

due to the complexity of the standards. The respondent in Gamma was also of the view that the costs of IFRS exceed the benefits of implementing it. The main reason is that the workload required for producing an annual report doesn't result in relevant information for the majority of the interested parties. Instead, the respondent claimed that "*...no one really reads the annual reports*". As a result, the benefits of IFRS are not noticed.

The respondents in Epsilon and Zeta believed that the additional costs might result in a resistant to the changes in IFRS. If the costs exceed the value added, the benefits with the changes might not be justified. Further, the respondent in Zeta explained that the total benefits achieved from the changes in IFRS don't directly affect the single entity. Therefore, it might be hard to really understand the changes and the necessity of them.

4.2.5.3 Conclusion

In general, small cap entities have fewer resources for the implementation of IFRS. In turn, these entities are considered to face more challenges compared to large cap entities with well reserved resources for the implementation. Certain costs caused by the new and revised standards were identified. These costs were caused by updates of the internal accounting systems, training of the accounting staff and the need of external help.

There were separate opinions whether the benefits of IFRS exceed the costs related to the changes. A major benefit that justifies the costs is the comparability between entities. In contrast, the whole organization must understand the changes of IFRS. Otherwise, the extra workload and costs that the changes require will exceed the benefits of IFRS.

4.3 Presentation of Respondents, Audit Firms

Below, the respondents from the audit firms are presented by name and title. The questionnaires are found in *Appendix 2*.

Respondent Deloitte	Respondent Öhrlings PricewaterhouseCoopers	Respondent KPMG	Respondent Deloitte
Maria Ekelund	Ola Bjärehäll	Michael Thorstensson	Hans Pihl
Partner, Authorized Public Accountant, Malmö	Authorized Public Accountant, Lund	Consultant Group Accounting specialized in IFRS, Accountant, Malmö	Senior Partner, Former CEO of Deloitte Sweden, Authorized Public Accountant, Malmö

4.3.1 Experiences of the IFRS Implementation

4.3.1.1 The Initial Implementation of IFRS

From the auditors' perspective, small- and mid cap entities were in general considered to need more support from the auditors compared to large cap entities during the initial implementation of IFRS. The reason was that these entities didn't have enough knowledge and expertise in IFRS to be able to manage the implementation by themselves. Hans Pihl at Deloitte explained that in order to facilitate the implementation process it was, and still is, "...important to transfer the auditors' knowledge of IFRS to the entities".

According to Maria Ekelund at Deloitte, the most remarkable problem during the initial implementation involved help with disclosure requirements. The reason for this was the entities' insecurity about what information to provide the auditors with. Furthermore, Ekelund explained that the entities were not always willing to give the additional information that IFRS required. According to Ola Bjärehäll at Öhrlings PricewaterhouseCoopers (PwC), the introduction of fair value accounting and the classification of financial assets and liabilities were the most remarkable issues related to the IFRS adoption.

Michael Thorstensson at KPMG experienced that many problems arose when implementing standards such as IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 17 *Leases* and IAS 19 *Employee Benefits*. These standards contain technical difficulties and interpretations issues which makes them very time consuming and difficult to interpret, especially when they are adopted for the first time. As an example, Thorstensson explained that it took one year to implement IAS 39 in a Swedish large cap entity, despite their highly-

developed accounting department. Consequently, Thorstensson was of the view that “...external help was, and still is, crucial for most entities when managing complicated standards.”

4.3.1.2 The IFRS Legal Framework

In general, IFRS as a principle-based set of accounting standards was considered to cause problems for the entities regarding the interpretation and implementation of the standards. Thorstensson was of the view that the comparability between entities might be impaired since the principle-based IFRS allows different interpretations. On the other hand, Pihl was of the opinion that “...a principle-based set of accounting standards will bring out the most reasonable solution...” when it comes to accounting issues. A more rule-based set of accounting standards, like the US GAAP, requires more knowledge of all the details and requirements compared to principle-based standards. Consequently, Pihl was of the view that IFRS is easier to adopt since knowledge of all the details isn’t required. Instead, it is about showing a true and fair view.

According to the auditors, the complex nature of IFRS is an issue for many entities since it involves other requirements than the entities are used to (RR’s recommendations). All of the reviewed audit firms explained that they have to provide their clients with accounting manuals; otherwise they will have a hard time to understand and implement the standards. Further, the respondents are also supporting their clients by organizing seminars and educations in IFRS. Further, Thorstensson explained that entities also are observing other entities’ examples of IFRS interpretations when dealing with their own implementation.

Pihl was of the view that IFRS is too “...theoretical...” and explained that the standards are developed by too many theoreticians with no or little experience from the field. Consequently, this means that the standards aren’t adjusted to the industrial life and are therefore not adapted to the entities’ conditions. Pihl also explained that the entities aren’t sufficiently involved in the standard-setting process. If they were, the standards would be easier to implement.

4.3.1.3 Conclusion

According to the auditors, external help was required during the initial implementation of IFRS due to a lack of knowledge within the entities. The most remarkable difficulties involved accounting issues such as disclosure requirements, fair value measurements, classification of financial assets and liabilities. Problems did especially arise when implementing IAS 39, IAS 17 and IAS 19.

The principle-based approach in IFRS was considered to cause problems for the entities when interpreting and implementing the standards. On the other hand, the principle-based standards

were also considered to be easier to implement than rules-based standards since the former don't require knowledge of all the details.

Further, IFRS was considered as a very complex set of accounting standards. It was expressed that IFRS is too theoretical, since the standards are not rooted in the reality. Therefore, accounting manuals for the entities provided by the auditors is necessary when managing the implementation of IFRS. Further, observing other entities and their implementation of IFRS has also worked as a help for the entities when managing implementation issues.

4.3.2 Changes in IFRS - New and Revised Standards

4.3.2.1 The Entities' Adaptation to Changes in IFRS

Bjärehall as well as Pihl were of the view that entities in general are adapting to changes quite easily. Pihl explained that Swedish entities are in general eager to comply with all accounting rules, but also eager to implement IFRS in the same way since "*... no one wants to stand out in the crowd*". Further, Bjärehall explained that once an entity is accustomed to manage IFRS, it is easier to adapt to new changes in the standards. However, Ekelund was of the view that entities in general should improve their ability to manage the changes of IFRS instead of "*seeing IFRS as a necessary evil*". The respondent believed that a full compliance with IFRS is almost impossible to achieve. Instead, most of Ekelund's clients are keeping "*...a good enough level...*" where they tend to implement the standards as well as it is possible. Thorstensson agreed and explained that it's a question of how to implement IFRS without any material errors.

The auditors had experienced that entities require additional resources in order to keep up with and adapt to the changes in IFRS. Extra resources are often needed in terms of additional consultancy hours. Further, additional actions such as internal training, seminars, changes in business systems and even new accounting routines might be necessary in order to adapt to changes in IFRS. Related to this, Ekelund explained that it is essential that the internal instructions are updated and communicated throughout the organization. These additional actions require a willingness from people within the entities to make an effort. Pihl was also stressing the importance of a willingness among the organizational members to adapt to changes. However, he had experienced that "*...few people are adapting to changes without any resistance since changes often are undesirable*". Pihl further explained that resistance to changes is caused by peoples' insecurity of how to manage the change. Consequently, Pihl believed that entities in general don't spend enough time and effort on carrying out the required changes. The extra time and money spent on the change makes it harder to achieve an unproblematic adaptation.

These general problems concerning the work of change could be applicable to the difficulties that arise due to the ongoing changes in IFRS. Pihl explained that the result and the effects of the changes in IFRS might not always be predictable or in accordance with the entities'

wishes. Thus, unpredicted and undesirable changes involve more difficulties when managing and adapting to changes. Therefore, it is especially important to convince the organizational members to adapt to the changes even though its effect might not be predicted or desirable.

4.3.2.2 Conclusion

In general, entities were considered to manage the changes in IFRS quite easily. One of the reasons was that entities are eager to comply with all accounting rules. However, a full compliance with IFRS was considered to be very difficult to achieve. Some respondents explained that entities normally seem to settle for "...a good enough level".

The work of change often involves additional time and costs as well as insecurity. Therefore, it is important that organizational members understand the changes and are willing to make an effort in order to implement them. Otherwise, resistance will arise and it will be difficult for the entities to adapt to the changes.

4.3.3 Knowledge and Technical Expertise

The auditors agreed that the adaptation to the changes in IFRS is a matter of competence within the entities. In general, small- and mid cap entities were not considered to possess sufficient technical expertise to be able to manage an implementation of IFRS. Consequently, it is necessary for entities to have support from auditors and IFRS-experts in order to manage the complex accounting issues in IFRS. However, it was explained that larger entities often have a higher level of internal competence in IFRS which enables them to adapt to the changes more easily. Nevertheless, Pihl claimed that it is impossible for a single entity to have sufficient detailed knowledge in IFRS internally. Instead, Pihl as well as Thorstensson explained that a team effort of auditors, IFRS-experts and consultants specialized in different areas is required. This team works closely internally, and the auditor has a frequent contact with the entity.

Further, Thorstensson as well as Ekelund had experienced that new and revised standards involve many extra hours of external help. The new standards IFRS 8, *Operating Segments* as well as the revised standard IFRS 3, *Business Combinations*, were emphasized since these cause difficulties for many entities. IAS 1, *Presentation of Financial Statements* was also highlighted since the changes in this standard affect the content in other standards. Pihl explained that new and revised standards are difficult to implement since there are no praxis to refer to. This forces entities to engage external help but also to communicate with other entities.

4.3.3.1 Conclusion

The knowledge of IFRS within the entities plays a central part when adapting to changes in the standards. Small- and mid cap entities were considered to face more challenges due to a lack of competence in accounting. Therefore, external help is crucial for these entities. However, some respondents believed that additional support is required also in large cap entities since it is not possible to have sufficient detailed knowledge in IFRS internally. Further, in order to manage the difficulties in IFRS a team effort of auditors and IFRS-experts is required.

4.3.4 The Costs of IFRS Implementation

According to Thorstensson, a lot of entities don't possess enough resources to achieve a full compliance with IFRS. Consultancy remunerations are high and some entities can't afford sufficient support when they are being afflicted with complicated accounting issues. In that case, Thorstensson admitted that it is a question of finding "*...a good enough level...*" when implementing IFRS.

According to Ekelund and Bjärehäll, the implementation of IFRS isn't a matter of costs. Instead, resources in terms of capital are either inside the entity or bought externally. However, Ekelund had experienced that it might be difficult to persuade the management within the entity to spend a lot of money on complex accounting issues. They are more interesting to spend money on their business, not on their accounting.

In contrast to Thorstensson, Pihl believed that entities in general aren't constrained by resources when implementing IFRS. Pihl explained that the listed entities has no choice, the implementation of IFRS has to be done despite limited resources.

4.3.4.1 Conclusion

In general, insufficient resources in terms of capital don't constrain the implementation of IFRS. Instead, the entities have no choice since IFRS is mandatory. Consequently, it's a matter of finding "*...a good enough level...*" where some complicated accounting issues aren't solved. However, it might be difficult to persuade the management to spend a lot of money on accounting issues.

4.3.5 Managing IFRS, Internally

4.3.5.1 Internal Support

For the auditors to keep up with the changes in IFRS, internal training and seminars are important elements provided internally in the audit firms. According to Ekelund at Deloitte, internal discussions with other auditors and consultants are also important in the work of keeping oneself updated about the changes in IFRS. Further, Thorstensson explained that internal implementation guidance of IFRS is used which is also given to the clients if they wish for. Bjärehäll and Thorstensson explained that they are provided with different information letters regarding IFRS. There are also web-based communities that enable the auditors to exchange experiences within the firm. Further, Bjärehäll explained that all of the auditors working with IFRS are required to pass a basic course before they are approved to work with the standards. The auditors must also attend a yearly education in order to keep up with the changes.

Bjärehäll explained that a continually contact with experts in accounting is crucial when handling issues of IFRS. As PwC is the leading actor in accounting from an international viewpoint, the firm has a great influence on how different accounting standards are interpreted. Further, PwC is involved in many organizations around the world as well as the Swedish Financial Reporting Board. This active participation is essential in order to contribute to the development of IFRS but also to provide the client with sufficient help.

On a global basis, the audit firms in Sweden are assisted by different groups with expertise in IFRS. KPMG is provided with internal support from a global IFR-group²⁴⁵ based in London whereas Deloitte have similar Excellent Service Centers that supports them when solving interpretation problems. Pihl explained that these centres are cooperating with the other three audit firms, the Big Four, since it is vital that the audit firms speak with one “...*IFRS-voice*”. The purpose is to work towards a common interpretation of IFRS throughout the world.

4.3.5.2 Insecurity when Dealing with IFRS

Bjärehäll, Pihl as well as Thorstensson admitted that there have been many times when a standard has been unclear and difficult to apply. Naturally, this has caused insecurity of how to interpret the standards. In turn, this requires discussions with other auditors as well as IFRS-experts. However, Bjärehäll and Pihl explained that there is a risk related to this since the IFRS-experts might not be familiar with the entity’s specific conditions. Therefore, the auditor involved always has to make the final decision of how to solve an interpretation issue. Pihl explained that this could be very tough to deal with since the auditor’s opinions might not always be in accordance to the opinions’ of the IFRS-experts.

²⁴⁵ International Financial Reporting group

4.3.5.3 Conclusion

The complex nature of IFRS causes insecurity for the major part of the respondents when supporting their clients with the implementation process. In order to manage the insecurity, internal support is crucial. The internal support consists of IFRS-experts, IFR-groups and Excellent Service Centers on a local as well as a global basis. Further, continually discussions with other auditors and consultants are essential to be able to manage the implementation issues. In terms of the changes in IFRS, the auditors are provided with internal training such as seminars and courses in order to keep up with the changes. There are also web-based communities where experiences of IFRS-issues are exchanged.

There are sometimes different opinions between the auditor and the internal IFRS-experts on how to interpret and implement a standard. However, the solution of an interpretation issue must primarily be based on the auditor's own opinions.

5 Analysis

In this chapter, we aim to address the research questions and thereby the purpose of this thesis. This is realized by an analytical discussion based on our empirical findings and theoretical frame of reference. The purpose will be addressed in the last section of this chapter.

The following research questions will be addressed:

- *How do Swedish listed entities **experience** the implementation process of new or revised standards as issued by the IASB?*
- *How do Swedish listed entities **manage** the implementation process of new and revised standards as issued by the IASB?*
- *How are Swedish listed entities able to **adapt** to the current changes in IFRS?*

5.1 Experiences of IFRS Implementation

As we aim to clarify how Swedish listed entities *experience* changes in IFRS it is important to consider the *initial implementation* as well as general viewpoints about *the legal framework*. Earlier experiences and perceptions of IFRS will contribute to a broader picture and a deeper understanding of how Swedish listed entities experience the implementation process of new standards as issued by the IASB. Further, we considered it important to present information from the auditors in order to mediate different perspectives. The collective impression from these parties will not only be useful when clarifying how Swedish listed entities experience changes in IFRS, it will also be helpful when analysing our forthcoming research questions.

5.1.1 The Initial Implementation of IFRS

In the context of the initial implementation of IFRS, we found that the majority of the reviewed entities with different prerequisites and backgrounds didn't consider the adoption of IFRS as a remarkable challenge. The main reason for this was the similarity with the previous applied set of accounting recommendations issued by the Swedish Financial Accounting Standards Council (RR). These recommendations reminded a lot of those in IFRS. Consequently, the initial implementation of IFRS wasn't experienced as a major change.

However, and despite these experiences, we found that some issues appeared to be especially hard to manage. The implementation of standards involving technical aspects such as IAS 39, *Financial Instruments: Recognition and Measurement* where experienced as very complicated by both small- and mid cap entities as well as by large cap entities. Further, the implementation of IAS 39 is *still* considered to be very challenging. Bjärehäll at Öhrlings PwC and Pihl at Deloitte indicated that this standard has been one of the most noticeable challenges for the entities, both during the initial implementation and as a continuing problem for the preparers. Thorstensson at KPMG agreed and explained that these types of technical standards often are very time consuming and involve a huge workload.

Overall, we found that the increased focus on *fair value measurement* has been experienced as the major challenge with IFRS. Both the respondents in Jota and Epsilon experienced that the use of fair value measurement has been the biggest change when the entities transcended from RR's recommendations to IFRS.

Another challenge that was emphasized with IFRS is the extensive disclosure requirements. The majority of the entities; small- mid- and large cap entities are experiencing the disclosure requirements in IFRS as difficult to manage and too extensive. According to Ekelund at Deloitte, this might derive from the entities' insecurity of what type of information the auditors require. Hence, whether it is insecurity or not, Ekelund had also experienced that entities are not always willing to give the additional information that IFRS requires.

Based on our empirical findings, we found that all of the small cap entities, except for Gamma, weren't able to handle the initial implementation of IFRS by themselves. This is in accordance with Ekelund's statement that small entities in general are not skilled enough to implement IFRS without external help. Pihl from Deloitte was also arguing that insufficient knowledge was, and still is, an issue for all types of entities. Hence, Pihl has experienced that even large cap entities have a tough time when managing the implementation of IFRS. In Gamma's case, the respondent explained that external help wasn't needed when implementing IFRS since the entity possess a high level of internal competence within the organization.

In summary, we found that IFRS is experienced as a very complex set of accounting standards. Internal resources in terms of knowledge and technical expertise in IFRS are vital when handling the implementation process of new standards. Entities from our research, with insufficient knowledge in IFRS, were dependent on support from auditors and IFRS-experts. External expertise where required among all entities except for two; Gamma and Kappa. This confirms existing accounting theory which states that IFRS is experienced as a complicated set of accounting standards that is very difficult to manage without external expertise. Hence, entities are in general dependent on external support when managing new accounting standards.

5.1.2 The IFRS Legal Framework

By looking more closely on how IFRS is perceived as a legal framework it will enhance our ability to understand what challenges that might occur when Swedish listed entities manage new or revised standards as issued by the IASB. Thereby, it will also help us to understand how they are adapting to the ongoing changes in IFRS.

5.1.2.1 The Complex Nature of IFRS

The complex nature of IFRS, which is based on principles rather than details, concerns the entities as well as the auditors in our research. It was described by a respondent from one of the small cap entities that a deep involvement and understanding of the standards are required in order to manage the implementation. Phil at Deloitte argued that no entity is able to manage the complex nature of IFRS by themselves; entities need additional help from auditors. However, it was expressed by the majority of the respondents that small- and mid cap entities face more implementation challenges due to the complexity in IFRS compared to large cap entities. According to Thorstensson, the main reason for this is that small- and mid cap entities often are short of sufficient expertise in accounting. In turn, a lack of sufficient knowledge makes it difficult to understand the meaning of different words and expressions in the framework. One of the respondents, Jota, explained that it is sometimes necessary to read a standard at least ten times before it is even understandable. Moreover, the meaning of the same expression could be interpreted differently in different situations. The respondent further explained that some terms and expressions are really hard to interpret and that there is always insecurity involved when implementing a new standard. The respondent in Zeta agreed with Jota and meant that the language usage in IFRS causes difficulties when interpreting the standards. The respondent in Zeta also explained that the change of some notions in IFRS will give rise to challenges when interpreting the standards. The respondent gave an example concerning the new requirements in IAS 1, *Presentation of Financial Statements*. For instance, the balance sheet is now called “*Statement of Financial Position*” and the income statement has become “*Statement of Comprehensive Income*”. The respondent in Zeta believed that these new notions are going to create confusions among the readers of the annual reports if the meaning of these changes isn’t understood.

On the basis of the theoretical frame of reference, these difficulties concerning notions are easy to understand since not even the EU has defined the meaning of a “true and fair view”. In addition, both Bjärehäll and Thorstensson expressed that there is always *insecurity* involved when they are interpreting IFRS since the standards are not clear enough.

Based on the discussion above we are arguing that the complicated nature in IFRS, in combination with undefined meanings of words causes insecurity when interpreting the standards. This is the case for both entities and auditors. As a result, we are arguing that it is difficult to manage the implementation of IFRS without sufficient knowledge.

5.1.2.2 Is IFRS Perceived as Beneficial?

Related to the discussion about the complexity in IFRS, the arguments about costs versus benefits with the legal framework become interesting. The respondent in Zeta explained that it is essential for a reader of the financial reports to understand the IFRS legal framework as well as the specific conditions of the entity to truly benefit from the annual report. The respondent in Theta and Gamma experienced IFRS as unnecessary complicated and were of the view that the benefits achieved with IFRS don't exceed the costs caused by the implementation of the standards. Similar to the opinions of the respondent in Zeta; the respondent in Gamma further explained that the workload required for producing an annual report doesn't result in any relevant information for the majority of the readers. Instead, the respondent claimed that; "...no one really reads the annual reports". As a result, the benefits of IFRS are not noticed. Based on these experiences, we are therefore questioning if IFRS is too complex since such a deep involvement is required in order to understand the annual reports. Hence, if no one really understands the financial reports, IFRS might not be perceived as beneficial by the entities.

5.1.2.3 Why Is IFRS Perceived as a Complex Set of Accounting Standards?

A reasonable explanation of the complex nature of IFRS is the *theoretical approach* of the standards. According to Pihl at Deloitte, the standard-setters are mainly theoreticians which do not possess sufficient practical experience of how it works at the field. The respondents from Delta and Zeta agreed with Pihl since they also experienced that the complexity in IFRS derives from the theoretical approach of the standards. It was explained that IFRS is neither sufficiently rooted in the reality nor adapted to the industrial life. Hence, the theoretical approach causes problems when interpreting the standards. In general, preparers do not have sufficient theoretical understanding of IFRS which in turn creates difficulties when applying the legal framework. Based on these experiences, we are arguing that the theoretical approach is contributing to the complex nature of IFRS. In turn, this causes problems when entities shall manage the implementation of the standards.

5.1.3 Conclusion Experiences

We found that all of the approached respondents from the small cap entities, except from Gamma, weren't able to handle the initial implementation of IFRS by themselves. We also found that IFRS is experienced as a very complex set of accounting standards, both by preparers and auditors. A deep involvement and understanding of the standards are required in order to manage the implementation and understand the legal framework. Internal resources in terms of knowledge and technical expertise in IFRS are therefore vital when managing the implementation process of new standards.

Further, entities are dependent on external help when managing new accounting standards since entities normally are short of sufficient expertise in accounting. In turn, a lack of sufficient knowledge in accounting makes it difficult to understand the meaning of different words and expressions in IFRS. The complicated nature of IFRS, in combination with undefined meanings of words, causes insecurity when interpreting the standards. This is the case for both entities and auditors.

From a reader's viewpoint, we found that it might be difficult to understand the real intent of the annual reports without a comprehensive understanding of IFRS, the legal framework and the entity's specific conditions. Hence, if no one really understands the content of the financial reports, the principle-based approach in IFRS might not be perceived as beneficial from an entity's perspective.

In addition, we found that the respondents experienced that the theoretical approach in IFRS is contributing to the complexity in the standards. In turn, this causes problems when interpreting and implementing IFRS.

5.2 Manage New and Revised Standards in IFRS

5.2.1 Solving Accounting Issues in Practice

In order to understand how Swedish listed entities *manage* the implementation process of new or revised standards as issued by the IASB, it is important to look more closely on how entities manage to solve accounting issues in practice. *The legal method* is suggested to be useful for this purpose. In addition, the proposed *hierarchy of accounting rules* will also be helpful to enhance the understanding of how entities manage the implementation of IFRS. Before we start this discussion it is importance to present an analysis of *who the interpreter is*. This is important to consider since resolving an accounting issue requires that someone interpret the standards.

5.2.1.1 Who Is the Interpreter?

Relying on the theory of reference and our empirical findings we are arguing that the entities, who are managing the daily interpretation of IFRS, and the auditors who are working closely with them have become the *informal* interpreters of IFRS.

IFRIC who is the formal interpreter of IFRS is only taking on limited amount of accounting issues. Consequently, entities are forced to manage the daily interpretation issues on their own in order to keep up with the changes. Moreover, the auditors are identified as informal interpreters since we found that they are *very* involved in the interpretation process. Auditors affect the preparers in the implementation process since they provide services related to the interpretation. Or as the respondent in Theta expressed it “... *the auditors control the implementation of IFRS.*”

To further explain our viewpoints we are arguing that the complex nature of IFRS, in a combination with IFRIC’s limited capacity to provide interpretation guidance, creates a demand for informal interpreters. IFRIC is rejecting many of their received accounting issues since they aren’t considered to be “widespread” enough or match their criterions. Consequently, interpretation issues still exist among the entities. Thus, the standards in IFRS and IFRIC’s interpretation guidance are not always considered to be “clear”, “sufficient”, “adequate” or “satisfactory”. Thereof, we are arguing that IFRIC’s limited capacity to publish interpretation guidance is resulting in an increased reliance on the entities and the auditors to manage the implementation of new and revised standards. Consequently, the entities have to resolve many of the daily implementation issues and rope in additional help when needed.

Further, on the basis of our empirical findings we found that the complexity in IFRS, in a combination with IFRIC’s lack of support, cause additional expenses among the entities. These extra expenses are required in order to keep up with the changes in IFRS. These additional costs are either costs arising internally, such as training and extra working hours, or

costs that arise due to external consultancy services. These additional costs become interesting to discuss, because what happens if the entities are short of resources or don't believe the additional costs required will exceed the benefits achieved with IFRS? As described before, respondents have already raised negative opinions about this issue. We suspect that this might have an effect on the entities willingness to adapt to the changes in IFRS. Therefore, this question will further be analyzed below.

5.2.1.2 The Legal Method

Going back to the discussion about solving practical accounting issues, our research demonstrates that the reviewed entities are managing changes in IFRS by approaching accounting issues with the legal method. However, we also found that this is not totally unproblematic.

Accounting theory suggests that accounting is generally based on technical expertise and knowledge and that a certain level of knowledge in accounting is therefore necessary to possess when solving a practical accounting issue. It is also suggested that knowledge about concepts of accounting is necessary when interpreting the standards. These suggestions are confirmed by our research since we found that almost all of the reviewed entities which have problems to manage changes in IFRS don't possess sufficient knowledge in accounting or sufficient knowledge about concepts of accounting. We found that insufficient knowledge makes it difficult for the entities to understand the meaning of different words and expressions in IFRS. The language usage in IFRS is causing difficulties when the entities are managing the implementation of the legal framework. Consequently, it is hard for the entities to understand the content of the standards. IFRS is experienced as too complex, with too many vague criteria to understand and apply. Further, this was experienced as being especially difficult to manage when implementing new and revised standards since there are no "best practice" examples on the field to learn at. Moreover, this was especially problematic among small cap entities since they lack sufficient knowledge. Thus, once more we have demonstrated the importance of internal knowledge about IFRS.

Consequently, we are arguing that small cap entities in particular find it difficult to solve accountings issues in IFRS, and therefore face more problems when managing new and revised standards as issued by the IASB. These entities don't have sufficient knowledge in accounting or knowledge about accounting concepts. A lot of interpretation is required in order to implement the changes in IFRS. Hence, if there are no "best practices" examples to learn at, it makes it even harder for them to manage the implementation of new or revised standards.

However, it was difficult for us to define to what degree the hierarchy of the legal method was used. We could only identify that entities are looking at the "words of the act", which in this case is considered to be IFRS. Since both the preparatory work and the legal usage are limited, it makes it even more difficult for the entities to manage changes in IFRS by *only*

using the legal method. Thereof, we further have to look at the suggested hierarchy of accounting rules to be able to clarify how Swedish listed entities manage new or revised standards as issued by the IASB.

5.2.1.3 The Hierarchy of Accounting Rules

Theoretically, the IASB Framework *should* be on top of the hierarchy when solving an accounting issue since the basic concepts within the Framework shall work as an underlying base for the preparations of the financial statements. After the preparers have considered the Framework they should start to look at the standards, IFRS, as well as IFRIC's interpretation guidance if available. In the English version of IFRS there is also a part called "Basis for Conclusions" which include implementation guidance and concrete examples.

Through our study, we found that *none* of the reviewed entities was applying the IASB Framework or any of IFRIC's interpretations guidance when solving an accounting issue. This is interesting to highlight since even if the majority of the respondents described that they had problems to understand the content of the standards and interpret them, they are not using this type of additional guidance when managing the changes. Only one of the respondents, Delta, was using the English version of IFRS and the extra guidance attached.

Consequently, the approached entities do face problems when managing the implementation of new and revised standards as issued by the IASB. Still, they are not taking any advantage of the additional guidance and examples that are available. Instead, the major part of the entities is constantly dependent on the auditors when managing accounting issues caused by the changes in IFRS.

5.2.2 Full Compliance with IFRS – Is it Possible?

Relying on our empirical findings we found that a full compliance with IFRS is almost impossible to achieve. Instead, we found that many of the small- and mid cap entities in our research seem to keep a "good enough" level when they are implementing IFRS. Even the auditors agreed that it is very difficult to achieve a full compliance with IFRS. Ekelund at Deloitte explained that "...a good enough level..." is common for the majority of her clients. On the other hand, the respondent in Delta, which is a large cap entity, was of the view that "...there is no such thing as a good enough level ". The respondent meant that if the entity isn't able to manage a full compliance with IFRS, external help is required. In addition, the respondent from Kappa, another large cap entity, didn't think it was a problem to achieve a full compliance with IFRS. However, Thorstensson at KPMG explained that a lot of entities don't possess enough resources to achieve a full compliance with IFRS. This is explained by the high consultations fees that might be required for the implementation. Some accounting issues cause extensive costs since they are very complicated to solve. Hence, some entities, especially small ones, can't afford to spend a lot of money on expensive audit remunerations.

In that case, it is a question of finding “...a *good enough level*...”when managing the implementation.

Based on these answers we are arguing that large cap entities, which have a higher level of internal competence in accounting, might have more potential to achieve a full compliance with IFRS whereas small cap entities with fewer resources are satisfied to maintain a “good enough” level. Hence, the degree of compliance is dependent on the internal expertise and resources. Once more, this indicates that the structure of IFRS is far too complex for the entities to manage.

5.2.3 IFRS and Earnings Management

Going back to the discussion about IFRS as a principle-based set of accounting standards, it is explained by accounting theory that principle-based standards shall focus on the intent of the standard rather than on the specific details. In turn, a greater scope for own interpretations are allowed and the preparers as well as the auditors have to use his or her judgments when managing the implementation. Pihl at Deloitte explained that principle-based standards don't require updated knowledge about *all* the details in IFRS. Instead, it's about showing a “true and fair view”.

The respondents in Gamma, Kappa as well as Delta had a positive attitude towards the principle-based approach in IFRS. Compared to a rules-based approach, one of the respondents was arguing that IFRS is easier to manage since it doesn't cause such a high level of consultation from external parties. As described above, these entities possess a high level of internal competence in IFRS and are thereby more able to manage the implementation process by themselves.

Moreover, we found that the respondents in Gamma, Kappa as well as Delta are experiencing the principle-based approach as positive since they are able to benefit from the possibility to use their own interpretations and adjust their accounting to their “specific conditions”. Consequently, the discussion about *earnings management* becomes relevant. It is suggested by researchers that the outcome of the financial reports are affected by both the managements' incentives and the degree of details in the accounting standards. Researches further suggest that IFRS allows enough scope for own interpretations and judgment which allows the management to control the outcomes of the financial reports as desired. This is confirmed by the respondent in Epsilon, since it was explained that entities have different incentives and objectives of how to present the results. Hence, IFRS involves enough scope for own interpretations and judgment which cause differences among the financial presentations. In addition, the respondent in Beta described that IFRS contains vague criterions to base your accounting decisions on, which means that the final interpretation of a standard often becomes a matter of how the management wants to present the figures. On the basis of these findings, we are therefore convinced that IFRS provides an opportunity for the preparers to control

their presentations of the financial reports. Hence, different incentives and objectives affect the entities and how they are managing the changes in IFRS.

5.2.4 Additional Interpretation Guidance – Is it Justified?

Relying on the theoretical frame of reference it can be argued that additional implementation guidance would be necessary in order to reduce the scope for own interpretations. As described before, additional implementation guidance is not included in the Swedish version of IFRS whereas the English version has extra guidance and concrete examples on how to interpret and implement the standards. The English version is described by a respondent to be more comprehensive. In addition, it was expressed by the respondents in both Beta and Zeta that a lack of clear rules in the Swedish version of IFRS makes it difficult to manage the implementation of the standards since there are no guidelines to follow. This is considered to be especially difficult to manage when facing new or revised standards since there is no praxis on the field to learn at. The scope for own interpretations and lack of praxis leave the entities to create their own perceptions of how the standards should be implemented. Therefore, we are arguing that more implementation guidance in the Swedish version of IFRS might serve as a tool to reduce the influence of own interpretations and thereby improve the quality of the financial reports in terms of comparability. The comparability could be improved since entities would implement IFRS in a more analogous way if additional guidance were used. Consequently, if the financial reports would be improved in terms of comparability we are arguing that it is more likely that the respondents would perceive IFRS as more beneficial. Hence, if IFRS would be perceived as more beneficial it would be easier to manage and motivate the adoption of new and revised standards.

5.2.5 Internal Competence and Resources

As described above, the complexity in IFRS still requires a lot of effort from the entities in order to manage the implementation. Based on our interviews we found that the ongoing changes in IFRS have further added to the complexity of the implementation process. Some of our respondents from small cap entities experienced the changes in IFRS as a huge workload. A lot of time and knowledge is required in order to understand the standards and incorporate the new accounting requirements. For example, the new standard IFRS 8, *Operating Segments* has been described as very complicated to implement. The respondent in Jota explained that it is difficult to identify clear operating segments that will fit into the requirements of this standard. According to the auditors; Thorstensson, Bjärehäll and Ekelund a lack of resources and competence makes the implementation of new standards more challenging for small entities. External help in terms of auditors as well as IFRS-experts is necessary for these entities to be able to implement the news. Hence, there is a risk that entities without sufficient competence and resources might not be able to manage the implementation of the ongoing changes in IFRS.

5.2.6 Conclusion Manage New and Revised Standards in IFRS

IFRIC's limited capacity of publishing interpretation guidance is resulting in an increased reliance on the entities and the auditors to manage the implementation of new and revised standards. Hence, we are arguing that the preparers and the auditors have become the informal interpreters of IFRS.

The reviewed entities are managing changes in IFRS by approaching accounting issues with support from the legal method. However, we also found that it is not unproblematic since the majority of our respondents don't possess sufficient knowledge in accounting or sufficient knowledge about accounting concepts. This makes it difficult for them to understand the content of the complex standards. We found that especially small cap entities have more problems to solve accounting issues and are thereof facing more problems when managing the implementation process of new or revised standards. Further only one of the respondents, a large cap entity, was benefitting from the English version of IFRS with extra guidance attached. Consequently, the approached entities do face problems when interpreting and implementing changes in IFRS but are still not taking any advantage of the additional guidance and examples that are available. Instead, almost all of the entities are constantly dependent on the auditors when managing accounting issues.

We found that a full compliance with IFRS is almost impossible to achieve. Instead, many of the small cap entities in our research seem to keep a "good enough" level when they are implementing IFRS. We found a tendency that large cap entities, which have a higher level of internal competence in IFRS, might have more potential to achieve full compliance compared to small cap entities with fewer resources. Hence, the degree of compliance with IFRS is dependent on internal competence and resources.

In terms of earnings management and judgment, we found that the principle-based IFRS provides opportunity for the preparers to control their presentations of the financial reports. Hence, different incentives and objectives have an impact on how entities manage changes in IFRS.

In terms of comparability, we found that more guidance *might* serve as a tool to reduce the influence on own interpretations and improve the quality of the financial reports. Consequently, if the financial reports would be improved in terms of comparability we are arguing that the respondents would most likely perceive IFRS as more beneficial. Hence, it would be easier to manage the implementation of new or revised standards since it will be easier to motivate the changes.

The overall impression obtained was that insufficient resources and internal competence makes it more challenging to manage the implementation of new or revised standards. External help in terms of auditors as well as IFRS-experts is necessary, especially for small cap entities, in order to manage the changes in IFRS. Hence, there is a risk that entities

without sufficient competence or resources might not be able to manage the adaptation to new or revised standards.

5.3 Adaptation to the Current Changes in IFRS

5.3.1 Understanding the Nature of Change

The ability to change is essential for entities to compete on the international market and to adapt to the regulatory pressure in the environment. In order to analyze how Swedish listed entities are adapting to the coercive changes in IFRS it is essential to understand the nature of change. Hence, theory of change is one of our main tools when analyzing our empirical findings in terms of entities' ability to adapt to the current changes in IFRS.

5.3.1.1 Evolutionary Change

Changes can be divided into two main categories; evolutionary change and revolutionary change.²⁴⁶ All of the entities within our study are going through an evolutionary change since we found that the adaptation to the current changes in IFRS are involving gradual changes over time. The coercive adaptation to IFRS is an incremental change. This type of change makes allowance for unpredicted changes and permits small decisions in the last minute.²⁴⁷

Changes can take very different forms, even when comparing similar organizations. Therefore, it is useful to analyse the content of the change. Technology, structure, individuals and assignments are elements within an organization that are closely linked to each other and can be affected by an organizational change. A change in one of them might affect other elements since there is an internal pressure.²⁴⁸ However, we found that the reviewed entities didn't experience any major changes within their organizations that were caused by the changes in IFRS. There were no major changes in technology or structure. As described above, the ongoing changes in IFRS are only causing gradual changes over time not any noticeable organizational changes. Hence, these empirical findings further strengthen our opinion that the ongoing changes in IFRS are only causing an evolutionary change among the entities.

5.3.1.2 Strategy E and Strategy O

Changes within an organization can be carried through by different strategies. Two of the main strategies that can be applied are Strategy E and Strategy O. Strategy E aims to increase the economic value whereas the objective of Strategy O is to create a learning organization. Our empirical findings demonstrate that the majority of the reviewed entities were using a top-down approach (Strategy E) when managing and adapting to the ongoing changes in IFRS. Normally it is the chief accountants who are pushing through the changes with the help

²⁴⁶ Jacobsen, Dag Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), p. 115

²⁴⁷ Ibid. p. 256

²⁴⁸ Ibid. p. 89-91

from auditors and experts in accounting. With support from these external experts, a solution is achieved on how to implement the changes. The solution is then formulated and communicated to the involved parties within the entity.

Even though Strategy E was the most frequent strategy within our study we couldn't confirm that the implementation of the changes in IFRS is conducted by using *only* Strategy E. Our empirical findings demonstrated that the entities are using a mix of these two strategies when adapting to the changes in IFRS. However, we found that the usage of these two strategies differs between the entities in our research. Small and mid cap entities tend to apply a clearer Strategy E approach compared to large cap entities. The large cap entities relies more on internal training, whereas small and mid cap entities are more dependent on external expertise. Hence, there is no time for "learning organizations" within small and mid cap entities.

5.3.1.3 The Time Perspective

In the context of an evolutionary change and the time perspective, the majority of the respondents were of the opinion that there is plenty of time for implementing the ongoing changes in IFRS. One of the respondents, from a large cap entity, explained that the time isn't a problem since newly issued or revised IASB standards are not always directly endorsed by the EU. Hence, the EU has normally a backlog which further means that there is plenty of time to adjust to the changes.

In contrast to this information, we found that the majority of the respondents from small cap entities still have problems with the implementation of IFRS. These respondents were of the view that the time for adaptation to the ongoing changes in IFRS is very limited since an additional workload is required on top of the regular job assignments. Hence, respondents experienced the time schedule for implementing new or revised standards as too short. This phenomenon could be explained by their insecurity when dealing with the complex changes in IFRS. As been described before, we found that small cap entities tend to have less internal expertise compared to large cap entities. IFRS was experienced as very time-consuming, and as one respondent explained: "... *there is always a shortage of time.*" Consequently, we found that the complexity in IFRS combined with insufficient knowledge and a shortage of time sometimes lead to decisions in the last minute when implementing IFRS. Small cap entities tend to have problems concerning the time aspect when adapting to new and revised standards. Thus, this might negatively affect the entities' ability to adapt to the ongoing changes.

To further deepening the discussion about the time perspective, changes can be divided into reactive and proactive changes. Reactive change occurs when an organization responds to something that has already occurred, implying that an organization *only changes when it is forced to*. In contrast, proactive change occurs *before the actual change is necessary* which means that the change is partly based on assumptions about the near future. It is suggested

that the assumptions in a proactive change often involve insecurity. In turn, insecurity increases the likelihood for hostility against a change.²⁴⁹

In our empirical study we found that the major part of our reviewed entities was responding to the changes in IFRS *after* the changes have become mandatory to adopt, a reactive change. However, one of the large cap entities, Kappa, has an internal policy of implementing the changes in IFRS *before* the standards become formally approved by the EU, a proactive change. Hence, the implementation is based on assumptions on how the standard is expected to be developed. The content of the implemented standard might, therefore, be revised before it becomes mandatory. The respondent in Delta gave an example of this. The respondent explained that Delta's early implementation of IAS 39 *Financial Instruments: Recognition and Measurement* was redone and the content of the standard was changed in the last minute, which was experienced as very disturbing. On the basis of this, we are arguing that a negative consequence of a proactive change would be the increased likelihood of hostility against changes in IFRS. This in turn could impede the process of adaptation. On the other hand, we identified a positive consequence of the proactive approach. By adapting to changes in IFRS before these changes become mandatory, the entities are increasing their possibilities to save valuable time. In turn, this will facilitate the process of adaptation. This reasoning is strengthened by the fact that Kappa, which applies a proactive approach, wasn't concerned about the time schedule of implementing the changes in IFRS. In this context, we are therefore arguing that small and medium cap entities might benefit from less resistance against changes in their process of adaptation, but might lose valuable time.

5.3.1.4 Lewin's Change Model and the Action Research Model

It is legitimate to look at the implementation process of new and revised standards in IFRS as a planned change.²⁵⁰ Hence, Lewin's change model and the action research model are applicable when analyzing this type of change.

On the basis of our empirical findings we argue that all the reviewed entities are in the *moving* phase. They are about to move from one level to another since actions are taken to change. We couldn't find that any of our reviewed entities had managed to get to the final step in Lewin's model, *refreezing*, since the new requirements have not yet been deeply rooted.

Furthermore, we observed that some steps from the action research model have been used by our reviewed entities when adapting to changes in IFRS. At first, we found that almost all respondents identified a *problem*, i.e. an accounting issue, and *engaged external expertise* to solve it.

²⁴⁹ Jacobsen, Dag Ingvar, *Organisationsförändringar och förändringsledarskap* (2004), pp. 416, 177, 178

²⁵⁰ *Ibid.* pp. 425-426

Further, collaboration and a positive openness between the entity and the consultant are highlighted in the action research model as being essential in the process of change. It increases the knowledge of how to adapt to changes. The action research model describes these parties as “co-learners” since there *should* be cooperation in diagnosing the organization, designing and implementing the changes as well as assessing them. This involves a situation where both parties are combining their knowledge and skills to learn how to manage the change and adapt to it. These essential actions are also emphasized in the moving phase in Lewin’s change model. Hence, Lewin emphasises that there has to be a jointly agreement before it is possible to fully adapt to a change and move from one level to a new.

On the basis of our empirical findings we could claim that all of the reviewed entities, with the exemption of Kappa, Delta and Gamma, have a high degree of participation from their external auditors. We observed a close collaboration between the auditors and the entities. Relying on the action research model we could also note that these entities are dependent on the auditors’ expertise whereas the auditors in turn are dependent on the entities’ internal knowledge and engagement. The entities wouldn’t be able to implement the changes in IFRS without a mutual cooperation with the auditors. Furthermore, the auditors wouldn’t be able to provide the entities with sufficient help to implement the changes if they weren’t involved with the entity. Each party has different knowledge and skills, which need to be combined in order to manage the changes in IFRS. Due to this, we are arguing that this collaboration must have successful change as its aim. Hence, if there is a disagreement between the two parties of how to implement a certain standard or resolve a certain accounting issue, we are arguing that it will increase the likelihood of an impaired adaptability to the ongoing changes in IFRS.

However, during our research we could identify problems related to this. The respondents in Beta, Zeta and Epsilon explained that their involved auditors sometimes have less knowledge about IFRS than the financial department within the entities. Consequently, discussions about interpretations of new standards don’t always lead to clear answers. The respondent from Zeta explained that it is sometimes difficult to get a clear opinion from the auditors, especially when it comes to new or revised standards since there are no best practice examples to leer at from the field. According to the respondent, auditors are in general afraid of doing something wrong and giving a straightforward opinion before they have studied the practice from the field. In addition, the respondent in Jota explained that the suggested accounting solutions provided by the auditor on how to interpret and solve the issues aren’t always in accordance with those of the entity. Therefore, we are arguing that these findings are demonstrating the existence of inadequate collaborations between the entities and the auditors, which in turn impairs the vital relationship between the two parties. Consequently, these inadequate collaborations might therefore negatively affect the entities’ ability to adapt to the ongoing changes in IFRS.

5.3.1.5 Resistance to Changes in IFRS

Change, naturally, involves other ways of doing things. Furthermore, change is often associated with insecurity since it involves a confrontation with the unknown. Organizational members want to maintain status quo and might therefore be resistant to changes. This is important to consider in our analysis since implementing new accounting standards might be associated with a fear and a resistance to the changes.

In our investigation we found concerns expressed about man's natural tendency of being resistant to the unknown. Some of the respondents explained that changes in IFRS might result in changes in the daily activities and accounting routines as well as changes in the way of thinking. Consequently, this was described by the respondents as being difficult to deal with since people in general are resistant to changes. Moreover, Pihl from Deloitte explained that few people are adapting to changes without having any resistance to it. He explained that people are normally uncomfortable with changes since they are insecure of how these should be managed. In addition, Pihl was of the view that entities in general pay too little attention to changes. There is not enough time and effort spent on carrying out the required change.

On the basis of our study we could find a certain degree of resistance among the entities to adapt to the ongoing changes in IFRS. We found that organizational members are resistant to the new and revised standards in IFRS since they don't have sufficient knowledge and expertise to manage the implementation process on their own. They are insecure when trying to adjust to the changes. The majority of the respondents, especially from the small cap entities, were of the opinion that the implementation of new and revised standards were too complicated and difficult to manage. The ongoing changes were mostly experienced as a burden since they involved late working hours and expensive consultation from their auditors. Furthermore, they didn't experience IFRS as beneficial for the single entity or from a reader's viewpoint. Only a few of the respondents were of the opinion that IFRS *might be* beneficial for the capital market in terms of convergence. Besides, Ekelund explained that a complex accounting issue involving additional external help implying higher costs might be even more difficult to motivate if the preparers do not perceive IFRS as beneficial. This is confirmed by the respondents in Epsilon and Zeta who maintained that additional costs as well as extra working hours make the changes hard to justify. It is hard to really understand the changes and the necessity of them. Furthermore, the respondents in Jota and Epsilon also explained that if people don't understand the changes or enjoy the related work caused by the implementation, it will negatively affect the adaptation to the ongoing changes in IFRS. This is interesting to notice since the majority of the respondents from our reviewed entities were part of the top management. Hence, if the top management is of the opinion that IFRS is a burden and not beneficial for the single entity or from a reader's viewpoint we believe that it will cause implementation problems. The top management must be open towards changes; otherwise the entities' adaptability will most likely be impaired. If the top management is not open towards changes in IFRS, why should other organizational member be so? Furthermore, if organizational members are not willing to contribute to the changes in IFRS it will be difficult to unfreeze the status quo and move to a new level. Consequently, top management

need to create awareness about necessary actions and the beneficial effects of the changes to get organizational members willing to cooperate. Phil was stressing the importance of making organizational members feel involved in the work of change. It is necessary with a positive and open attitude towards change in order to succeed with the adaptation.

In summary, our empirical findings indicated that small cap entities are having problems to adapt to changes in IFRS because of a certain degree of resistance. The ongoing changes in IFRS are perceived as a burden and not beneficial. The additional costs further increase the resistance towards the adoption of new and revised standards issued by the IASB.

5.3.1.5.1 Fair Value Measurements

We will continue the discussion about resistance against changes since this turned out to be an interesting area in the context of adaptation to the new requirements in IFRS, fair value measurements. Furthermore, when analysing changes it is useful to look at the extent of the change. Organizational changes may include changes of both formal and informal elements. Informal elements are normally described by theoreticians as values and norms, while changes of formal elements, such as technology and strategies, are described as elements in a revolutionary change.

Changing values and norms within an organization is suggested by theoreticians to be exacting and complicated. Related to this, the discussion about values and norms becomes important in this analysis since the first-time adoption of IFRS involved a noticeable change of norms and accounting values. Before the mandatory adoption of IFRS, Swedish listed entities based their accounting on the prudence principle and on historical acquisition values. Consequently, the adoption of IFRS involved a move *from* the traditional prudence principle towards a fair value accounting.

In our investigation we found that fair value measurements of financial instruments and investment properties sometimes cause volatility and negatively affects the consolidated statement of income. The respondent from Epsilon explained that in the absence of a relevant market value, estimations need to be done. This in turn requires technical expertise and additional resources. Hence, fair value measurement has caused additional costs among the entities. The respondents were unanimous in their opinion that fair value measurements are very complicated and difficult to manage.

Overall, we found that a change of valuation principles, from the traditional prudence principle to fair value measurements, seemed to be difficult to gain acceptance within the entities. On the basis of these findings we are arguing that there is a certain resistance to this approach. Consequently, we are arguing that changes in IFRS, involving fair value measurements, would most likely have a negative impact on the entities' willingness and potential to adapt to changes in IFRS.

5.3.2 The Importance of Communication

It has been stated by theoreticians that an effective communication process is an essential element in the work of change. A successful planned change is dependant on a well developed communication and awareness throughout the organization.

Through our empirical findings we could confirm this statement. We observed that communication is a critical element when entities, especially small cap entities, are adapting to new or revised standards. Communication is essential since the majority of the respondents are dependent on receiving oral or written information about the changes from their external auditors. Hence, these dialogues are crucial for the majority of our respondents in order to adapt to the current changes in IFRS. The respondent from Jota highlighted IFRS 8, *Operating Segments* as an example where additional dialogues will be essential for this year's implementation. Furthermore, the respondents emphasized that it is important to be constantly updated about the changes and that the support from their auditor is therefore vital.

The majority of the respondents further explained that they normally receive information about new or revised standards electronically or by printed documents. Information letters, web-based communities, relevant web pages and written summaries are examples of written communication channels that are frequently being used among the preparers. Relying on our theoretical frame of reference we found that these types of written communication channels are "risky" since there is a limited scope for providing generous information. This means that there is only a small amount of information that can be transferred in one message, from the auditor to the entity. Face-to-face conversations are suggested by researchers to be more effective since it provides a possibility to transfer a generous amount of information and allows immediate response from the receiver. Furthermore, this is described to be the most efficient way to communicate, especially when there is a shortage of time and the message is complex, vague or easy to misinterpret. This is identified to be the case with the ongoing changes in IFRS, since there is a lot of information to transfer from the auditors to the preparers. This information is also experienced as complex and easy to misinterpret. It has also been maintained that it is difficult to acquaint yourself with all new information in time. Due to this, we have come to the conclusion that the communication channels frequently being used among the preparers to get information about the ongoing changes in IFRS are insufficient. Therefore, this way of working most likely affects the entities' ability to adapt to the current changes in IFRS in a negative way. For example, Jota explained that important aspects might easily be disregarded since there is too much information to process. In addition, the respondent from Beta explained that a major challenge is to separate the IASB's "general news" about new and revised standards from those standards that are endorsed by the EU and thereby applicable.

On basis of what has been said above, we are arguing that face-to face conversation with auditors is of great important since it would facilitate the implementation process and the adaptation to the ongoing changes in IFRS. Furthermore, we are arguing that face-to face

conversations are especially important within small cap entities since they, unlike large cap entities, are experiencing IFRS as complex and difficult to apply. Small cap entities are very dependent on the support from auditors and frequent dialogues with them. We might also have identified another risk. Small cap entities which are considered to have fewer resources than large cap entities might have bigger problems to adapt to the ongoing changes in IFRS. Face-to face conversations with auditors, i.e. consultations, are costly. Consequently, if small cap entities have a limited amount of resources for paying consultation fees, they have to use more written communication channels in order to keep up with the changes in IFRS. This means that it becomes even harder for them to interpret and adapt to the ongoing changes in IFRS since written communication channels are more “risky”. Valuable information might be lost or disregarded.

Those entities which are not as dependent on external help as the small cap entities must instead focus on the communication *within* the organization. An example is Kappa, where the respondent described that training of the internal accounting staff is the most effective way to adjust to new or revised standards. Hence, we are arguing that communication with internal parties, rather than external parties, might be more important for large cap entities than to small cap entities when adapting to the changes in IFRS.

5.3.3 Institutional Theory and Isomorphism

Accounting standards could be described as a formal structure and a result of the adaptation to the economic trends within the society.²⁵¹ Institutional theory is applicable when analyzing this type of economic change and economic processes. The current internationalization of accounting standards and the economic environment has affected the Swedish listed entities through the adoption of the IAS Regulation (EC) No 1606/2002. Moreover, institutional theory is applicable in this thesis since it relies on the assumption that institutions affect human behavior and the market where they operate²⁵².

Organizations are changing due to different reasons. The entities in our study *are forced to change* since there is a coercive EU regulation. Changes could also be motivated by legitimacy since adaptation to new accounting standards could be seen as a way to achieve this. Further, for an organization to survive it is essential to cooperate with the environment in a way that is “accepted”.²⁵³ This pressure from the society and the institutions is causing isomorphism²⁵⁴. Thus, through institutional theory and isomorphism we have analyzed how the reviewed entities are adapting to the ongoing changes in IFRS.

²⁵¹ Söderlund, Carolina, Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor (2007), p. 65

²⁵² Ibid. p. 66,83, 122

²⁵³ Ibid. p. 65

²⁵⁴ Isomorphism is affecting organizations to look more similar. It can be divided into three different categories: *coercive isomorphism, mimetic isomorphism* and *normative isomorphism*.

5.3.3.1 Coercive Isomorphism – Regulatory Pressure

On the basis of the institutional theory and our empirical findings we have identified a degree of coercive isomorphism among the reviewed entities. Entities tend to look similar since they have to adjust to the same standards, i.e. IFRS. Consequently, the regulatory pressure is operating on the reviewed entities, making them to adapt to the changes in IFRS. Therefore, we can conclude that coercive isomorphism is affecting the process through which entities are adapting to changes in IFRS. However, the discussion about mimetic isomorphism turned out to be more interesting in the context of the entities' work of change.

5.3.3.2 Mimetic Isomorphism – Imitating Competitors

Through our research process we could clearly observe that entities are normally *not* implementing changes in IFRS without considering the financial statements from other listed entities. We noticed that there is insecurity when implementing the changes in IFRS. As a result, the majority of the reviewed entities was imitating successful competitors and used external consultants to manage the changes in IFRS. This behavior was confirmed by Bjärehäll from PwC and Pihl from Deloitte. Pihl explained that entities in general are very concerned to implement IFRS as other entities do since “... *no one wants to stand out in the crowd*”. Consequently, insecurity when implementing changes in IFRS is leading to mimetic isomorphism. The respondents from the reviewed entities explained that they are observing both other Swedish listed entities within the same industry and large cap entities. Further, we found that mimetic isomorphism was most common among small cap entities. This could be explained by our previous findings that small cap entities tend to have insufficient expertise and resources when dealing with new standards. On the basis of this, we are arguing that the insecurity concerning the implementation of new and revised standards arises when there is a lack of internal expertise and resources. This means that the entities with less internal expertise and resources are more prone to observe other organizations and obtain external help. Consequently, we are arguing that the insecurity arising when managing changes in IFRS are handled by studying other organizations and acquiring external expertise. Further, these entities control their insecurity by finding a common solution of the problem. By being more homogeneous, it is easier to justify one's actions and be legitimate. Hence, mimetic isomorphism affects the entities in their adaptation to the ongoing changes in IFRS.

5.3.3.3 Normative Isomorphism – Emanating from the Profession

Through our research we could also emphasize another phenomenon, normative isomorphism. Normative isomorphism emanates from the profession and could clearly be identified among the reviewed audit firms. These firms are working a lot with internal training on a local and a global basis in order to keep up with the changes in IFRS. For example, Ekelund explained that Deloitte gets information about the changes in IFRS from United Kingdom where Deloitte has a central IFRS- expert group. In addition, Thorstensson from KPMG emphasized

that seminars on a local basis, as well as on a global basis, are important for the ability to keep up with the changes in IFRS. KPMG is assisted by a global IFRS-group, situated in London. The purpose of these global expert groups is to achieve a common agreement on how to interpret IFRS throughout the world. Further, these global IFRS desks are providing help to solve different interpretational issues in order to promote compliance with IFRS in practice. Further, Ekelund and Thorstensson pointed out that local seminars and discussions with colleagues as well as internal databases and information letters are crucial when dealing with interpretational problems. Further, Bjärehäll explained that PricewaterhouseCoopers is involved in many IFRS-groups around the world, discussing interpretations of IFRS. Further, a worldwide coordination mechanism has been set up by the international largest audit firms to minimize the diversity of IFRS interpretations and applications. It is stressed by Bjärehäll that this active participation is essential in order to contribute to the development of IFRS but also to provide sufficient help to their clients.

Uniform training and industry-wide ethical codes are examples of how the professional associations reduce heterogeneity. Auditors are expected to articulate shared norms, rules of conduct and standards. Further, professional networks as the Swedish Financial Reporting Board are contributing to an interchange of ideas and working methods, leading to normative isomorphism as well.

On the basis of the findings described above, we are arguing that this type of isomorphism is *indirectly* contributing to the entities' ability to adapt to new and revised standards in IFRS. This argument is based on the fact that all of the respondents, except for Gamma and Kappa, are describing that they are more or less dependent on the work of their auditor and the audit firm's internal IFRS-experts. The entities are putting a lot of reliance on the auditors to keep up with the changes in IFRS. Moreover, this identified normative isomorphism within the accounting profession means that the auditors' work of solving accounting issues might be similar among the Big Four. Hence, the normative isomorphism is therefore *positively* affecting the entities ability to keep up with the changes in IFRS. By trying to offer a commonly developed expert assistance for the entities, it will facilitate the work of change. The accounting profession is spreading norms and contributing to a certain practice which in turn creates stability.

5.3.4 Conclusion, Adaptation to the Current Changes in IFRS

5.3.4.1 The Nature of Change

We established that all entities within our study are going through an evolutionary change since the ongoing adaptation to the changes in IFRS is involving gradual changes over time. There were no major changes of the technology or structure within the entities. Our empirical findings demonstrated that the entities are using a mix of Strategy E and Strategy O when adapting to the ongoing changes in IFRS. However, small and mid cap entities tend to apply a clearer Strategy E approach compared to large cap entities. Small and mid cap entities are more dependent on external expertise. Hence, there is no time for “learning organizations”.

We found that the complex nature of IFRS combined with insufficient knowledge and a shortage of time sometimes lead to decisions in the last minute. In turn, we found that small cap entities tend to have problems concerning the time aspect when adapting to changes in IFRS. As a result, this might negatively affect the entities’ ability to adapt to the ongoing changes.

We noticed that the majority of the entities are adapting to the changes in IFRS by responding reactively to the changes. However, one of the large cap entities responded proactively. A proactive change often involves insecurity which in turn increases the likelihood for hostility against change. However, we found that a proactive response also increases the possibility to save valuable time which in turn will facilitate the process of adaptation. Consequently, small- and medium cap entities responding reactively to the changes in IFRS might, therefore, benefit in their process of adaptation from less hostility against change, but on the other hand lose valuable time.

Applying Lewin’s change model we established that all of the reviewed entities are in the *moving* phase. Furthermore, we found that collaboration and a positive openness between the entity and the auditor are essential elements in the process of change. However, it was established that the knowledge-level within the entities is sometimes experienced by the entities as higher than among the auditors. Suggestions provided by the auditor of how to interpret and solve accounting issues aren’t always in accordance with those of the entity. So the collaborations between the entities and the auditors were not always adequately developed. In turn, these inadequate collaborations might negatively affect the entities’ ability to adapt to the ongoing changes in IFRS.

It was noticed that small cap entities tend to have bigger problems when adapting to changes in IFRS since there is a certain degree of resistance within them. The ongoing changes in IFRS are perceived as a burden for the entities and not beneficial for the reader of the financial reports. The additional costs that are involved have further caused resistance towards the adaptation to new and revised standards issued by the IASB.

Moreover, all the respondents in our study were of the opinion that fair value measurements are very complicated and difficult to manage. We found that a change of valuation principles, from the traditional prudence principle to fair value measurements, seem to be difficult to get accepted within the entities. There was a certain degree of resistance to this approach. Hence, the fair value measurements in IFRS could most likely cause a negative impact on the entities' willingness and potential to adapt to changes in IFRS.

5.3.4.2 The Importance of Communication

Through our empirical findings we could confirm that communication is a critical element when entities are adapting to the ongoing changes in IFRS. The changes in IFRS are disturbing the normal implementation process since it is difficult to acquaint yourself with the new information in time. Face-to-face conversation with auditors is of great importance since it facilitates the entities' ability to adapt to the ongoing changes in IFRS. However, we found that small cap entities tend to have a harder time to adapt to the ongoing changes in IFRS due to a limited amount of resources for paying costly consultation fees.

Communication with internal rather than external parties tends to be more important for large cap entities when adapting to the ongoing changes in IFRS.

5.3.4.3 Institutional Theory and Isomorphism

The regulatory pressure from EU is shaping the reviewed entities, making them adapt to the coercive changes in IFRS. Coercive isomorphism forces on a change and is therefore affecting the process whereby entities are adapting to changes in IFRS.

We found that a majority of the entities imitate competitors and use external consultants to adapt to the ongoing changes in IFRS, described as mimetic isomorphism. This phenomenon was most common among small cap entities. This is explained by their insecurity when dealing with new and revised standards. These entities are therefore more prone to observe other organizations and obtain external help. They control their insecurity by finding a common solution of the problem. Hence, mimetic isomorphism is affecting Swedish listed entities in their adaptation to the ongoing changes in IFRS.

Normative isomorphism is *indirectly* contributing to the entities' ability to adapt to the changes in IFRS. There is a heavy reliance on the accounting profession when adapting to new and revised standards. The auditors are working closely with the entities to inform and help them to solve accounting issues related to the changes. The accounting profession establishes a practice and creates stability.

5.4 Addressing our Purpose

In the following section we will conclude our research by addressing our purpose:

“We aim to clarify how Swedish listed entities experience and manage changes in IFRS and how they are adapting to new and revised standards as issued by the IASB”.

5.4.1 Experiences of IFRS Implementation

- *How do Swedish listed entities **experience** the implementation process of new or revised standards as issued by the IASB?*

IFRS is experienced as a very complex set of accounting standards, both by the entities and by the auditors. This is because internal resources in terms of accounting knowledge and technical expertise in IFRS are vital when managing the implementation of new or revised standards. Insufficient knowledge in accounting makes it difficult to understand the meaning of different words and expressions in the legal framework. A deep involvement in and understanding of the standards is therefore required in order to manage the implementation. Hence, the complicated nature of IFRS, in combination with undefined meanings of words, is constantly causing insecurity when entities are interpreting and implementing new or revised standards issued by the IASB.

The complex nature in IFRS could be explained by the theoretical approach. IFRS is neither sufficiently rooted in the reality nor adapted to industrial life. In summary, small cap entities in particular, are experiencing IFRS as unnecessarily complicated and costly to implement. Due to this, these entities normally don't perceive IFRS as beneficial, neither for the single entity nor for the readers of the financial reports. Hence, small cap entities experience the implementation process of new and revised standards as a burden due to the additional efforts and resources required.

5.4.2 Managing New and Revised Standards in IFRS

- *How do Swedish listed entities **manage** the implementation process of new and revised standards issued by the IASB?*

IFRIC's limited capacity of publishing interpretation guidance has resulted in an increased reliance on the entities and the auditors to manage the implementation of new and revised standards. The preparers and the auditors have become the informal interpreters of IFRS.

The reviewed entities are managing changes in IFRS by using parts of the legal method when interpreting the standards. However, we found that this approach is not totally unproblematic. We noticed the importance of possessing a high level of knowledge in accounting and knowledge about concepts of accounting when managing the implementation of new or revised standards. This resulted in substantial problems for the small cap entities since they turned out to possess lesser internal knowledge than the large cap entities. This further means that the small cap entities are more dependent on the auditors' support to manage the implementation of new and revised standards, compared to large cap entities.

Moreover, we also found that even if the majority of the reviewed entities did face problems when managing changes in IFRS, they weren't benefiting from additional guidance and concrete examples available. It was only one of the respondents that took advantage of additional guidance from the English version of IFRS. Further, none of the respondents explained that they were using the IASB Framework or IFRIC's interpretation guidance when resolving accounting issues. Instead, the entities were constantly dependent on the auditors' support when managing the implementation of new or revised standards.

Further, we found that full compliance with IFRS is almost impossible to achieve. Instead, it is about keeping a "good enough" level. Achieving full compliance with IFRS is especially difficult to manage when it comes to new and revised standards since there are no "best practice" examples to learn at. There is not always sufficient knowledge and resources in order to keep up with changes. Naturally, this turned out to be more common among the small cap entities due to their small resources and insufficient knowledge. Large cap entities, which have a higher level of internal competence and resources, might therefore have a greater potential to achieve full compliance with IFRS. The degree of compliance with IFRS is dependent on the internal knowledge and resources.

IFRS provides opportunity for the preparers to control their presentations of the financial reports, described as earnings management. Hence, when entities manage changes in IFRS it might be affected by different incentives and objectives. Compared to rules-based standards, IFRS as a principle-based set of accounting standards might therefore make it easier for the preparers to implement changes in IFRS since it provides scope for their own interpretations and judgments.

In terms of comparability, we found that more interpretation and implementation guidance *might* serve as a tool to reduce the influence from own interpretations and improve the quality of the financial reports. Consequently, if the financial reports were improved in terms of comparability the respondents are likely to perceive IFRS as more beneficial. Hence, it would be easier to motivate the changes if there are clear benefits with the legal framework and thereby easier to manage the implementation of new or revised standards.

In summary, insufficient resources and internal competence makes it more challenging to manage the implementation of new or revised standards. External support from auditors is crucial, especially for small cap entities. There is a risk that entities without sufficient

competence or resources might not be able to manage the adaptation to new or revised standards.

5.4.3 The Adaptation to the Current Changes in IFRS

- *How are Swedish listed entities able to **adapt** to the current changes in IFRS?*

All entities within our study are going through an evolutionary change since the changes in IFRS only cause gradual changes over time. We found that entities are using a mix of Strategy E and Strategy O when adapting to the current changes in IFRS. Small and mid cap entities tend to apply a clearer top-down approach, as described in Strategy E, whereas large cap entities are relying more on internal training, as described in Strategy O. Further, it is clear that small cap entities are more dependent on external expertise. This indicates that there is no time for “learning organizations” within these entities.

The majority of the entities are adapting to the changes in IFRS by responding reactively to the changes. Only one of the large cap entities, Kappa, is responding proactively. A proactive response increases the likelihood for hostility against a change since it involves a higher degree of insecurity. On the other hand, it might also increase the possibility to save valuable time which facilitates the process of adaptation.

Continuing our discussion about resistance and hostility against changes, small cap entities had a noticeable degree of resistance to the ongoing changes in IFRS compared to large cap entities. Hence, even though the small cap entities didn't respond proactively to the changes there was a clear resistance identified among these entities. As a result, they tend to have more problems when adapting to the ongoing changes in IFRS than the large cap entities. The additional costs and efforts that are involved have further caused an increased resistance towards the adaptation to new and revised standards issued by the IASB.

Moreover, we found that a change of valuation principles, from the traditional prudence principle to fair value measurements, seems to be difficult to apply and accept within the entities. There was a degree of resistance among the preparers to fair value measurements since fair value accounting is related to additional costs and technical difficulties. Hence, the approach in IFRS of using fair value measurements might therefore have a negative impact on the entities' willingness and potential to adapt to the ongoing changes in IFRS.

Further, we found that the collaboration between the auditors and the entities is *sometimes* inadequate since the knowledge-level within the entities are at times experienced as higher than among the auditors. Accounting solutions provided by the auditors aren't always in accordance with those of the entities. These types of inadequate collaborations might therefore negatively affect the entities' ability to adapt to the current changes.

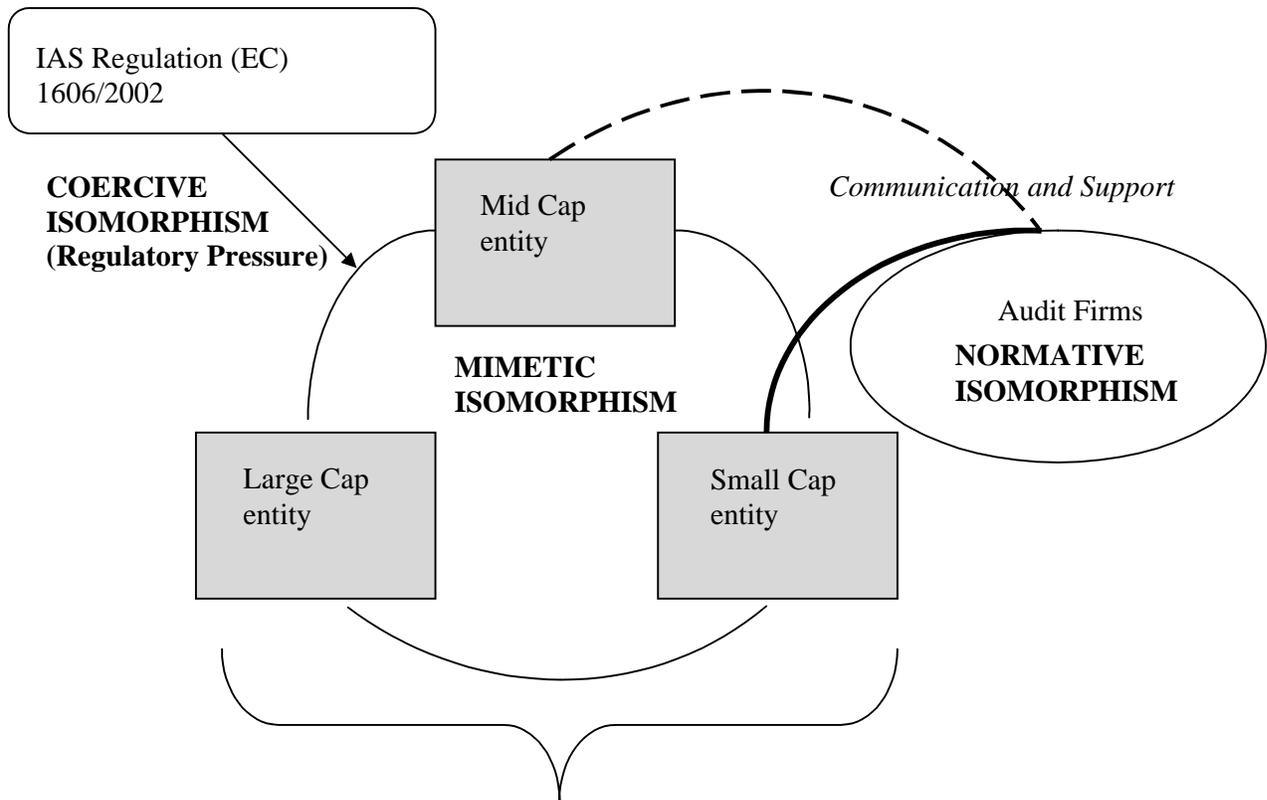
Communication is defined as a critical element when entities are adapting to the changes in IFRS. As described before; IFRS is a very complex set of accounting standards, difficult to understand and interpret. As a result, it is especially important that the changes in IFRS are well communicated to the entities. Face-to-face conversation with the auditors is therefore of great importance since it facilitates the entities' ability to adapt to the changes. We found that small cap entities tend to have a harder time to adapt to the ongoing changes in IFRS since they have a limited amount of resources to reserve for expensive consultancy hours. Hence, small cap entities have to use more written communication channels in order to adapt to new and revised standards. Therefore, there is a risk that valuable information might be lost or disregarded which naturally have a negative impact on their adaptability. In contrast, communication with internal parties instead of external consultants is of more importance for large cap entities when adapting to the changes.

In the context of isomorphism, the regulatory pressure from EU is shaping the Swedish listed entities, making them to adapt to the coercive changes in IFRS. Coercive isomorphism forces on a change and is therefore affecting the process whereby entities are adapting to the ongoing changes.

Further, we found that a majority of the entities are imitating competitors to be able to adapt to the current changes in IFRS. This phenomenon, described as mimetic isomorphism, is most common among small cap entities since they are insecure when handling new and revised standards. Hence, they control their insecurity by finding a common solution of the problem. As a result, mimetic isomorphism affects how Swedish listed entities are adapting to the current changes.

Normative isomorphism is *indirectly* contributing to the entities' ability to adapt to new and revised standards in IFRS. The accounting profession is spreading norms and contributing to a certain practice which creates stability among the entities. Auditors are normally working closely with the entities to inform and help them to solve accounting issues related to the changes. Consequently, we found that normative isomorphism is *positively* affecting the entities ability to keep up with the current changes in IFRS.

Below, we have designed a model in the context of isomorphism which can explain how Swedish listed entities are adapting to the current changes in IFRS. This model will summarize our findings concerning this question.



THE ENTITIES' ADAPTATION TO THE ONGOING CHANGES IN IFRS

Source: The authors' own illustration of how Swedish listed entities adapt to the ongoing changes in IFRS, in the context of isomorphism.

6 Recommendations for Further Research

In this terminative chapter, we will recommend further research. While writing the theoretical frame of reference and the analysis, different questions occurred that we found to be interesting to further study. Hence, these thoughts are briefly described in the following section.

The objective of this research was to empirically examine how Swedish listed entities experience, manage and adapt to the ongoing changes in IFRS. From the outcomes of our study, we identified future studies that could be conducted and further contribute to the research of international accounting.

From our point of view, it could be of great interest to investigate how listed entities in another country experience, manage and adapt to the changes in IFRS in comparison to the Swedish listed entities in our research. Therefore, we suggest that a future research in this area could be to conduct a study like ours, but to base the empirical information on listed entities in another country. Further, this enables a comparative study with the findings of our research. A study of this type would be a great contribution to the standard-setters as well as the auditors and entities that are affected by IFRS.

The empirical information in our research was based on interviews with listed entities in different industries. Hence, another future study could be to conduct a comparative study between listed entities in two separate industries. This could be useful in order to see whether the conditions of the industries have an effect on how the entities manage and adapt to the new and revised standards issued by IASB.

To continue on the topic of industry, a further research could also be to investigate whether the interpretations of the new and revised standards issued by the IASB differ within the same industry. A research question could therefore involve whether there are specific concerns in specific industries on how the changes in IFRS are interpreted. In turn, such a research might also demonstrate if IFRS is of advantage to some industries and detrimental for others.

References

Alvesson, M., Sköldbberg, K., (2008) *Tolkning och reflektion, vetenskapsfilosofi och kvalitativ metod*, 2:a upplaga, Studentlitteratur, Lund.

Artsberg, K., (2005) *Redovisningsteori – policy och praxis*, 2:a upplagan, Liber Ekonomi, Malmö.

Bryman, A., (2006) *Samhällsvetenskapliga metoder*, Liber Ekonomi, Malmö.

Bryman, A., Bell, E., (2005) *Företagsekonomiska forskningsmetoder*, Liber Ekonomi, Malmö.

Bryman, A., Bell, E., (2007) *Business research methods*, Oxford University Press, United Kingdom

Cummings, T., G., Worley, C., G., (2005) *Organization Development & Change*, 8th edition, Thomson South-Western.

Denscombe, M., (2000) *Forskningshandboken – för småskaliga forskningsprojekt inom samhällsvetenskaperna*, Studentlitteratur, Lund.

Jacobsen, D., I., (2002) *Vad, hur och varför? Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*, Studentlitteratur, Lund.

Jacobsen, D., I., (2004) *Organisationsförändringar och förändringsledarskap*, Studentlitteratur, Lund

Jacobsen, D., I., Thorsvik, J., (2008) *Hur moderna organisationer fungerar*, 3:e upplagan, Studentlitteratur, Lund.

Söderlund, C., (2007) *Den finländska utgift-vid-inkomst-teorins motstånd mot internationella förändringstryck Institutionella aktörers utsagor*, Licentiatavhandling i redovisning, Åbo Akademi

Articles

Alexander, D., Jermakowicz, E., (2006) *A True and Fair View of the Principles/Rules Debate*

Bradburn, M., (2007) *An anatomy of an IFRIC Interpretation*, Accounting in Europe, pp. 110-112

Burns, J., Scapens, R., W., (2000) *Conceptualizing management accounting change: an institutional framework* Management Accounting Research, Vol. 11 No.1, pp. 3-25

Dunne, T., et al., (2008) *The Implementation of IFRS in the UK, Italy and Ireland*, The Institute of Chartered Accountants of Scotland

G20 (2009), G20 Working Group 1 *Enhancing Sound Regulation and Strengthening Transparency Final Report*, 25 March

Hoogendoorn, M., (2006) *International Accounting Regulation and IFRS Implementation in Europe and Beyond – Experiences with First-time Adoption in Europe*, Accounting in Europe, October, pp. 23-26

Jermakowicz, E., K., Gornik-Tomaszewski, S., (2006), *Implementing IFRS from the perspective of EU publicly traded companies*, Journal of International Accounting, Auditing and Taxation, pp. 170-196

Olivier, C., (1997) *Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views* Strategic Management Journal, Volume 18, Number 9, pp. 697-713

Psaros, J., Trotman, K., (2004) *The Impact of the Type of Accounting Standards on Preparers' Judgments*, pp. 76-77

Rippe, J., (2001) *Vägen mot IAS – skjut inte upp konverteringsprocessen!* Balans nr 6-7 pp. 28-33

Scapens, R., W., Burns, J., (2000) *Towards an Understanding of the Nature and Processes of Management Accounting Change*, Uppsala University

Schipper, K., (2003) *Principle- Based Accounting Standards*, Accounting Horizons

Schipper, K., (2005) *The Introduction of International Accounting Standards in Europe: Implications for International Convergence*, European Accounting Review

Tokar, M., (2005) *Convergence and the Implementation of a Single Set of Global Standards: The Real-Life Challenge*, Accounting in Europe

Volcker, P., A., (2002) *Accounting, Accountants, and Accountability in an Integrated World Economy*, 19 November

Walker, R., (2007) *Reporting Entity Concept: A Case Study of the Failure of Principles-Based Regulation* pp. 53-54

Whittington, G., (2005), *The Adoption of International Accounting Standards in the European Union*, European Accounting Review

Wong, P., (2004) *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs*

Wong, P., (2004) *International Financial Reporting standards; Ready to Take the Plunge?*

Zeff, S., A., (2007), *Some obstacles to global financial reporting comparability and convergence at a high level of quality*, *The British Accounting Review*, pp. 290-291

Electronic sources

The Website of EFRAG,

EFRAG, *The EU endorsement status report, position as at 3 April 2009*, 15 April, 2009
www.efrag.org

The Website of the European Commission,

IAS/IFRS Standards and Interpretation,

http://ec.europa.eu/internal_market/accounting/ias_en.htm#regulation, 25 April, 2009

The Financial Stability Forum,

12 Key Standards for Sound Financial Systems,

http://www.fsforum.org/cos/key_standards.htm, 29 April, 2009

The Website of FinansForum,

Redovisningsforum '08 – enligt IFRS,

http://www.finansforum.se/dynamaster/file_archive/081107/babbd1b986803b17a0e3fbb9cb1c50c8/Redovisningsforum%2012%20nov%202008%20Agenda.pdf<http://www.kpmg.se/pages/106684.html>, 17 April, 2009

The Website of Government Offices in Sweden

Sveriges väg till EU-medlemskap,

<http://www.regeringen.se/sb/d/2477>, 20 April, 2009

IAS Plus Home Page,

<http://www.iasplus.com/index.htm>, 15 April, 2009

Summaries of International Financial Reporting Standards,

<http://www.iasplus.com/standard/framework.htm>, 16 April, 2009

Use of IFRSs by Jurisdiction,

<http://www.iasplus.com/country/useias.htm>, 16 April, 2009

Chronology of the IASC and the IASB,

<http://www.iasplus.com/restruct/chrono.htm>, 29 April, 2009

The Website of the IASB,

<http://www.iasb.org/About+Us/International+Accounting+Standards+Board+-+About+Us.htm>, 13 April, 2009

About the Standards Advisory Council,

<http://www.iasb.org/About+Us/About+the+SAC/About+the+SAC.htm>, 13 April, 2009

About the IASB,

<http://www.iasb.org/About+Us/About+the+IASB/About+the+IASB.htm>, 13 April, 2009

About the IFRIC,

<http://www.iasb.org/About+Us/About+the+IFRIC/About+the+IFRIC.htm>, 3 April, 2009

About the IASC Foundation,

<http://www.iasb.org/About+Us/About+the+IASC+Foundation/About+the+IASC+Foundation.htm>, 3 April, 2009

IFRIC Projects,

<http://www.iasb.org/Current+Projects/IFRIC+Projects/IFRIC+Projects.htm>, 4 April, 2009

How we develop Interpretations,

<http://www.iasb.org/About+Us/How+we+develop+Interpretations/How+we+develop+Interpretations.htm>, 4 April, 2009

Identification of issues,

<http://www.iasb.org/About+Us/How+we+develop+Interpretations/Identification+of+issues.htm>, 4 April, 2009

Setting the agenda,

<http://www.iasb.org/About+Us/How+we+develop+Interpretations/Setting+the+agenda.htm>, 4 April, 2009

The Website of Informa plc,

International Accounting Regulation and IFRS Implementation in Europe and Beyond – Experiences with First-time Adoption in Europe,

http://pdfserve.informaworld.com/888544_731394784_769610052.pdf, 18 April, 2009

Investopedia,

Search words: Small Cap, Mid Cap, Large Cap

<http://www.investopedia.com/terms/s/small-cap.asp>, 25 May, 2009

<http://www.investopedia.com/terms/m/midcapstock.asp>, 25 May, 2009

<http://www.investopedia.com/terms/l/large-cap.asp>, 25 May, 2009

The Website of IREV,

IFRS 3 – Rörelseförvärv, <http://www.irev.se/Templates/Course.aspx?id=717>, 13 April, 2009

The Website of KPMG,
IFRS-nyheter inför 2009,
<http://www.kpmg.se/pages/106684.html>, 15 April, 2009

The Website of Linköpings University,
Forskningsprocessen,
http://www.ibl.liu.se/content/1/c6/04/04/22/PA2_Forskningsprocessen_ht07.pdf, 15 April, 2009

New Foundations: Publishing and Consultancy,
Employee Resistance to Organizational Change,
<http://www.newfoundations.com/OrgTheory/Bolognese721.html>, 25 April, 2009

United Nations Conference on Trade and Development,
IFRS Implementation,
<http://www.unctad.org/Templates/Page.asp?intItemID=4355&lang=1>, 19 April, 2009

The Website of Uppsala University Library,
Kvalitetskontroll och värdering av information,
<http://www.ub.uu.se/kurs/tutorial/kvalitet.cfm>, 15 April, 2009

Regulations

The IAS Regulation (EC) 1606/2002

Oral sources

Bjärehäll, Ola, Authorized Public Accountant, Öhrlings PricewaterhouseCoopers. Interview in person 8 April, 2009, Lund

Ekelund, Maria, Authorized Public Accountant, Partner, Deloitte. Interview in person 23 April, 2009, Malmö

Norberg, Claes, HARN 10 Accounting and Law, Seminar one, Regulatory Techniques, 27 January, 2009, Lund University School of Economics and Management

Pihl, Hans, Authorized Public Accountant, Partner, Deloitte. Interview in person 4 May, 2009, Malmö

Thorstensson, Michael, Consultant Group Accounting specialized in IFRS, KPMG. Interview in person 21 April, 2009, Lund

Appendix 1

Questionnaire, Listed Entities

The Initial Implementation of IFRS

- 1) How did you experience the initial implementation of IFRS? When did you implement IFRS for the first time?
- 2) What problems did you encounter during the initial implementation of IFRS? Any practical problems? Can you give examples of problems that might arise in the daily activity due to the IFRS implementation?
- 3) What have been the major difficulties due to the initial implementation of IFRS? What difficulties did you struggle the most with?
- 4) Did you have to engage additional help externally when implementing IFRS for the first time?

The IFRS Legal Framework

- 5) IFRS, as principle-based set of accounting standards, allows greater scope for own interpretations compared to the US GAAP. In terms of this, can you identify any difficulties? Why, why not?
- 6) Overall, do you experience IFRS as a complex set of accounting standards? Why, why not?
- 7) In what situations have you been insecure of how to interpret the standards? How did you manage the insecurity?
- 8) Have you ever been required to translate IFRS from English to Swedish in order to manage the implementation? If so, what difficulties did you encounter? Have the original version of IFRS been difficult to understand? Were there any unclear notions? Explain!
- 9) If you experienced difficulties due to the translation of the original version of IFRS, how did you manage it?

Changes in IFRS – New and Revised Standards

- 10) There are constantly new changes in IFRS. In what way are you adapting to changes in accounting standards?
- 11) What additional actions have you undertaken in order to adapt to the changes; for example extra training, changes in accounting routines, organizational changes etc.? Give examples!
- 12) Can you identify any problems due to the revision or replacement of accounting standards? Is it difficult to keep up with the changes in IFRS? Why, why not?
- 13) Are you of the opinion that there is enough time to implement new or revised accounting standards? Why, why not?
- 14) Are you of the opinion that entities in general have a hard time to adapt to changes in IFRS, i.e. to completely achieve a correct implementation of IFRS? Why, why not?
- 15) Are you of the opinion that changes in the standards might have a negative effect on the international convergence of IFRS? Why, why not?

Knowledge and Technical Expertise

- 16) Are you able to manage a complete implementation of IFRS without any external help? Why, why not?
- 17) If not, do you get enough support from the auditors when difficulties arise during the implementation process of IFRS? Why, why not?
- 18) Are you of the view that auditors in general have sufficient knowledge about IFRS in order to keep up with the ongoing changes? Do they have the expertise that is required?
- 19) Have you ever experienced that problems with the implementation process have remained, despite external help? Why, why not?
- 20) Are you of the view that changes in accounting standards require additional help from external parties? Why, why not?
- 21) Do you lack a formal interpretative body, besides IFRIC, if problems arise when interpreting or implementing IFRS?

Costs versus Benefits with IFRS

- 22) What costs might arise due to new or revised standards? Give examples!
- 23) Do you believe that entities in general have difficulties to achieve a complete implementation of IFRS due to insufficient resources? Why, why not?
- 24) Are you of the view that the benefits of using IFRS (convergence, comparability, efficiency on the capital market etc.) exceed the additional resources required to achieve a complete implementation of IFRS? Why, why not?

Frågeformulär, börslistade företag

Den initiala implementeringen av IFRS

- 1) Hur har ni upplevt implementeringen av IFRS? När implementerade ni det för första gången?
- 2) Vilka problem stötte ni på vid implementeringen av IFRS? Praktiska problem? Kan ni ge exempel på problem som kan uppstå i den dagliga verksamheten på grund av IFRS implementeringen?
- 3) Vad har ni upplevt vara det svåraste med IFRS implementeringen? Vilka problem har ni fått jobba mest med?
- 4) Fick ni anlita ytterligare extern hjälp då implementeringen av IFRS gjordes för första gången?

IFRS regelverket

- 5) Eftersom IFRS är mer principbaserat och ger större utrymme för egna tolkningar än t.ex. US GAAP. Ser ni några svårigheter utifrån detta? Varför, varför inte?
- 6) Upplever ni överlag IFRS som ett komplext eller svårhanterligt regelverk? Varför, varför inte?
- 7) I vilka situationer har ni varit osäkra på hur ni ska tolka standarderna? Hur har ni isåfall hanterat detta?
- 8) Har ni någon gång behövt översätta IFRS från engelska till svenska för att kunna utföra implementeringen? Vilka problem har ni då stött på med att översätta originaltexten? Har den varit svår att förstå? Har det funnits otydliga begrepp? Har den varit oklar på något sätt? Förklara!
- 9) Om ni har upplevt problem med översättningen från originaltexten hur har ni isåfall hanterat detta?

Förändringar i IFRS – Nya och omarbetade standarder

- 10) Det sker ständigt nya förändringar i IFRS. Hur anpassar ni er till förändringar i redovisningsstandarder?

- 11) Vilka ytterligare åtgärder har ni gjort för att anpassa er till förändringarna, såsom extra utbildningar, ändringar av redovisningsrutiner, organisatoriska förändringar etc.? Ge exempel!
- 12) Vilka problem ser ni med att standarderna hela tiden görs om eller byts ut? Är det svårt att följa med i förändringar av IFRS? Varför, varför inte?
- 13) Anser ni att det finns tillräckligt med tid för att implementera nya eller omarbetade redovisningsstandarder? Varför, varför inte?
- 14) Tror ni att företag i allmänhet har svårt att anpassa sig efter förändringar i IFRS, dvs. att uppnå en fullständigt korrekt implementering? Varför, varför inte?
- 15) Tror ni att förändringar i standarderna kan ha någon *negativ* effekt på harmoniseringen av IFRS? Varför, varför inte?

Kunskap och teknisk expertis

- 16) Känner ni att ni själva kan hantera fullständig implementeringen av IFRS utan extern hjälp? Varför, varför inte?
- 17) Om inte, anser ni att ni får tillräckligt med hjälp av revisorerna vid problem med implementeringen av IFRS? Varför, varför inte?
- 18) Anser ni att revisorer i allmänhet är tillräckligt kunniga inom IFRS för att följa med i de förändringar som sker? Har dem den expertis som krävs?
- 19) Har ni någon gång känt att problem med implementeringsprocessen består trots extern hjälp? Varför, varför inte?
- 20) Tror ni att ändringar i nya standarder medför att ytterligare extern hjälp blir nödvändigt? Varför, varför inte?
- 21) Saknar ni ett formellt tolkningsorgan som ni frekvent hade kunnat vända er till vid problem med tolkningen och implementeringen av IFRS?

Kostnaden kontra nyttan med IFRS

- 22) Vilka nya kostnader kan uppstå till följd av att nya IFRS standarder uppkommer eller gamla omarbetas? Ge exempel?
- 23) Tror ni att företag i allmänhet kan ha problem med att uppnå en fullständig implementering på grund av otillräckliga resurser? Varför, varför inte?

24) Anser ni att nyttan med att använda IFRS (harmonisering, jämförbarhet, effektivitet på kapital marknaden etc.) överstiger de extra resurser som krävs för att uppnå en fullständig implementering? Varför, varför inte?

Appendix 2

Questionnaire, Audit Firms

Experiences of the IFRS Implementation

- 1) From your point of view, what difficulties are the entities encountering due to the implementation of IFRS?
- 2) What are the most remarkable difficulties caused by the IFRS implementation?
- 3) What kind of extra help are the entities requiring when implementing IFRS?
- 4) Have you experienced that IFRS, which is a principle-based set of accounting standards, have caused difficulties for the entities in terms of interpretation and implementation of the standards? Is IFRS too complex and difficult to manage? Why, why not?

Changes in IFRS – New and Revised Standards

- 5) Are you of the opinion that entities in general have a hard time to adjust to changes in IFRS, i.e. achieve a correct implementation of IFRS? Why, why not? How are the entities managing to adjust to the changes?
- 6) From the entities' viewpoint, are there any problems due to the revision or replacement of the standards?
- 7) Have you experienced that entities have to undertake additional actions in order to adjust to the changes; for example internal training, changes in accounting routines, organizational changes etc.? Give examples!
- 8) Are you of the view that the entities have to improve their ability to manage changes in IFRS? Why, why not?
- 9) Are you of the opinion that changes in the standards might have a negative effect on the international convergence of IFRS? Why, why not?

Knowledge and Technical Expertise

- 10) Are you of the opinion that entities are able to manage a complete implementation of IFRS without any external help from auditors or accounting consultants? Why, why not?
- 11) Are you of the view that changes in IFRS require additional help from auditors and accounting consultants in order to implement them? Why, why not?
- 12) Besides IFRIC, do you think there is a need for another formal interpretative body to turn to if problems arise when interpreting or implementing IFRS?

The Costs of IFRS Implementation

- 13) Do you believe that entities in general have difficulties to achieve a complete implementation of IFRS due to a lack of resources? Why, why not?
- 14) Have you ever been restrained to contribute to a better implementation process due to limited resources within an entity?

Managing IFRS, Internally

- 15) How do you guarantee that your knowledge of IFRS is up to date? How are you managing new and revised standards within your firm? What actions have to be undertaken?
- 16) How is this working on a global level, i.e. how do your firm make sure that IFRS is interpreted and applied similarly throughout your global organization?
- 17) What problems might arise when managing new and revised standards within your organization? Are there any difficulties caused by the changes?
- 18) Have you ever been insecure of how to interpret IFRS? If that is the case, how did you manage it?

Frågeformulär, revisionsbyråer

Erfarenheter av IFRS implementeringen

- 1) Vilka svårigheter med implementeringen av IFRS har ni stött på ute hos företagen?
- 2) Vilka är de mest märkbara problemen för företagen som uppstår på grund av IFRS implementeringen?
- 3) Vilken extra hjälp behöver företagen av er vid implementering av IFRS?
- 4) Har ni upplevt att IFRS, som är ett mer principbaserat regelverk, medfört svårigheter för företagen att tolka och implementera standarderna korrekt? Är IFRS för komplext och svårhanterligt? Varför, varför inte?

Förändringar i IFRS – Nya och omarbetade standarder

- 5) Tror ni att företag i allmänhet har svårt att anpassa sig efter förändringar i IFRS, dvs. att uppnå en fullständigt korrekt implementering? Hur tycker ni att företagen lyckas anpassa sig till dessa? Varför, varför inte?
- 6) Vilka problem kan ni se, ur ett företagsperspektiv, med att standarderna hela tiden görs om och byts ut?
- 7) Har ni upplevt att ytterligare åtgärder måste tillföras hos företagen för att dessa ska kunna anpassa sig till förändringarna, såsom extra internutbildningar, ändringar av redovisningsrutiner, organisatoriska förändringar etc.? Ge exempel!
- 8) Anser ni att företagen borde bli bättre på att hantera förändringar av IFRS? Varför, varför inte?
- 9) Tror ni att förändringar i IFRS kan ha någon *negativ* effekt på den globala harmoniseringen? Varför, varför inte?

Kunskap och teknisk expertis

- 10) Anser ni att företag kan hantera en fullständig implementering av IFRS utan extern hjälp från revisorer eller redovisningskonsulter? Varför, varför inte?
- 11) Tror ni att ändringar i nya standarder medför att ytterligare extern hjälp från er blir nödvändigt för företagen? Varför, varför inte?

- 12) Anser ni att det skulle behövas ytterligare ett formellt tolkningsorgan, såsom IFRIC eller liknande, som skulle kunna användas vid problem med tolkning och implementering av IFRS?

Kostnaden med implementering av IFRS

- 13) Tror ni att företag i allmänhet kan ha problem med att uppnå en fullständig korrekt implementering på grund av otillräckliga resurser? Varför, varför inte?
- 14) Har ni någon gång upplevt att ni blivit begränsade att bidra till en bättre implementerings process av IFRS på grund av företagets bristande resurser?

Intern hantering av IFRS

- 15) Hur gör ni för att säkerställa att er kunskap om IFRS hela tiden hålls uppdaterad? Hur hanterar ni nya och omarbetade standarder? Vilka åtgärder måste till?
- 16) Hur funkar detta på global nivå, dvs. hur säkerställs det att IFRS tolkas och används lika världen över i er organisation?
- 17) Vilka problem kan tänkas uppstå internt i er organisation? Kan det skapa svårigheter för er när nya standarder uppkommer eller omarbetas?
- 18) Har ni någon gång varit osäker på hur ni ska tolka standarderna? Hur har ni isåfall hanterat detta?