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IFRS 16: Implementation Challenges in a Global Swedish Entity

Master's Program in Accounting and Finance

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Abstract

Title:	IFRS 16: Implementation Challenges in a Global Swedish Entity
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Keywords:	IFRS 16 transition; IFRS; implementation; challenges
Purpose:	The study´s purpose is to explore the implementation challenges of IFRS 16: Leases on an entity level.
Methodology:	A qualitative and exploratory case study has been conducted by adopting an inductive and interpretative approach. Semi-structured interviews have been applied throughout our interviews with the case company.
Theoretical perspective:	The analytical framework is based on the literature review and seeks to explain and enhance the understanding of the implementation challenges of IFRS 16.
Empirical foundation:	The collected empirical data consisted of information from 19 interviews.
Conclusions:	Our study showed four key major challenges, insufficient IFRS 16 knowledge and experience, lack of adequate training, lack of appropriate planning, and challenges in capturing data. Insufficient IFRS 16 knowledge and experience arose as a central key issue challenge that nourishes the other key challenges identified. Further, lack of adequate training was predominantly concerned with training on the software system. The lack of appropriate planning was primarily connected to the awareness of the complexity and time constraints. Moreover, challenges in capturing data remain an ongoing due to frequent changes and the high volume of contracts.

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1. Introduction

1.1 Background

As a further step towards a global accounting mergence and embracing the freedom of movement of capital in the European internal market (EC, 2000, paras. 4, 5), The Council of the European Union endorsed a regulation in June 2002, (EC) No. 1606/2002, requiring all European Union (EU) listed companies to prepare the consolidated financial statements according to the International Financial Reporting Standards (IFRS) as of January 2005. Approximately 7,000 companies in 25 countries in Europe implemented IFRS at this time (IFRS Foundation, 2021a; Armstrong, et al. 2010). The IFRS standards are set by The International Accounting Standard Board (IASB) with principal objectives *"...[To] develops a single set of high-quality, understandable, enforceable and globally accepted accounting standards" and "...[T]o bring transparency, accountability, and efficiency to financial markets around the world"* (IFRS Foundation, 2021b). The harmonization of accounting is expected to enhance the comparability, quality, and efficiency of financial reporting and reduce the cost of gaining capital for companies (Jermakowicz & Gornik-Tomaszewski, 2006; Brown & Tarca, 2012).

There are different challenges regarding the IFRS implementation process, where it is perceived costly, complex, and burdensome even for auditors and specialists (Jermakowicz & Gornik-Tomaszewski, 2006; Hoogendoorn, 2006; Weaver & Woods, 2015). In addition, the implementation of IFRS presented a major significant challenge to preparers, auditors, and regulators (CESR, 2007).

One of the most debated IFRSs in terms of complexity by practitioners is the newly issued accounting standards on leasing, IFRS 16, which was added to the IASB´s agenda in 2006 (PwC, 2016). After nearly a decade of exposure drafts and public comments, IFRS 16 was published in 2016 and became effective on 1 January 2019 (IFRS Foundation, 2021c; Warren, 2016; Morales-Díaz and Zamora-Ramírez, 2018). Leasing is considered a major source of financing that has been frequently used, especially by companies with financial constraints (Magli, Nobolo, & Ogliari, 2018; Grosu & Hlaciuc, 2018). The previous

leasing standard, IAS 17, was criticized for the lack of transparency of current operational leasing obligations and assets for the lessees, which were accounted for as “off-balance sheet.” (IFRS, 2016). According to IFRS (2016), listed companies reporting under either IFRS standards or U.S. Generally Accepted Accounting Practice (US GAAP) have approximately US$ 3.3 trillion, over 85 %, of lease commitments not recognized in the balance sheet (IFRS, 2016). Thus, there are difficulties in assessing the actual level of debt when comparing financial statements for companies that lease and those that buy an asset (Warren, 2016; Morales-Díaz & Zamora-Ramírez, 2018). To address the loopholes under IAS 17, the new leasing standard, IFRS 16, requires all leases to be reported on the balance sheet (IFRS, 2016; Warren, 2016). The new requirements significantly impact the financial statements and affect the key financial ratios based on the assets and liabilities for companies with a high level of off-balance-sheet leasing (Fuller & Crump, 2016; Warren, 2016). One of the comment letters, which was submitted collectively by a group of U.S. and non-U.S. industry trade associations in consultation response to the IASB during the development of IFRS 16, shared theirs concerns about the new leasing standard: *“..[T]hat it may increase financial reporting complexity, impose substantial costs on businesses, lack of benefit for investors and drive economic activity rather than reflect it*, (Comment Letter No. Leases2.ED.0010A).

According to PricewaterhouseCoopers´s (PwC) study in 2019, factors as the nature and size of a company´s lease portfolio, the current state of lease processes and systems, the company's IT landscape, and the level of centralization of leases determines the impact of IFRS 16 (PwC, 2019). The study shows challenges faced during the implementation due to the underestimation of the leasing standard and thus starting late without utilizing the whole three years of the transition period. In addition, they highlighted IT problems since the current software is not ready to handle this standard.

1.2 Problem Discussion

Despite the rapid adoption and support of IFRS worldwide, 87 % of jurisdictions require IFRS standards for all or most companies (IFRS Foundation, 2018), there are still implementation challenges facing companies (Jermakowicz & Gornik-Tomaszewski, 2006; Hoogendoorn, 2006; Weaver & Woods, 2015; Bahadır, Demir & Öncel, 2016). The IFRS standards have a principle-based approach, and applying these standards gives room for different interpretations, understanding of the requirements, and complex valuation issues that are perceived as a change and a challenge in some jurisdictions. Consequently, the necessity of estimates and judgments is crucial within the implementation process (Hartmann et al. 2020; Brown & Tarca, 2012; Hoogendoorn, 2006). The studies conducted by Jermakowicz and Gornik-Tomaszewski (2006), Weaver and Woods (2015), and Bahadır, Demir and Öncel, (2016) show that one of the key challenges while implementing IFRS standards is the lack of sufficient implementation guidance.

As previously mentioned, the new leasing standard, IFRS 16, has encountered a substantial change in accounting processes, and companies faced significant implementation challenges in the way leases are recognized, measured, and disclosed (Segal & Genevieve Naik, 2019; Tudor, 2018; Warren, 2016). Reporting under IFRS 16 requires that the companies do more than add operational leasing on the balance sheet. There are changes to policies, processes, controls, and IT systems to support lease accounting and reporting. These activities may involve other departments (Tudor, 2018; Segal & Genevieve Naik, 2019). The costs related to the implementation of IFRS 16 depend on the number of lease contracts, if the company has existing IT systems to manage account leases or need to create new systems and processes, calculate discount rate, and staff training (Tudor, 2018). Weaver and Woods (2015) argue that IFRS is a moving target with new and revised accounting standards. Thus, companies that already embraced the adoption of IFRS will still face implementation challenges such as the new leasing standard and emphasize the need for planning since it is expected to have a significant impact on many reporting companies.

There are previous qualitative studies on the macro level regarding IFRS standards. Jermakowicz and Gornik-Tomaszewski (2006) examined the implementation process of IFRS and perceived the benefits and challenges of the process. Another qualitative study by Brown and Tarca (2012) linked findings of academic research with feedback from practitioners about whether the benefits of adopting IFRS are being realized. Regarding IFRS 16, Tudor (2018) examined the implementation costs and made a comparison between IAS 17 and IFRS 16 by conducting qualitative research using mainly IASB reports. In respect to quantitative research, Morales-Diaz and Zamora-Ramirez (2018) examined the impact of IFRS 16 on key financial ratios.

On the micro level, Weaver and Woods (2015) conducted qualitative research on the implementation challenges of IFRS at an organizational level. According to Weaver and Woods (2015), there is excessive quantitative research applied on the financial effects of IFRS implementation but not much on the actual implementation processes used by the reporting companies. Moreover, Bahadır, Demir, and Öncel, (2016) examined the implementation process using a survey-based questionnaire that resulted in responses from 90 Turkish listed firms. Their findings concerning the lack of implementation guidance are consistent with Jermakowicz and Gornik-Tomaszewski´s (2006) findings.

With regards to the mentioned above, we suggest that there is no prior research on the implementation challenges of IFRS 16 at an entity level. In addition, regarding the research done on the implementation challenges of IFRS in general, there is an Anglo-Saxon bias. This study aims to contribute to this gap by using qualitative research and conducting a unique case study at an entity level.

1.3 Purpose and research questions

The purpose of this thesis is to explore the implementation challenges of IFRS 16: Leases on an entity level. This research is a unique case study since one of the researchers has full access to the empirical data within the case company. A Global Swedish company was examined to explore the implementation challenges of IFRS 16 within the Group.

This purpose is fulfilled by the following research question:

- What are the key challenges faced during the implementation of IFRS 16 on an entity level?

1.4 Disposition

This study is structured as follows. In the Literature review section, institutional context, prior research, and analytical framework are presented. This is followed by the Methodology section; the chosen research method is introduced and discussed. In the section Findings and Discussion, the findings are analyzed in relation to the analytical framework, which is followed by summarizing conclusions.

2. Literature review

In this chapter, institutional context is presented, which seeks to enhance the understanding of the IFRS and IFRS 16. Further, prior research related to IFRS implementation challenges, and IFRS 16 is reviewed. Finally, an analytical framework is described and illustrated to illuminate forthcoming analysis.

2.1 Institutional context

2.1.1 What is IFRS?

As investors, lenders, and corporations see a collective benefit in financial reporting transparency and comparability, a lot of effort has been put into attempts to harmonize financial reporting rules globally over the years (Trocme & Kruse, 2017). The International Accounting Standards Committee (IASC) was established in 1973 and issued the IAS – International Accounting Standards (Iasplus, 2021). The IASC oversaw setting standards until 2001 when the IASB took over which is the IFRS Foundation's independent standard-setting body. The evolution of the IASC and the IASB is the story of a private-sector international accounting standard setter that has succeeded in gaining the respect and support of national accounting bodies, then national standard setters, and finally regulators in major capital markets and government ministries, as well as financial statement preparers and users worldwide (Zeff, 2012).

The IASB issued IFRS 1, First-Time Adoption of IFRS, on June 19, 2003, with effect for fiscal years beginning on or after January 1, 2004, though earlier adoption is encouraged (IASB, 2003). IFRS 1 establishes the framework for entities that are adopting IFRS for the first time as their accounting basis (Iasplus, 2021). The standard describes the procedures that an entity must follow when it adopts IFRS as the basis for preparing its general-purpose financial statements for the first time. With certain limited exceptions, it requires retrospective application of each IFRS effective at the reporting date of an entity's first IFRS compliant financial statements (Iasplus, 2021). A first-time adopter of IFRS is defined by the standard as an entity that, for the first time, makes an explicit and unqualified statement that its general-purpose financial statements comply with IFRS. It

also outlines the following steps that must be taken during the transition to IFRS (Iasplus, 2021). First, choosing IFRS-compliant accounting policies. Second, preparation of an opening IFRS balance sheet as the starting point for subsequent IFRS accounting at the date of transition to IFRS. The start of the earliest comparative period presented in a firm's first IFRS financial statements is the date of transition to IFRS. Third, IFRS estimates for the opening IFRS balance sheet and other periods presented in an entity's first IFRS financial statements. Fourth, Presentation and disclosure in a company's initial IFRS financial statements and interim financial reports.

2.1.2 What is IFRS 16: Leases?

IFRS 16 is the result of a joint project initiated by the IASB and the Financial Accounting Standards Board (FASB) in the United States to address concerns raised by users of financial statements about decreased comparability between financial statements due to the wide differences in accounting applied to operating and finance leases and limitations in the availability of the information to address these concerns, the two boards agreed to create a new approach to lessee accounting that requires lessees to recognize assets and liabilities for the rights and obligations created by leases, as well as to improve lease disclosures (IFRS, 2016). The original goal of the project was to create a converged IFRS and US GAAP standard (IASB, 2016). However, the IASB and FASB reached opposing conclusions on several issues, including lessees' expense recognition and presentation (IASB, 2016). Consequently, the FASB's leasing standard will vary in several ways from IFRS 16. The new standard was put into effect for fiscal years beginning on or after January 1, 2019. Early adoption was allowed if the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been implemented or will be implemented on the same date as IFRS 16.

2.1.3 Impact of IFRS 16 on Lessor and Lessees

According to IFRS (2016), the impact of the leasing standard on both lessor and lessees are as follow:

Lessor	Lessee
• Lessees and lessors may need to consider renegotiating or restructuring existing and future leases	• The new standard will affect virtually all commonly used financial ratios and performance metrics such as gearing, current ratio, asset turnover, interest cover, EBITDA, EBIT, operating profit, net income, EPS, ROCE, ROE and operating cash flows. These changes may affect loan covenants, credit ratings and borrowing costs, and could result in other behavioral changes. These impacts may compel many organizations to reassess certain 'lease versus buy' decisions.
• Business and legal structures supporting leases should also be reassessed to evaluate whether these continue to be effective.	• Balance sheets will grow, gearing ratios will increase, and capital ratios will decrease. There will also be a change to both the expense character (rent expenses replaced with depreciation and interest expense) and recognition pattern (acceleration of lease expense relative to the recognition pattern for operating leases today).
• Lessor accounting remains largely unchanged from IAS 17 however; lessors are expected to be affected due to the changed needs and behaviors from customers which impacts their business model and lease products.	• Entities leasing 'big-ticket' assets – including real estate, manufacturing equipment, aircraft, trains, ships, and technology – are expected to be greatly affected.
	• The cost to implement and continue to comply with the new lease's standard could be significant for most lessees. Particularly if they do not already have an in-house lease information system.

Table 1. IFRS 16 impact

2.1.4 Comparison of IFRS 16 and IAS 17

According to IFRS (2016) the difference between IAS 17 and IFRS 16 are presented in the following table:

	IAS 17	IFRS 16
Classification	Classification is based on who bears the risks and rewards of the assets under lease.	The classification is based on who has the 'Right-of use' of the asset.
Accounting	Only Finance leases are recognised as assets with operating leases being an expense only.	All leases are recognised as assets.
	Operating leases have less complex accounting treatment	All leases will be treated in the same way, potentially resulting in significantly greater volume and complexity of work in Finance teams. This will include calculation of balance sheet amounts for assets and financial liabilities, associated depreciation and amortisation as well as increased record keeping requirements.
	Lease and service contracts under an operating lease are generally not required for analysis as accounting treatment is probably accounted for in the same way (ie as an expense).	Service components of leases must be segregated from assets as the treatment will differ and the service element will not form part of the asset, but will remain an expense item. This may also require further complex calculation to split the elements.

Table 2. Comparison IAS 17 and IFRS 16
Source: IFRS (2016)

2.2 Prior research

2.2.1 IFRS Implementation Challenges

Regulation is first and foremost the responsibility of national regulators, who constitute the first line of defense against market instability. However, the financial markets are global in scope; therefore, intensified international cooperation among regulators and strengthening of international standards, where necessary, and their consistent implementation are necessary to protect against adverse cross-border, regional, and global developments affecting international financial stability (2008 G20 Washington Declaration, 2021). Regulation consists of five general elements: the setting of standards, their formal adoption, their implementation in practice, the monitoring of compliance, and enforcement procedures (Humphrey & Loft, 2013). As defined by Merriam-Webster's Dictionary (2021), implementation is the process of making something active or effective. However, several challenges arise when this process is put into action.

Zeff (2012), states some challenges that the IASB faces, which in turn hinders the implementation of IFRS. He stated that the IASB would have to manage and align the different feedback from the newly formed regional standard-setter groups in Asia-Oceania and Latin America, as well as the feedback it already receives from Europe and the United States, and from the National Standard-countries and regions have grown to respect the full impact of IASB decisions on companies' financial reporting, as well as on the economic and political landscape.

Second, he mentioned that the IASB should encourage market regulators to enhance their efficiency in ensuring that listed companies comply with IFRS. The effectiveness of regulator performance varies greatly even within the EU, let alone from country to country in the rest of the globe, especially in developing markets and developing countries. A country's determination that its listed companies must use IFRS loses integrity if it is not supported by a cautious and effective regulator, whether in the private or public sector. EU, the previous Committee of European Securities Regulators, issued self-assessment analyses of the performance of regulators in its 27 member countries plus

Norway, e.g., Final Report of the Evaluation Panel Concerning the Updated Self-Assessment and Peer CESR's Standard No. 1 on Financial Information 2009), but it had little control over their performance. Its successor, the European Securities Authority, which took effect in January 2011, has a little more clout in such matters. Anywhere else in the world, can only cajole national regulators into becoming more diligent when it comes to inadequate financial reporting, but it lacks jurisdiction.

Furthermore, he adds that in countries where IFRS is the regulating set of standards for publicly traded firms, the company's, or the auditors, or both, affirmation of IFRS compliance which apply to the financial reporting system in a way that makes it ambiguous to readers whether, and to what extent, it coincides with IFRS as provided by the IASB. Companies and auditors in the EU, for example, are expected to confirm compliance with "IFRS as adopted by the EU." How might readers in other parts of the world tell whether "as adopted by the EU" and "as provided by the IASB" are the same thing? In Hong Kong, where full IFRS should be applied, listed entities and their auditors are ostensibly expected to affirm compliance with Hong Kong Financial Reporting Standards rather than IFRS. As India completes its transition to IFRS, businesses and auditors will be required to confirm compliance with both Indian accounting standards and IFRS. The IOSCO Technical Committee recommended in February 2008 that firms in IFRS-using countries be held accountable for disclosing whether their financial statements comply with "IFRS as provided by the IASB" (IOSCO Technical Committee 2008). Auditors must bear the same responsibility. The IASB will play a role in empowering these and other countries to make it possible for readers of their listed companies' financial statements to determine whether and to what extent their financial reporting system coincides with full IFRS.

Hartmann et al. (2020) examined the implementation of IFRS in Sweden. They did so by examining two cases on IAS 39 and IFRS 17. The case demonstrates the complexities that result from IFRS's far-reaching impact, even in areas such as banking oversight. In the implementation of IFRS, the various subsystems in the Swedish regulatory space – capital markets, banking supervision, and legal systems – became related. Because of their social positions and practices, the understanding of principles-based requirements

such as IAS 39 differed greatly among the actors, resulting in a compliance tension with no ideal solution for creating accounting fraud.

In the Swedish setting, IFRS enforcement became challenging in relation to the HQ case as its accounting rules were applied in a context other than stock exchanges, namely financial regulation, and legal implementation. Although this enforcement mechanism is unique to Sweden, the overall results are likely to be applicable in other EU member countries. Similar compliance struggles and cultural strains are to be anticipated, especially in countries where previous national GAAP (generally agreed accounting principles) differed significantly from IFRS.

Moreover, Hartmann et al. (2020) show that the view on equity in IFRS 17 varies greatly from that of conventional Swedish insurance accounting, which is critical to understanding this case. Customers of joint insurance firms are both policyholders and operators. As a result, there are no shareholders acting as residual claimants outside of the policyholder community. According to IFRS 17, all funds that are eventually owed to policyholders are insurance liabilities, regardless of whether they are claimable by policyholders. As a result, IFRS 17 implementation in Swedish mutual life insurance firms will result in balance sheets of almost no equity.

On the other hand, Hoogendoorn (2006), finds that the auditors are heavily involved in achieving absolute IFRS compliance. Auditors' involvement is so severe that they risk being actively involved in the preparation of the financial statements they are expected to audit. This is primarily due to the complexities of IFRS, for which many organizations, especially smaller publicly traded entities, lack adequate expertise.

He shows that auditors are under pressure from securities regulators, and each has developed global cooperation structures to reduce diversity in IFRS interpretation and implementation and ensure consistency in practice. One brand-name, one interpretation that appears to be the presumption of securities regulators of the big four auditors. To meet these demands, the Big Four have established global IFRS desks and built a plethora of questions and answers on a wide range of interpretational issues where IFRS is not obvious.

Hoogendoorn (2006) mentioned that the lack of balance sheet and income statement formats greatly hampers comparability. This is a step backward even as opposed to EU Directives. Analysts would have a hard time comparing financial results in this field. Balance sheets will differ; some businesses will use a current–non-current distinction, while others will not; some companies will place cash and cash equivalents at the top of the balance sheet, while others will place them at the bottom. Income statements, in specific, will be prepared in several formats, using a range of pro forma sales, expense, and benefit controls.

As a result of the fair value and impairment approaches in IFRS, significant variations between companies can emerge that are not apparent in the financial statements. The transition to more equal value accounting, including the goodwill and intangibles impairment methods, has been one of the most drastic changes in European accounting because of the introduction of IFRS. This means making educated guesses about potential cash flows. Many calculations are agency specific, and there may be a wide variety of appropriate numbers. Consequently, there is an inherent lack of comparability (Hoogendoorn, 2006).

During the development of their information systems for IFRS conversion, European managers face "an important choice between merging external and internal reporting in terms that could fundamentally change developed controlling practices or continuing to operate duplicate accounting systems in much the same way as in the past, so that adoption of IFRS is constrained to external reporting" (Jones & Luther, 2005).

Another problem mentioned by (Flower, 2010), is the emergence from the IAS regulation that is only tangentially relevant to our research is the effect of this regulation on unlisted companies. Unlike in the United States, most EU countries require all or most organizations to file financial statements in compliance with national GAAP. Most of these businesses are small or medium-sized (SMEs). In the EU, the IASB Standards will be expected for the consolidated financial statements of approximately 7000 listed companies, whereas more than 7,000,000 unlisted SMEs will most likely adopt national

standards based on EU directives, which will not provide a sufficient level of international comparability.

Little literature is found on the organizational level; however, Weaver & Woods (2015) mentioned some implementation challenges that are faced by organizations.

First, they show that lack of knowledge and experience with IFRS is one of the major problems. Because IFRS is built on a different framework than some national GAAPs, the transition to IFRS required a shift in accounting mindset for many accountants. In such cases, the transition to IFRS proved extremely difficult, not only because financial statement preparers lacked knowledge, but also because they had to learn new skills, particularly in the use of judgment in making accounting decisions. It is well established that IFRS is a relatively principle-based financial reporting framework (e.g., Bennett, Bradbury, & Prangnell, 2006; Wu stemann & Wu stemann, 2010). As a result, transitioning from a more rule-based framework, as used by many continental European reporting entities, proved extremely difficult and necessitated not only education but also significant resources based on IFRS principles and requirements, but also on a different approach to accounting (Wüstemann & Wüstemann, 2010).

Second, difficulties in developing accounting policies where it was extremely difficult for the reporting accountants, owing to their lack of knowledge of IFRS and inexperience in applying judgment on appropriate accounting treatments. The fact that reporting entities rely on their auditors and peers for information and guidance when developing accounting policy may contribute to isomorphism, a concept in which reporting entities become more similar and homogeneous (DiMaggio & Powell, 1983). The preparers of a reporting entity's first IFRS financial statements would essentially "copy" the presentation from the templates provided by auditors. Auditors would look to previously published IFRS-compliant financial statements for "inspiration" and guidance on the appropriate level of disclosure provided in the notes.

Third, lack of support and a resistance to change where senior management did not provide the necessary support for IFRS implementation. This was frequently accompanied by comments implying that there was resistance to the required changes at

the executive level, and that management, while not deliberately undermining the accountants' work in planning the transition project, provided little help or support. In essence, there was an inappropriate "tone at the top" that hampered the transition project indirectly. Another implication of a lack of senior management support is that accounting under IFRS requires the preparer of the financial statements to engage in dialogue with other business functions to obtain the information required to determine accounting treatments.

Fourth, underestimating the wider implications of the transition to IFRS for the Business. Few people within the reporting entity could predict the wider business implications of the transition during the planning stage. With the benefit of hindsight, more assistance could have been provided to the accountant, and this is a valuable lesson for those still planning their transition and regulatory bodies wishing to develop guidance to assist those preparing to adopt IFRS.

Fifth, problems in data-capture and obtaining the necessary information for disclosure where several respondents in their research emphasized that the difficulties of accessing the details required to file the first IFRS-compliant financial statements made all the transfers to IFRS they had overseen exceedingly difficult. The explanations are varied and relate back to the previously mentioned results and include a lack of understanding of IFRS (particularly about transparency requirements), a lack of time and resources to properly prepare for the transition, and cultural problems in some industries that compromise the rigor of relevant documentation.

From a professional point of view, the Financial Reporting Council (2016) stated some challenges regarding the implementation of IFRS. They pinpointed some standards as the most challenging standards include two standards on financial instruments, IAS 32 and IAS 39. Other complex requirements included IAS 12 (Accounting for Income Taxes), IAS 19 (Employee Benefits), IAS 36 (Asset Impairments), IAS 38 (Intangible Assets), IFRS 2 (Share-Based Payments), and IFRS 3. (Business Combinations). The dynamic existence of these principles is widely acknowledged to be one of the most significant challenges in implementing IFRS. This complexity has exacerbated the costs and efforts

associated with financial reporting, which often fall unfairly on smaller public and private businesses. IAS 32 and IAS 39, the standards on financial instruments, were often cited as being extremely difficult to enforce in practice. Despite being conducted two years later, our research confirms the findings of a 2002 convergence survey conducted by the six largest multinational accounting firms, which found that the complicated existence of specific IFRS (including financial instruments) is a major barrier to convergence (Larson & Street, 2004).

Moreover, the Financial Reporting Council (2016) shows that there is widespread agreement that the transition to IFRS is an expensive, complicated, and time-consuming operation. As a result, many companies in the process of converting to IFRS by the 2005 deadline replied that they would not implement IFRS if the IAS regulation did not mandate it. The use of fair value as the primary basis of asset/liability calculation is a significant issue in the transition to IFRS. Based on relevance, the IASB recommends its fair value approach; however, this approach is expected to increase volatility in the recorded values of assets and earnings. It is possible that significant improvements to the performance-based executive and employee compensation processes would be needed.

They state that respondents agreed that a lack of sufficient schooling, training, and knowledge of IFRS are significant obstacles to conversion. A training program for a company's entire workforce is required to allow them to implement an entirely new method of business operations, performance assessment, and market communication.

Jermakowicz and Gornik-Tomaszewski (2006), showed that the overall findings indicated that the method of implementing IFRS is time-consuming, expensive, and complicated. Most businesses used IFRS for more than just restructuring. The more detailed the approach to conversion (beyond parent company consolidated statements), the more respondents appear to agree on the advantages and costs of the change. They show that the sophistication of the International Financial Reporting Standards (IFRS), as well as the lack of implementation guidelines and uniform understanding, are major challenges in the implementation process of IFRS. Despite being conducted two years later, their research confirms the findings of a 2002 convergence survey conducted by the

six largest multinational accounting firms that the complex existence of specific IFRS (including financial instruments) is a major obstacle to convergence (Larson & Street, 2004). Accounting integration is also hindered by a lack of implementation guidelines and gaps in interpreting IFRS. Schipper (2005), identified several implementation consequences of IFRS adoption in the EU, including a potential increase in demand for comprehensive implementation guidance. He mentions that if the IASB does not respond to requests for comprehensive implementation guidance, preparers may turn to US GAAP or national GAAP for guidance, reducing comparability and convergence.

2.2.2 Prior Research on IFRS 16

Most of the prior research on IFRS 16 are related to the impact of the capitalization of operating leases on the financial statements and specifically financial ratios such as operating profit, net profit, ROE, and debt/equity ratios in different countries and sectors. Imhoff et al. (1991) performed a study to determine the significance of operating lease liabilities on widely used risk and success scales. They used the process of proactive lease capitalization; they established themselves in the capitalization of unrecorded leases and analyzed its effects on McDonald's assets and liabilities. Altintas and Sari (2016) conducted a study to determine the impact of IFRS 16 on financial statements and financial ratios of companies in the retailing sector that are listed on Borsa Istanbul. Furthermore, Imhoff et al. (1997) sought to reveal how operating lease capitalization affects both operating profit and net profit, since the effects of operating leases can be substantial on the income statement. Fitó et al. (2013) also discovered the impact of leases on financial ratios in a study conducted with the aim of evaluating the potential impacts of the reflection of the operating leases of 52 listed companies processed in the Spanish stock market from 2008 to 2010. In addition, in the analysis conducted by Bostwick et al. (2013), he contrasted and analogized the financial statement components (assets, liabilities, equity, and net profit) and the effects of capitalization of leases belonging to five companies chosen from five different sectors. the efficiency scales (total liabilities/assets, total liabilities/equity, long term liabilities/equity, return on asset, return on equity) for both businesses and capitalization methods. In addition, Beattie et al. (1998) conducted a research to assess the effects of decapitalized operating leases on the

financial statements of 232 listed firms that were processed in the England stock market as of 1994. On the other hand, Bennett and Bradbury (2003) followed the same purpose but by looking at lease capitalization instead of decapitalized operating leases. They sought to assess the effect of lease capitalization on the financial statements of 38 companies listed on the New Zealand Stock Exchange Market in their report. Durocher (2008) investigated the effect of reflecting the operating leases of 100 companies with the highest sales in 2002 and 2003 and whose shares were traded on the Canadian stock exchange on the balance sheet on financial metrics under various assumptions (interest rate, total lease life cycle/consumed life cycle/remaining life cycle, and tax rate. According to Branswijck et al. (2011), the most significant reform in the draft report conducted by IASB and FASB released in 2010 is the removal of the distinction between financial lease and operating lease. In the report, they looked at the potential effects of related changes on companies with operations in Belgium and Holland. Finally, Tai (2013) investigated the effects of the IASB, and FASB draft released in 2010 on two Hong Kong companies involved in the fast-food industry. Further, details of prior research on IFRS 16 in Appendix 1.

Most studies are quantitative and little qualitative studies were conducted on IFRS 16. Especially the challenges faced on an entity level while implementing the standard.

2.3 Analytical Framework

This section presents an analytical framework to help us explore the key challenges faced during the implementation of IFRS 16 on an entity level. The framework is drawn primarily from an explorative case study, "The Implementation Challenges Face by Reporting Entities on Their Transition to International Financial Reporting Standards: A Qualitative Study," by Weaver and Woods (2015) and other studies conducted by Jermakowicz and Gornik-Tomaszewski (2006), Zeff (2012), Hartmann et al. (2020), Hoogendoorn (2006), Jones and Luther (2005), Flower (2010), and Financial Reporting Council (2016). Our framework depends on several key challenges, and the relationship between them is represented in Table 3. Based on the reviewed articles, we created our diagram representing the main challenges stated.

Author	Challenges
Weaver and Woods (2015)	Lack of knowledge and experience with IFRS, difficulties in developing accounting policies, lack of support and a resistance to change, underestimating the wider implications of the transition, and difficulties in capturing data.
Jermakowicz and Gornik-Tomaszewski (2006)	Time-consuming, expensive, and complicated.
Zeff (2012)	Low efficiency from market regulators to assure the compliance with IFRS standards.
Hartmann et. el (2020)	Complexities in IFRS and IFRS accounting rules were applied in a context out of each country's local practices.
Jones and Luther (2005)	IFRS is restrained to external reporting and not applied in the context of internal reporting.
Flower (2010)	Lack of sufficient level of international comparability due to the high number of SMEs in the EU.
Financial Reporting Council (2016)	The transition to IFRS is an expensive, complicated, and time-consuming operation. A lack of sufficient schooling, training, and knowledge of IFRS are significant obstacles to conversion.

Table 3 - Reviewed research; Implementation challenges

Table 4 concludes the major challenges to implementing IFRS ranked according to the number of times the issue was emphasized and number of times the issue was raised by the respondents by Weaver and Woods (2015) qualitative study. As shown in the table the most important challenge is lack of IFRS knowledge and experience while the least important challenge found is the over-reliance on experts.

Table 4 - Major challenges to implementing IFRS as perceieved by external users

Order of importance	Implementation challenge
1	Lack of IFRS knowledge and experience
2	Challenges in developing IFRS-compliant accounting policies
3	Lack of management support
4	Not anticipating wider implications
5	Difficulties in capturing data
6	IT/systems problems
7	Lack of upfront planning
8	Costs and fees
9	Difficulties in applying specific IFRS requirements
10	Over-reliance on experts

Source: (Weaver & Woods, 2015)

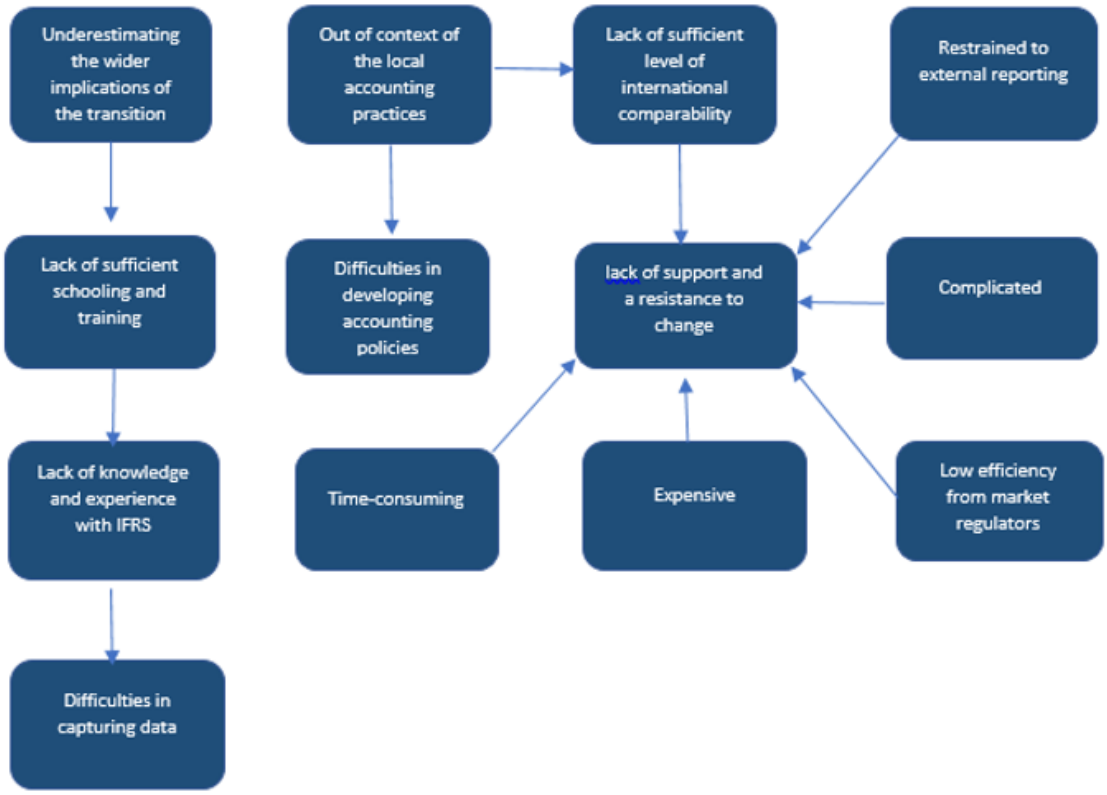

Figure 1. Challenges of IFRS Implementation

The Figure 1 above represents the various challenges faced while transitioning and implementing IFRS standards. We created the diagram by combining the major challenges stated in several studies. As shown in the diagram, when entities underestimate the wider implications of the transition, no schooling or training will be put in action. This

will lead to more people with little knowledge and experience with IFRS. When knowledge and experience are limited, difficulties in capturing data will arise.

Moreover, since IFRS is out of the context of each country's accounting practices, difficulties in developing accounting policies that can be applicable worldwide and especially in the EU will be diminished. Also, there will be a lack of sufficient level of international comparability between different countries leading to a lack of support and resistance to change by most of them.

Since IFRS is restrained to external reporting, expensive, time-consuming, with low efficiency from market regulators, and complicated, there will be more lack of support and resistance to change by most countries.

Both our framework and Weaver and Woods (2015) table will be used as references for our findings and discussions in chapter 4.

3. Methodology

In the following section, the research approach, strategy, and design are presented. The data collection and data analyses are described and motivated. The trustworthiness of the thesis will be discussed based on the criteria credibility, transferability, dependability, and confirmability. Finally, the chapter critically assesses the sources used in the thesis.

3.1 Research approach

This study aims to explore the implementation challenges of IFRS 16 in a Global Swedish company. Qualitative research enables a profound understanding of the social reality, as Bell, Bryman, and Harley (2019) state, *"seeing through the eyes of the research participants."* The main feature of qualitative research is that it enables depth in understanding and flexibility, and it is suitable to understand complex phenomena. Hence, qualitative research is considered suitable for this study.

Theory can sensitize the research to issues and provide a way of illuminating relevant aspects of the case. It has a point of departure from observations/findings to the generation of theories (Bell, Bryman, & Harley, 2019). Since the purpose of this study is to explore the challenges while implementing IFRS 16 rather than test theories, the inductive strategy has been chosen to contribute and give new insights. Therefore, the analytical framework introduced in this study has been drawn from the literature review and was used as a referral to analyze the empirical data. The respondent's answers are based on their own perceptions of the implementation challenges of IFRS 16, and therefore an interpretive approach is considered most appropriate for the purpose of the study. According to Bryman and Harley (2019), an interpretive approach is preferred to understand social action, including its processes. Thus, this study embraces an interpretive approach; it is important to keep in mind that the interpretation of social reality gives rise to researcher bias (Scapens, 1990). This is further addressed in section 3.4, Trustworthiness of the study.

3.1.1 Research strategy

Our initial research question was to explore the implementation process of IFRS 16 in three phases: pre-, during, and post-implementation. To fulfill the study's purpose, a qualitative case study was selected as a research method. Further, we started our data collection by conducting semi-structured interviews about the three implementation phases. Since this study has an inductive approach, the data collection was conducted in parallel with the literature review. The empirical data that has emerged from the interviews was mainly concerned with the implementation challenges of IFRS 16. Therefore, the research question was revised accordingly. Thereafter, the analytical framework was drawn from the literature review that stated the challenges of IFRS implementation. The data collected was analyzed in accordance with the analytical framework, where we went back and forth between the two sections to build our analysis. After analyzing our data, we presented our findings and discussed them by referring to the challenges created in the analytical framework to check for similarities and differences. After finalizing our findings and discussion, we wrote the conclusion and finally reported it. The research process is illustrated in Figure 2.

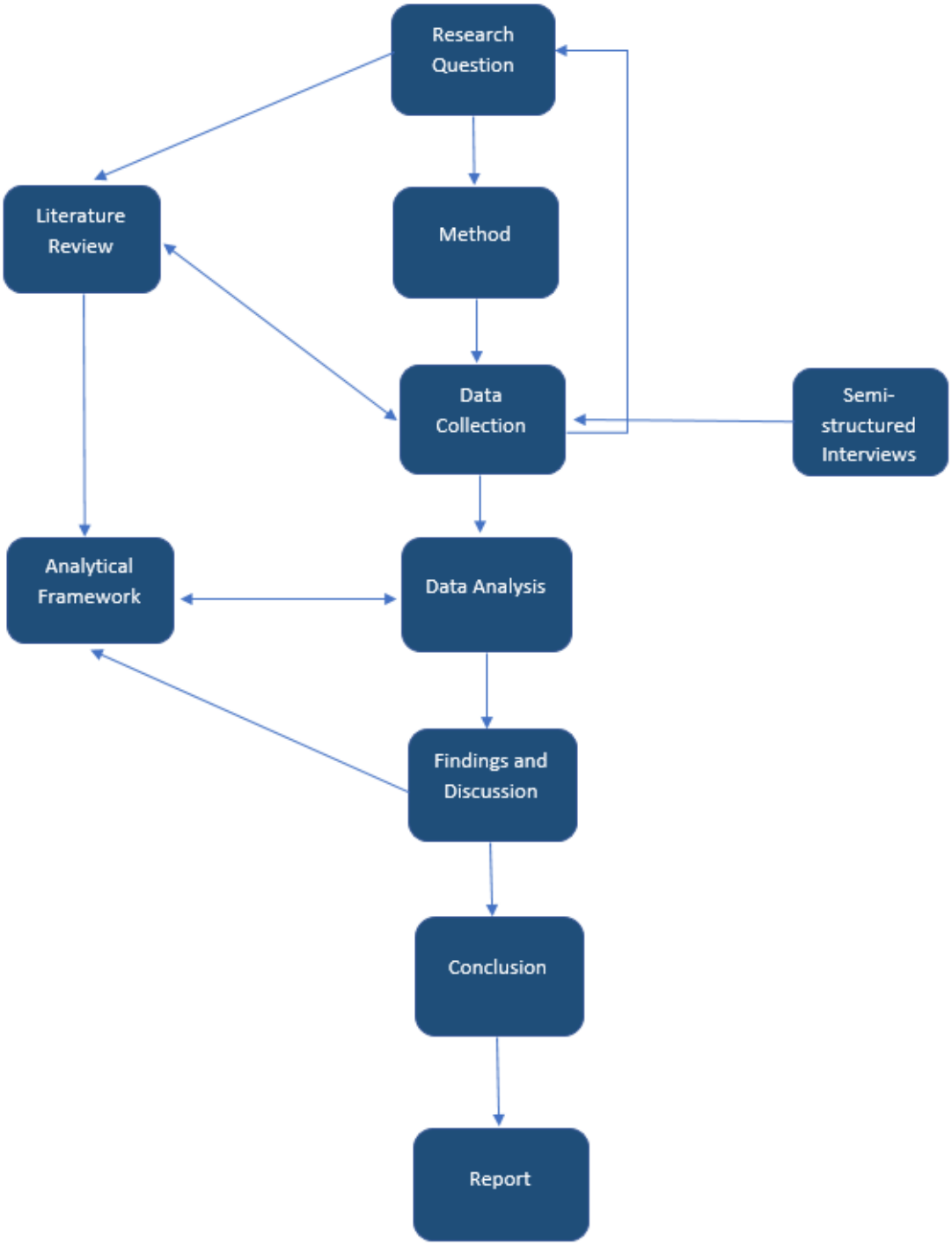

Figure 2. Research process

3.1.2 Research design

An exploratory case study as a research design is applied in this master's thesis since it enables a holistic and in-depth understanding of a specific contemporary real-life phenomenon as the implementation challenges of IFRS 16 within an organization (Yin, 2018; Lee & Saunders, 2017). According to Ryan et al., *"Case studies offer us the possibility of understanding the nature of accounting in practice; both in terms of techniques, procedures, systems, etc., which are used and the way in which they are used "* (2002, p.143). According to Yin (2018), an exploratory case study is suitable for areas with existing deficiencies of knowledge. Thus, an exploratory case study is considered most appropriate to reach a greater understanding of the implementation challenges for the newly amended IFRS 16 standards in a Global company. Further, another motivation for choosing case study research is the easily empirical access to the case company since the phenomena we aim to study are not possible to observe externally (Yin, 2018).

The inability to generalize from case studies has often been a prominent concern within case study research. The argumentation that it is not possible to attain from one single experiment (Bell, Bryman, & Harley, 2019; Yin, 2018). In this master's thesis, the aim is to contribute with analytical generalization and not to statistically generalize findings (Yin, 2018; Lee & Saunders, 2017). Hence, the transferability of the findings can, to some extent, be applicable for other organizations reporting under IFRS 16, with the limitations whether it´s of similar size and global company structure.

Interviews conducted within this study are less structured than quantitative research, which has a predetermined idea of what will be examined. Qualitative interviewing is either unstructured or semi-structured to gain more rich answers and to understand the studied phenomena most fully. Further, the interviewer is not obliged to follow a determined schedule and can ask follow-up questions. The interviewee has the possibility of illuminating relevant aspects, which can be valuable to a more holistic understanding (Bell, Bryman, & Harley, 2019). The main distinction between unstructured interviews and semi-structured interviews is that the latter has a form of interview guide with questions on the current topic, unlike unstructured interviews, which advocate

conversational interviewing (Bell, Bryman, & Harley, 2019). Within this study, semi-structured interviews are conducted since it is deemed relevant considering the interpretive and qualitative approach of this research.

3.2 Data collection

3.2.1 Case selection

The choice of the case company composes an opportunistic form selection (Lee & Saunders, 2017) since, as previously mentioned, one of the researchers already has access to the case company that enables a more holistic understanding. There is the possibility of going back and asking the interviewees follow-up questions if needed. Furthermore, another considered aspect of the selection of the case company was that it had implemented the IFRS 16 standard.

The company is listed on Nasdaq Stockholm, Large cap segment with corporate governance based on Swedish legislation. It operates in over 100 countries and has 57 subsidiaries in 31 jurisdictions in all geographical continents.

Upon the transition to IFRS 16, the company had approximately 2 500 leasing contracts within the Group. Hence, the company is well suited to illuminate the implementation challenges throughout the Group and its subsidiaries due to the high hands-on of the lease standard.

3.2.2 Sample and Access

Our selection of respondents consists of two hierarchical levels within the case company. First, at the Group level, and the second is on the subsidiary level. Respondents at the Group level are the Group Chief Accounting Manager and the Senior Group Accountant. They are considered key informants and were primarily responsible for the implementation project and the rollout to all subsidiaries concerned with reporting according to IFRS 16. The Selection of respondents at second level and which included, e.g., Financial Directors, Finance Managers, Accountants. Lastly, the respondent who had the role as the system supplier was selected.

Within the Group, 38 out of 57 subsidiaries reports figures and the remaining entities do not have leasing contracts. In this study, ten subsidiaries presented in Table 5 are selected as these correspond to the following criteria. To limit bias by research participants, we have identified four criteria. The reconciliations documents from 2019 and 2020 have been analyzed further to pinpoint subsidiaries with recurring deviations and vice versa. The selection was finally determined by where the subsidiary is located to represent all geographical continents.

1. A high share of lease liability, above 5 %
2. A low share of lease liability, less than 5%
3. Subsidiary with an occurring deviation[1]
4. Subsidiary with mitigated deviations.[1]

Subsidiary	High share of total lease liability	Low share of total lease liability	Occuring deviations	Mitigated deviations	Geographical area
S1	33%[1)]			X	North America
S2	10%[1)]			X	Europe
S3	9%[1)]			X	Europe
S4		0,45%[1)]		X	Asia
S5		0,11%[1)]	X		Europe
S6		1,42%[1)]	X		Europe
S7		3,79%[1)]	X		North America
S8		0,05%[1)]	X		South Amerika
S9		0,33%[1)]		X	Africa
S10		3,69%[1)]		X	Oceania

Table 5. Subsidiary selection
1) Percentage of lease liability as of March 2021

Prior to our selection of subsidiaries to interview, we contacted the Senior Group Accountant at the case company to identify a representative sample according to the criteria presented above. Consequently, contact was made with the Financial Director in

[1] Information gathered from reconciliation evidence done by the Group. The reconciliation is performed between the reports extracted from the lease system and the data which has been reported in the consolidation system. The data in the consolidation system is later used for the reporting of the leases in the Group´s financial statements.

each subsidiary to appoint further an Accountant/Business controller who has knowledge of IFRS 16 and is working with the implementation of the standard hands-on. This constitutes the so-called *Snowball selection* when a research participant, often a key informant, assists with identifying potential respondents. Once again, these respondents can further recommend other participants with characteristics relevant to the research (Lee & Saunders, 2017; Bell, Bryman, & Harley, 2019).

In five subsidiaries, we were able to interview both the Financial Director and Accountant/Business controller, who were involved in implementing IFRS 16. Three of the subsidiaries, the Finance manager/Accounting manager, had the main responsibility of the lease accounting and could provide us with insightful information through the implementation process. In the last two subsidiaries, the respondents were selected, Finance Director and Accountant; they were the only ones currently handling lease accounting due to resigned personnel.

3.2.3 Interviews

The interview process started by conducting interviews at the Group level since they had the leading role in implementing IFRS 16 in all subsidiaries. Further, interviews were held with personnel at the subsidiaries that had encountered the implementation of IFRS 16 in any phase. This is to enhance the study's quality, gain insight into the implementation challenges of IFRS 16. In addition, an interview with the system supplier was conducted, considering the significant role it had as a part of the implementation project. Thereafter, new interviews were conducted at the Group level to cross-check interpretations and perceptions from previous interviews. An overview of the interview process is illustrated in Figure 3.

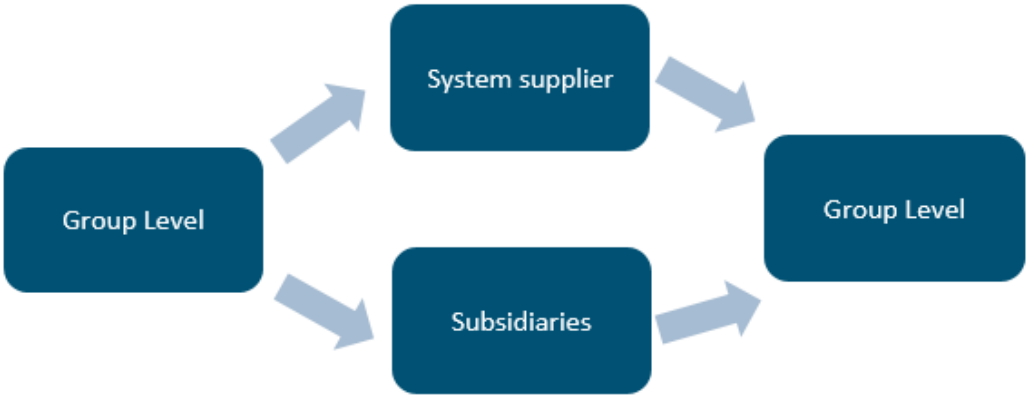

Figure 3. Interview process

As mentioned in section 3.1.2 Research design, semi-structured interviews were conducted. According to Bell, Bryman, and Harley (2019), it is presumably most relevant when there is a clear focus from the start of what will be studied. Hence, an interview guide with questions was created to have an initially unified frame for the interviewees (see Appendix 3-6). The questions were drawn from the literature review presented in chapter 2, and we added the three phases of the implementation as themes since the initial aim was to study the implementation process of IFRS 16. This is to disclose further the respondent´s detailed interpretation, reasoning, and in-depth explanation.

Initially, we sent an email to the respondents with brief information about the study and an invitation to participate, see Appendix 2. Of the 24 potential interviewees contacted, two didn't respond, one declined the invitation, and three stated that they have not been involved in the implementation challenges or that it is not part of their tasks. The number of conducted interviews amounts to a total of 19; see Table 6 below. According to Weaver and Woods (2015), conducting qualitative research is well-known for the difficulty of attaining access to potential respondents. In their study, over 50 interviewees were contacted, but only 14 accepted to participate. The response rate in this study is 47 percent higher and mainly depends on the privileged access to the case company, which is perceived as a further advantage of conducting a unique case study.

Before the scheduled interviews, the questions were sent to the respondents by email to review the themes that would be brought up. All the interviews were conducted online via Microsoft Teams, except one interview was performed face-to-face with Group Chief Accounting Manager at the HQ Office in Malmö. From the total of interviews conducted online, 74 percent were with video interaction. Online interviewing is perceived as more flexible than face-to-face since rescheduling can be done with short notice and is time and cost-saving as there is no need to travel (Bell, Bryman, & Harley 2019). Since most of the respondents are in different geographical areas, online interviewing made it possible to obtain empirical data from respondents located in different countries around the globe. With added video interaction, it was possible to recognize body language, confusion, and physical proximity. Despite the advantageous features of online interviewing, there are risks of technological problems which can result in the poor recording of the interview.

The interviews were recorded after approval from the respondents to look for details afterward. These were further transcribed through a transcription program and checked with the actual recording. A copy of the transcriptions was sent to the respondent to attain their confirmation that what they have said was interpreted correctly.

Respondent	Title	Subsidiary	Interview date	Interview length	Geographical area
R1	Group Chief Accounting Manager	N/A[1)]	210421	55:28	Europe
R2	Senior Group Accountant	N/A[1)]	210421	42:44	Europe
R3	System supplier	N/A[1)]	210504	48:20	Europe
R4	Chief Financial Officer	S1	210427	50:30	North America
R5	Finance Consultant	S1	210426	51:15	North America
R6	Financial Director	S2	210426	17:20	Europe
R7	Team Lead Accounting	S2	210423	23:29	Europe
R8	Accounting Manager	S3	210423	23:36	Europe
R9	Regional Finance Manager	S4	210422	33:30[2)]	Asia
R10	Senior Finance Executive	S4	210422	33:30[2)]	Asia
R11	Finance Manager	S5	210428	30:48	Europe
R12	Financial Director	S6	210422	29:58	Europe
R13	Senior Accountant Consultant	S6	210422	27:55	Europe
R14	Finance Manager	S7	210424	21:03	North America
R15	Director of Finance and HR	S8	210428	31:07	South America
R16	Financial Director	S9	210429	39:24	South Africa
R17	Business Analyst	S9	210429	37:06	South Africa
R18	Management Accountant	S10	210423	16:40	Oceana
R1	Group Chief Accounting Manager	N/A[1)]	210519	40:23	Europe
R2	Senior Group Accountant	N/A[1)]	210519	30:25	Europe

Table 6. Compilation of conducted interviews

1) Not applicable (N/A)

2) Interview with respondent 9 and 10 conducted at the same occasion.

Respondent	Pre-implementation	Post-implemenation
R1	X	X
R2	X	X
R3	X	X
R4	X	X
R5		X
R7		X
R8	X	X
R9	X	X
R10	X	X
R11		X
R13		X
R16	X	X
R18		X

Table 7. Phase in which the respondents were involved in the implementation process

Table 7 represents the number of respondents and at what phase each one of them was present during the implementation process of IFRS 16. All our respondents were present during the post-implementation phase, while only eight respondents out of a total of eighteen were present during the pre-implementation phase. This table gives us a better understanding of the challenges faced in regard to the implementation phases.

3.3 Data Analysis

From the transcript sheets created word by word, we started collecting key concepts and thoughts. We were able to classify and cluster the findings according to the relevant dimensions developed in the literature review (see chapter 2. Still, direct quotes are used in the Findings and Discussion. The extraction of relevant statements for quotation was thereby done by referring to the transcript sheets. The quotation is utilized to illustrate the themes identified in the data. The usage of quotations provides evidence and enhances the reader's understanding of the described theme (Bell, Bryman, & Harley, 2019). Therefore, the selected quotations illustrate in a concise way the essence of a theme. In addition, we created a table that summarizes the number of issues raised with the degree of emphasis by each interviewee to determine the key challenges. We are

aware that our analysis is subjective and thus might lead to biased analysis. However, our prioritization is evident from the data collected in the transcripts.

We started the analyses by reading all the transcripts and further summarizing and discussing the common issues raised and in which way these were emphasized. We documented these issues in a table by using thematic analyses. This analysis method is suitable when analyzing qualitative data to identify common themes, subjects, or ideas. To identify relevant themes, it is suggested to look for recurring topics, the ways the interviews represent their thoughts in terms of metaphors, transitions to other topics, and similarities and differences in how the interviewee discusses certain topics (Bell, Bryman, & Harley, 2019). The study of Weaver and Woods (2015) used thematic analysis to identify common opinions and perceptions expressed by the interviewees. Another qualitative case study that used thematic analysis is Corley and Gioia's (2004) research, where similar themes were gathered to study the organizational identity change during three phases of the spin-off. Thereafter, we could identify three levels of significance, issue presented briefly, issue which was emphasized, and issue which was prioritized by noticing the number of times the issue was raised and how it was presented.

Of the 19 conducted interviews, six interviews, including the two follow-up interviews, were used for understanding and triangulation to cross-check what has emerged from the other 13 interviews.

3.4 Trustworthiness of the study

In this section, the Trustworthiness of this study is discussed by presenting four criteria. First, the credibility, when there is sufficient conformity between the findings and the researcher´s observations (Bell, Bryman, & Harley, 2019). To enhance the study´s credibility, respondents' validation is utilized in which the participants had the opportunity to confirm their answers. To further enhance the credibility, the triangulation technique has been used by collecting data from additional six interviews, which includes two follow-up interviews at the Group level, that enabled cross-check of the empirical findings.

Second, transferability refers to the extent to which the findings can be generalized to other contexts (Bell, Bryman, & Harley, 2019). This is further discussed in section 3.1.2, Research design.

Third, dependability concerns whether the research is reliable in terms of holding records throughout the research process (Bell, Bryman, & Harley, 2019). As this research began, a logbook was initiated to keep track of each phase. Thus, this study is appraised to be reliable.

Fourth, the criterion of confirmability refers to the objectivity carried by the researchers during the research process (Bell, Bryman, & Harley, 2019). It is implied that absolute objectivity within qualitative research is unattainable (Bell, Bryman, & Harley, 2019; Scapens, 1990). To enhance objectivity, the interviews were conducted by both researchers with different backgrounds and experiences. Further, the researchers are aware of the risk for bias, considering that one of the researchers has access to the case company. However, this risk is mitigated since the researcher was not involved in the implementation project.

3.5 Source criticism

The key source used in this thesis is the study by Weaver and Woods (2015), which can be perceived as not objective enough. Even though we suggest that the risk for bias is limited in regards that it is an academic research with rigorous review process. In addition, their study builds on the survey work of Jermakowicz and Gornik-Tomaszewski (2006) research that has more than 500 citations.

4. Findings and Discussion

In this chapter, the empirical findings are presented and discussed using theories presented in the analytical framework for each and one of the key implementation challenges of IFRS 16. Lastly, a summary section for this chapter is presented.

4.1. The implementation challenges of IFRS 16

The findings which have been found in our study are insufficient IFRS 16 knowledge and experience, lack of adequate training, lack of appropriate planning, and challenges in capturing data. All the challenges exist in the analytical framework that was built on previous IFRS implementation challenges. They are presented in order of significance in Tables 8 and 9 that summarize the findings of the thematic analysis.

Table 8 presents the number of times the respondents discussed a certain theme and the level of significance perceived by each respondent. The respondent would often state when something was 'a priority issue' however, significance was also computed by the number of comments made by each respondent.

Table 8 shows the numbers presented in the table, representing how many times the respondent talked about a certain issue, while the number of stars is based on the tone and the nature of the comments the respondent made. Based on the sum of numbers and stars, insufficient IFRS 16 knowledge and experience was the only issue prioritized by four of our respondents and emphasized by a fifth one. The issue was stated 29 times as a major key challenge in IFRS 16 implementation. Lack of appropriate planning was the next most important challenge, discussed by 8 of our respondents and prioritized by two of them. These two challenges are linked, as supposedly, the Insufficient IFRS 16 knowledge and experience of IFRS 16 makes it mandatory to develop training courses. Lack of appropriate planning and challenges in capturing data were raised as issues on 14 and 13 by 8 and 6 respondents respectively and prioritized by two and three respondents, respectively. Six other issues were raised, but none of these were brought up by more than three respondents, and their level of significance was lower. These issues were

different practices throughout the globe, difficult implementation in IFRS 16 requirements, lack of resources, lack of management support, not anticipating the wider implications, and system/IT problems.

Table 8. Thematic analysis of respondendent´s statements

Challenges	Different practices throughout the globe	Difficulties implementing specific IFRS 16 requirements	Resources	Lack of appropriate planning	Insufficient IFRS 16 knowledge and experience	Lack of adequate training	Lack of management support	Not anticipating the wider implications	Challenges in capturing data	Systems/ IT problem
R1	2**	2**		2**	3***				4***	2**
R2		1**		2***					1**	
R3	2**			3***	5***				3***	
R4				2**	7***	3***		2*	3***	
R5						1			1*	
R7					4***	1*	1		1*	
R8				1*		3**				3***
R9					1*	3***				2**
R10										
R11				1*		1	4***			
R13			2***	2**	5***	2**				
R15			2***			2***				
R16		1								
R18				1*	4**	1	1			
Total	**4**	**3**	**4**	**14**	**29**	**16**	**6**	**2**	**13**	**7**
Priority issue	**4**	**4**	**6**	**15**	**18**	**15**	**3**	**1**	**13**	**7**

Key:

* Presented passivly by the respondent

** Showed some emphasis

*** Prioritised by the respondent

Table 9 presents the key challenges ranked in the number of times the theme was a priority issue in combination with the number of times the issue was discussed by the respondents. As previously stated, while some interviewees discussed the difficulties in implementing specific IFRS 16 requirements, this did not arise as a major implementation issue. The following section of this paper contains a more comprehensive analysis of our results with previous research, but first, we look at each challenge in greater detail.

Table 9. Key Challenges in IFRS 16 implementation as stated by respondent´s

Order of Significance	Implementation Challenge
1	Insufficient IFRS 16 knowledge and experience
2	Lack of adequate training
3	Lack of appropriate planning
4	Challenges in capturing data
5	Systems/IT problem
6	Resources
7	Different practices throughout the globe
8	Difficulties implementing specific IFRS 16 requirements
9	Lack of management support
10	Not anticipating the wider implications

4.1.1 Insufficient IFRS 16 knowledge and experience

Seven out of thirteen respondents raised insufficient IFRS 16 knowledge and experience as a major challenge while implementing IFRS 16. Five of these seven respondents prioritized it as a primary concern, while one emphasized it, and the last one mentioned it passively.

Insufficient IFRS 16 knowledge and experience was the most prioritized challenge by respondents, where five respondents out of the seven who mentioned this problem had it as a key challenge. Another respondent emphasized it, while the second mentioned it without any stress on its impact.

Respondent 4 stated that nobody in the team had the required experience, and they did not give it the necessary time to really think through how complicated this might be, thinking that it would be straightforward. As an example, respondent 4 describes a challenge they encountered regarding the interest rate. While the setup of the interest rate in the leasing system was fixed, most of their vehicles with the leasing company were on a variable interest rate. As a result, every month, the payment varies, and due to the fixed rate in the leasing system, it creates an opportunity for savings. Further, respondent 4 states that they should never have a variable interest rate when it comes to

vehicles. This led to a continuous fluctuation in the clearing account because nobody was aware that the interest rate on the vehicles was variable; thus, the payment changed every single month. These challenges were not only caused by the insufficient IFRS 16 knowledge and experience but also the number of estimates and judgments required by the standard. Respondent 13 also mentioned insufficient IFRS 16 knowledge and experience as the number challenge where he stated:

> *Yeah unfortunately, we did not have any process descriptions. So, it has been a little bit self-learning and lessons from the Group company. I think the biggest challenge was that I was not familiar with IFRS 16 before I started working with it. So, it has been, in a way, "learning by doing" as well. And honestly, maybe we did not fully understand how it worked before, and that is why we, in a way, did not reach out as well when we had the big leases in place.*

Furthermore, when asked about the challenges faced, Respondent 3, stressed the fact that he did not have the knowledge to answer multiple questions related to the standard. He comments that:

> *But the main issues I can remember were some uncertainties related to the IFRS 16 standard itself, so many questions were hard to know how to tackle. But as it was new for everyone, it was both uncertainty and the questions themselves, so that was my main issue to be able to respond as quickly as possible. I had to search for the answers within my company and see if there was someone with experience there to be able to respond quickly to the complexity of IFRS 16*.

Respondents 7,11, and 18, represented from different geographical areas, also raised their insufficient IFRS 16 knowledge and experience as a key problem. Where they were not sure what to do and which data was required at each stage. Many questions were brought up while dealing with different parts due to the uncertainties of this standard, such as the extension period, date of termination, and depreciation. In addition to the problem of not knowing how to deal with errors and fix them after they have been implemented in the system. Respondent 11 illustrates the experience as newly employed as "*I was put in the water and swam and survived."* Respondent 11 stated that the

company should not expect that the new employee knows everything. It is not necessarily that the previous company has IFRS 16; therefore, you do not have the knowledge because you are focused on what you need for your tasks.

It is essential to point out the importance of communication and good management support in facilitating the implementation of IFRS 16. Five of our respondents stated the fact that one of the factors that led to a better understanding of the standard was the close and easy access to the Group company. Respondent 8 stated that sitting in the same room with someone from the Group gave her a smooth implementation where she can ask any question at any moment. In addition, the access to instant information since they were a test pilot within the implementation project. Another control mentioned by Respondent 4 was the recruitment of a business analyst in the post-implementation process since they didn't have anybody with this type of experience in the team. Due to the disparate systems, an external resource was needed to harmonize the data and manage it on an ongoing basis. He had a major role in ensuring consistency, where he built an analyzer to analyze the data where he was able to figure out the cause of deviations in the reports. Respondent 4 summed up his successful reporting of IFRS 16 to the close work with the vendors and the harmonization of the reports. Furthermore, Respondent 16 mentioned the fact that they had the working experience needed for the implementation of IFRS 16 and the theoretical knowledge. He also states that most of the employees come from an auditor background where having expertise in auditing was helpful in grasping the implementation process. Insufficient IFRS 16 knowledge and experience leads to the following key issues: lack of adequate training and lack of appropriate planning. When there is no clear view of the magnitude of the standard, upfront planning will be missed with preparations through training sessions for the staff.

Our findings show that the insufficient IFRS 16 knowledge and experience have a crucial role in managing sufficient lease accounting. As an example, there were challenges to detect the reason behind the deviations that occurred due to misstatements between variable and fixed interest rate. Furthermore, the absence of prior knowledge of IFRS 16 has caused challenges in understanding how it worked and gave rise to

uncertainties. For example, to assess which data was required at each stage when handling the lease accounting. In addition to challenges that came up post-implementation in terms of errors in the system. These also align with the findings of Jermakowicz and Gornik-Tomaszewski (2006, p. 192), who conclude that a lack of proper education, training, and knowledge of IFRS are significant issues of transition and that a training program for staff throughout a company is needed to allow them to implement a completely different system of business processes, quality management, and interaction with the markets. The study by Weaver and Woods (2015) identified five major key issues in IFRS implementation of which was the lack of IFRS knowledge and experience. They stated that their respondents suggested that this should occur at the outset of change preparation and that the importance of education should not be overlooked. This view has been confirmed from our findings that showed the importance of adequate onboarding to assess where a lack of knowledge exists and to aid with sufficient training.

Our findings suggest, considering that IFRS 16 is a new lease standard, there is still a knowledge gap for the preparers that did not come across IFRS 16 yet. In addition, our findings also indicate that adequate working and theoretical experience of IFRS 16 have mitigated these uncertainties. Hence, the fact that some of the employees came from an auditor background has also aided in implementing IFRS 16. This is consistent with available literature that suggests that education and expertise were major challenges for those engaged in the EU's adoption of IFRS in 2005. Hoogendoorn (2006), for example, found that many organizations lacked the requisite skills to enforce IFRS and were therefore highly dependent on their auditors for guidance. Jermakowicz and Gornik-Tomaszewski (2006) affirmed these findings by identifying them as issues raised while dealing with IFRS. Only a few accountants had any practical experience with IFRS, and professional certificates back then did not cover IFRS reporting as part of their curriculum.

Our findings show that challenges due to Insufficient IFRS 16 knowledge and experience still are encountered in the post-implementation. For example, preparers

with "first-time" contact of IFRS 16 and changes in the organization with a lack of written process descriptions.

4.1.2 Lack of adequate training

Nine out of thirteen respondents raised lack of adequate training as another major challenge while implementing IFRS 16, and most of the respondents had similar problems and had the same requests regarding this challenge. Three of these nine respondents prioritized lack of adequate training as their main concern while implementing the standard, and two emphasized it. The other two mentioned it in general as one of several challenges.

This challenge found in this study is to be expected as the amendment of the leasing standard from IAS 17 to IFRS 16 completely changed the lessee accounting that affected both the balance sheet and the profit and loss statement. This new mindset required training before the implementation, especially for those entities with a high volume of leasing contracts where materiality was a crucial part of the financial statements. In addition, updates and reminders throughout the implementation process are necessary, especially for firms with a low volume of leasing contracts and do not work so often with the leasing standard. The training not only for the application of the standard itself but also for the system software used to enter the data of this standard.

The following training sessions were available for the subsidiaries and were published on the intranet. First, in August 2018, on the IFRS 16 standard and a training session on data collection template. Second, in December 2018, a detailed review of the leasing system, first version, when it was installed. Third, same training was conducted again in September 2019 and the subsidiaries were informed in advance. Lastly, in November 2020, a detailed review of the upgraded leasing system, with the possibility for the subsidiaries to ask questions. Links to trainings videos were published shortly after the training sessions. In addition, manuals, and FAQs about the leasing system and the IFRS 16 standard, documents about IFRS 16 and timeplan and instructions about the project were published on the intranet.

Furthermore, there were several individual trainings sessions with both new employees and those who were present during the pre-implementation.

Respondent 13 suggested that more training is needed when asked if there is a necessity for more training in the future:

> *I had something you could call a crash course with the previous finance manager, where she showed me hands-on how to do it. But honestly, I did not start digging into it until half a year ago, maybe. And then it is when I reached out to the Group Company, and I have had sessions with them. I need in certain aspects, additional training or more that I encounter because it is still new when I encounter things that maybe I did not encounter before in those spots; I at least need to be able to ask somebody.*

Respondent 18 reaffirmed the previous comments and stated that more questions will be raised near the month end and will try to search for the answers and refer to the manual and the online material. Further, respondent 18 assures that he needs more training on the standard itself. On the other hand, respondent 8 stressed the need for training on the leasing system rather than the standard and commented:

> *Yeah, I think what we need more training in is in the new system, how to set up contracts, because since we do it so rarely, we forget in time, and there could be issues than when we take up the reports because we forget to push a button or something like that. But I think that we should have raised more, maybe more training in the system.*

Respondent 8 adds that although they had training prior to the implementation of the standard in the system, they now need updated training after working and applying what they have learned. The first training is conceived more theoretical before the actual application. Hence, questions arise only when you start working with the system and issues “pop up” without clear ideas on how to solve them.

Respondent 10 also asserted the need for future training on the system and mentioned that more public in-depth training would give us a better understanding of the system. Moreover, respondent 10 commented that at several points, they did not know what to do next, how they should do it, how to maneuver, and described the process as "sketchy." This was not applied solely to respondent 10 but also to everyone in the department who was in the same boat, which made them ask people in other departments for guidance.

Finally, respondent 8 stated that more virtual training would be helpful, especially since not everyone attends the finance conferences to benefit from it. Respondent 10 also stated the importance of having refresher courses at least annually, and respondent 9 mentioned that she encourages her team to attend any conferences in the future that could help them. Respondents 4 and 5 emphasized the benefits of launching training material beforehand to any upgrade or implementation project to aid better preparations. It is important to mention that most of the respondents who did not bring up training as a challenge have a low share of the leasing liability, and they have a low volume of straightforward contracts.

Our findings show that inadequate training has implied challenges in the handling of IFRS 16. The training was brief, with a shortage of sufficient time to acquire appropriate knowledge to handle lease accounting properly. In addition to work overload, which has resulted in that time for IFRS 16 training was not prioritized. This is consistent with Sucher and Jindrichovska (2004), who state that it is important to shed light on the fact that there is a causal relationship between lack of IFRS knowledge/experience and lack of adequate training. Where knowledge and experience are missing, training programs will pop up to fill this gap and ensure efficient and effective implementation is in place. In addition, a well-established plan at an early stage will lead to problems in implementing training programs either due to budget constraints where training was missed and not part of the budget, or due to lack of time where every employee is busy with other tasks.

Our findings show that the benefits of launching training material beforehand are anticipated to aid in better planning and which is in line with Jermakowicz and Gornik-Tomaszewski (2006) findings, they researched the EU implementation of IFRS, and the problems they discovered illustrate a lack of IFRS expertise and the need for preparation. Moreover, according to Walton (2009), early training is critical to ensure that businesses can provide training for their employees, as trainers with a sufficient level of IFRS experience become a limited resource. Where IFRS specifications were expressly stated, the implementation difficulty was usually associated with the use of discretion rather than the application of a complex rule. Effective IFRS implementations begin early, use project management approaches, provide training to appropriate staff from the start, obtain executive-level sponsorship of the project, and identify and respond to the broader business implications of the transformation (Weaver & Woods, 2015).

Though training was crucial in the pre-and during the implementation of IFRS 16, there is still a need for training, as mentioned in the previous section. In addition to the fact that IFRS 16 is a new standard and with limited widespread knowledge.

4.1.3 Lack of appropriate planning

Eight of thirteen respondents raised lack of appropriate planning as a third major challenge while implementing IFRS 16. Two of these eight respondents prioritized lack of appropriate planning, while three emphasized it, and the other three mentioned it passively.

From the comments made by the respondents, it was clear that the implementation process of the new leasing standard should have started earlier. It was explained by respondent 1 that it was not initiated earlier since the company just went through an Initial Public Offering (IPO), and the organization was new, especially at the HQ. Therefore, there was a lack of time and resource constraints to prepare appropriately for the implementation of IFRS 16. Additional resources were recruited since they had too much to do. Respondents 1 commented that they were one of the last ones *"jumping on the train"* and were faced with a shortage in finding a system supplier; they were fully

booked since everyone wanted to finish the implementation before year-end. Respondent 2 reaffirms that there was no time since it was quite close to the spinoff and says they could have more resources connected to the project. In addition, the change and challenge of the implementation of IFRS 16 were underestimated in terms of a high level of leasing contracts. Respondent 4 expressed an opinion on this issue:

"I don't think; I don't believe we gave IFRS 16 enough attention in the pre-implementation. Because like I said, I mean, I think we underestimated some of the complications of extracting data from one place and getting it into [leasing system] and then the ongoing management of it. I think that is where we really, [country], I think that's where we really underestimated, and I think we just oversimplified that; why wouldn't this work? And we learned the hard way, that there is a whole host of reasons why it may not work properly,"

Our findings suggest challenges in the post-implementation phase mainly due to lack of appropriate planning when, for example, changes in the organization on a subsidiary level occur and where new employees with initially limited experience are assigned to work with IFRS 16. These challenges are highlighted by three of the respondents. Respondent 13 commented that people in the prior organization were starting and quitting, none of the resources followed with the new organization, and the handover was limited in time, and regarding IFRS 16, more time was needed. The senior manager needed someone to take care of the figures and numbers and stated, *"it was then, in a way, IFRS 16 just fell into my lap."* Although clear instructions and support from the Group, they did not understand the "magnitude of work" that needs to be put in.

The other two respondents describe the challenges they faced while taking over the work of IFRS 16 due to lack of planning. Respondent 18 mentioned that there were many things to be trained in just one week, IFRS 16, in addition to all other tasks. This is since the resigned personnel responsible for the handling of IFRS 16 was busy during the last weeks at the company. This experience is confirmed by respondent 11, who states,

"They are all busy, and we don't have time to take care in advance."

Consequently, respondent 11 reached out to the Group for help and guidance to tackle the challenges faced when handling IFRS 16.

Respondent 4 describes an illustrative example of the need for involving other departments within the organization early in the implementation process of IFRS 16 and states that it is an area that they could have done much better. In order to fulfill the requirements under IFRS 16, the accounting team needed information from the fleet manager, who didn't know what IFRS 16 stands for and neither understand IFRS 16 and states that nor should he. The fleet manager was supposed to translate the information from the leasing company and get back to the accounting team and state, *"that was an absolute complete failure."* The accounting team never got what they were looking for since they had a middle person who did not understand, and nobody spent time explaining and educating what they were really asking for. Compared to the prior leasing standard, all leasing was under operational accounting, and they were never in sync with one another. Further, respondent 4 argues that this is an area they could have done better by educating the organization.

Our findings show that challenges due to lack of appropriate planning affect the actions needed to better prepare for a smooth transition to IFRS 16 in the pre-and during implementation. These challenges do not necessarily end in the pre-implementation. There is still a need for appropriate planning even in the post-implementation in terms of assessing sufficient IFRS 16 knowledge and experience in connection to changes in the organization and upgrades of, e.g., the leasing system. Further, the level of knowledge and experience determines to which extent training is needed. Our findings suggest that the lack of appropriate planning also concerns other departments, not solely the finance team, since constant data collection is substantial for the leasing accounting.

Our findings support the observation made by Hoogendoorn (2006) that listed companies have underestimated the preparations for the implementation of IFRS, which has required much more time due to the complex nature of these standards. Sucher and Jindrichovska (2004) found similar evidence in their study on IFRS implementation in

the Czech Republic, where the "wait and see" attitude was observed from conducted interviews at nine companies.

Further, changes in the organization emphasize the need for adequate planning to train and support newly employed personnel. These views were confirmed by Weaver and Woods (2015), who identified that organizations were inadequately prepared for the transition to IFRS due to a lack of education and training are observed as a major challenge. In addition, the lack of support from senior management could impact the quality of financial reporting through tolerance of poor accounting practices. The attitude from management, which sees the change as "just an accounting problem" rather than a matter involving several areas of the company and with limited resources allocated, results in overworked accountants attempting to complete the transition on top of their day-to-day responsibilities (Weaver & Woods, 2015). In addition, lack of appropriate planning has implications for non-finance staff, considering that the finance team relies upon the data collection needed to fulfill the lease accounting requirements. These findings are consistent with Weaver and Woods (2015), who state that one potential reason for the apparent lack of support for the IFRS transition in several reporting agencies is that few people inside the reporting agency could anticipate the broader business ramifications of the transition at the planning stage. As a result of the confusion over why the changes were made, the company had to spend time explaining the issues to the engineers and project managers, and staff morale suffered as a result (Weaver & Woods, 2015).

Considering the two years, it takes to completely implement IFRS, from the date of implementation to the end of the first IFRS reporting period, adequate upfront preparation of resource requirements and allocation would be essential for effective adoption and maintaining costs under control (Gornik-Tomaszewski & Showerman, 2010). Lack of appropriate planning where the employee’s knowledge and experience are assessed for the upcoming task would lead to the absence of training courses, thus creating several problems, one of which would be difficulties capturing data.

4.1.4 Challenges in capturing data.

Challenges in capturing data were raised as an issue by six out of thirteen respondents. Three out of the six prioritized it as a key challenge, while the other three mentioned it without any stress on its effect.

Several respondents highlighted data collection as a significant challenge due to the high level of leasing contracts. The estimated number of contracts amounts to 2 500 contracts within 38 jurisdictions. Respondent 1 mentioned that the auditing firm provided them with an excel template with 80-100 data points which had to be filled for every single contract. The challenges were to populate these templates correctly; otherwise, the uploading to the leasing software system will also be incorrect. Further, respondent 2 reaffirms that it was a challenge due to many contracts and many entities in which employees needed to understand what they should fill and how to do that. They had to collect contracts, and in some entities, it was an extensive job. In addition, respondent 3, the system supplier, confirms the challenges faced during the upload to the leasing software since they had to identify, collect, and standardize the information from the template to enable correct reporting required according to IFRS 16 for thousands of contracts. Respondent 4, comments that the data collection was the biggest activity they had to go through due to a high number of contracts. Further, respondent 4 described this issue:

> *When the pre-implementation came out, and we started to, we put a small little task force together, which was three operational people in accounting, and two, sales and service operation folks. At that time, we had multiple leasing companies for vehicles. And our biggest challenge was getting all of that contractual data together; it was fragmented in various areas, some of it was managed in Excel, some was managed on an online portal, and quite honestly, some was very loosely managed, though, our biggest challenge was around consolidating the data.*

Several respondents confirm this; as previously mentioned, respondent 4 had to enhance the communication with service and rent personnel and lease companies to get good reports to improve the management of lease reporting. Furthermore, respondent 7

stresses the need to implement a monthly process with the right person to do the job and to get the information from other departments. The biggest challenge was to combine all the information.

Respondent 13 commented on the handling of leasing accounting by the previous finance department that they *"took care"* of it without using the leasing software system.

The challenges of capturing data remain post-implementation if not mitigated with adequate processes and communication with parties involved since leasing contracts expire, get prolonged, or changed. Respondent 5 raised this issue:

> *As far as I think, the greatest uncertainties would be, you know, just the changes and things. I think here in the [The company], we have just seen a great, great turnover in vehicles. I think I estimated probably about 500 contracts. I think we are through most of there right now, but we probably saw it, you know, we may have seen maybe 200 vehicles get retired out of their plea right there. So, you know, there was more of a manual process right there.*

It is important to stress the high volume of contracts in several entities that lead to several challenges while collecting all data. Not only was it a challenge for the employees dealing with IFRS 16, but also for the system supplier. Respondent 3 stated that one of the time-consuming stages was the implementation of the data in the software. This was due to the difference between the structures of the data between the excel sheets sent by the entities and the system software used. On the other hand, entities with a low volume of contracts did not show a significant challenge in data capturing compared to other entities with a high share of the lease liability.

The predominant challenges in capturing data were significant in the pre-and during the implementation due to the extensive amount of data required to report according to IFRS 16 for the first time. This information was not needed under the previous leasing standard, IAS 17, for operational leases. Therefore, the subsidiaries within the Group had to track down leasing agreements, often from other departments and sources as lease companies. Even though the challenges capturing data was primarily connected to the first data-

collection, our findings show there are still challenges, even if to a limited extent due to constant changes of the lease contracts. Our findings show that good communication and cooperation are therefore essential to obtain accurate information for the financial reporting under the new leasing standard.

The collection of data to comply with the requirements of the new leasing standard for the first time was a significant challenge in the pre-and during the implementation. These findings are consistent with Weaver and Woods (2015), that problems in data-capture and obtaining the necessary information for disclosure. Several respondents in their research emphasized that the difficulties of accessing the details required to file the first IFRS-compliant financial statements made all the transfers to IFRS they had overseen were very difficult. The explanations are varied and relate back to a lack of understanding of IFRS (particularly about transparency requirements), a lack of time and resources to properly prepare for the transition, and cultural problems in some industries that compromise the rigour of relevant documentation. Further, they state the lack of information and documentation does not preclude successful implementation of IFRS; however, it creates major inefficiencies and diverts scarce resources to paper-chasing and information gathering.

Further, our findings indicate that the characteristics of the information needed to comply with the requirements for IFRS 16 imply the need for the finance team to reach out to other departments, e.g., rent and service. This is in line with the evidence from Weaver and Woods's (2015) study, which indicates that the transition to IFRS requires access to historical information that is not inevitably available within the finance department, for example, leasing contracts. One respondent in their study comments seeing staff spending significant time tracking down documentation. This shed light on the need for the finance department to cooperate with other departments within the organization. This issue was stressed by several of their respondents as one of the most frustrating within an IFRS transition. In addition, another challenge is that information needed under IFRS was not required under local GAAP. In the same way as historical information, the companies may need to collect this data for the first time. There is a lack of knowledge on how to do

it, and the information can be difficult to attain in retrospect to comply with IFRS disclosure requirements.

Another finding shows there are other implications for challenges of data capturing in the post-implementation. These are related to changes in the organization in connection to the absence of transparent working processes to sustain a sufficient lease accounting. Weaver and Woods (2015) present similar findings where significant challenges in relation to retained knowledge and documentation are observed. In organizations where people "just know" how things work, much of this information is lost when they leave. For example, the absence of contract-register out-of-date lease agreements is on file or usually a lack of paper track.

4.1.5 Summary

Our findings show four key implementation challenges when implementing IFRS 16 at an entity level. These challenges: Insufficient IFRS 16 knowledge and experience, lack of appropriate planning, and lack of adequate training have causal relationships between them where one causes the other. Lack of appropriate planning leads to lack of adequate training, and thus lack of insufficient IFRS 16 knowledge and experience where data capturing will emerge as the final challenge. Furthermore, the challenges appeared in all the implementation stages, and none was restricted to a specific phase. Also, the same challenges were brought up by several respondents who represent different geographical areas. This shows that challenges are not related to a certain continent or country, concluding that these challenges are universal. These implementation challenges illustrated in Figure 4 are consistent with prior studies presented in the analytical framework. However, our findings add to the analytical framework the inter-relation between all the three implementation phases and the implementation challenges mentioned below.

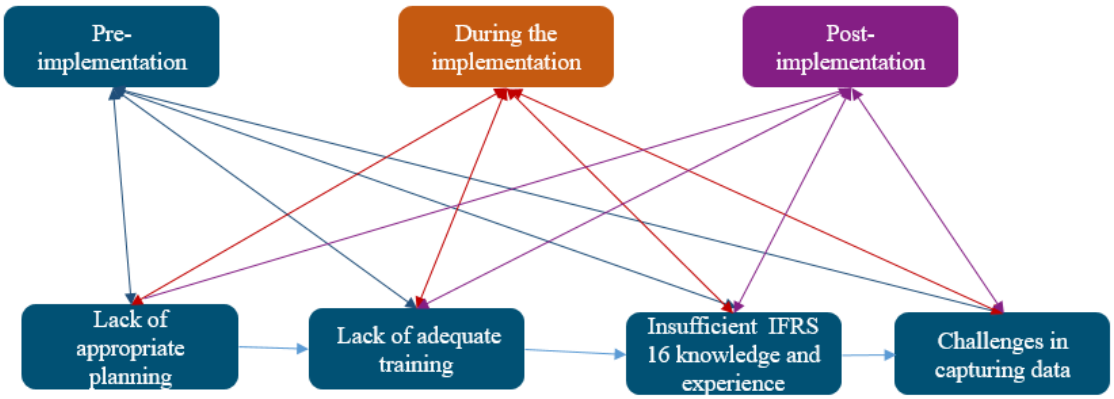

Figure 4. Interrelated implementations challenges appears in the three implementation phases.

5. Conclusions

In this chapter, the conclusions from the findings and discussions are first presented, and the research question is answered. Lastly, the study´s contribution and suggestions for further research are presented.

5.1 Results

To conclude, the new leasing standard, IFRS 16, has encountered a substantial change in accounting processes, where entities faced significant implementation challenges in the way leases are recognized, measured, and disclosed (Segal & Genevieve Naik, 2019; Tudor, 2018; Warren 2016). In addition to the fact that IFRS standards have a principle-based approach where there is room for different interpretations and understanding the complex requirements leading to a change and a challenge in some jurisdictions. We examined the literature on this issue and found that there is a high concentration of quantitative research on the impact of IFRS 16 on the financial reports, in addition to limited qualitative research on the challenges of IFRS standards at entity level. Therefore, the purpose of this thesis is to explore the implementation challenges of IFRS 16: Leases on an entity level. We conducted a qualitative case study in a Global Swedish company to explore the opinions of the Group accounting team, system supplier, and employees who were involved in the implementation process during the transition of IFRS 16. Our findings indicate that the key major challenges identified in our interviews are insufficient IFRS 16 knowledge and experience, lack of adequate training, lack of appropriate planning, and challenges in capturing data. The challenges we found are consistent with previous studies on IFRS but with different levels of significance. Insufficient IFRS 16 knowledge and experience, lack of appropriate planning, and challenges in capturing data like Weaver and Woods (2015) findings, while lack of adequate training was in parallel with Sucher and Jindrichovska, (2004). Notably, most of the respondents did not find the implementation of IFRS 16 standard as complex as Jermakowicz and Gornik-Tomaszewski (2006) and Hoogendoorn (2006) stated. Insufficient IFRS 16 knowledge and experience arose as a central key issue challenge that nourishes the other key challenges identified. Further, lack of adequate

training was predominantly concerned with training on the software system. The lack of appropriate planning was a common issue raised by previous studies where most of the entities underestimated the magnitude of the transition. This has further been confirmed in our findings where the awareness of the complexity and time needed for the implementation of IFRS 16 was absent. Moreover, challenges in capturing data remain as an ongoing challenge due to recurring changes and high volume of contracts; however, it can be mitigated by proper upfront planning. It was obvious that maintaining good processes such as frequent communication and relevant competent personnel played a crucial role in managing lease reporting despite dealing with a massive number of contracts.

5.1.1 Contribution

This study contributes to research on the implementation challenges of IFRS 16 on an entity level with privileged access to the empirical data that enabled a more holistic understanding. Since IFRS 16 is a new standard, we suggest that our findings will be relevant for entities that will be dealing with the leasing standard in the future. IFRS standards are always amended frequently and especially the complex standards where IFRS 16 stands at the top as perceived by auditors and specialists. However, further amendments might require new studies as new challenges might surface. Moreover, this study covered the whole geographical area at different implementation stages. In addition, this study contributes to the research by revealing that the IFRS 16 implementation is not related to a specific phase. that these challenges are not explicitly connected to the pre-and during implementation but are persistent in the post-implementation as well.

5.2 Suggestions for future research

We suggest that further research might consider studying the implementation process of IFRS 16 at organizational level, managed centrally at the Group level. To explore whether the implementation challenges are mitigated when the lease accounting is not delegated to the subsidiaries. Centralized maintenance might encounter best practices and efficient processes. On the other hand, a high level of leasing contracts that are scattered in

different jurisdictions can give rise to practical challenges due to different interpretations and language barriers. Other studies can be made to investigate the relation between IFRS implementation in general with the management control systems where better controls placed can assure easier and more flexible implementation.

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Appendices

Appendix 1 - Prior research IFRS 16

Author	Findings
Imhoff et al. (1991)	The percentage of unrecorded assets to unrecorded liabilities has been measured as 62 percent under the assumptions that the lease period is 30 years, the interest rate is 10%, and 15 years of the life cycles have been consumed. The percentage of unrecorded assets to unrecorded liabilities has been calculated as 72 % under the assumption that the lease period is 25 years, the interest rate is 10%, and 15 years of the life cycles have been consumed. It has been determined that the company's assets would rise by 785.8 million dollars, which is equal to 10% of the total assets. Furthermore, it has been determined that the capitalization of operating leases would reduce the ratio of return on assets by 9% while raising the liabilities/equity by approximately 30%.
Imhoff et al. (1997)	The study's findings indicate that unrecorded operating leases have a significant effect on traditional profitability scales.
Fitó et al. (2013)	They found that the impact on retail and energy sectors is statistically significant.
Beattie et al. (1998)	According to the findings of the analysis, unrecorded assets account for 6% of total assets and unrecorded long-term liabilities account for 39% of liabilities reported on average. Furthermore, there will be major changes in the profit margin, asset turnover, return on asset, and debt/equity ratios, with the service sector being the most impacted of the sectors.
Bennett and Bradbury (2003)	In the study, the proportion of unrecorded assets to unrecorded liabilities was calculated as 81 percent based on the assumption that the life cycle of the leased assets is 10 years, the interest rate is 10%, and half of the lease life cycles of the assets have been spent, and it was concluded that the liabilities would increase by 22.9 percent in this situation, a drop of 8.7 percent in the return on asset ratio and a 14.2 percent decrease in the current ratio.
Durocher (2008)	The findings show that the reflection of operating leases on the balance sheet has resulted in substantial changes in liabilities and assets; as a result, there will be a significant rise in the liability/asset ratio and a significant reduction in the current ratio, and the impacts of operating leases on the income statement will be less significant. Furthermore, the study states that the capitalization of operating leases would have a significant effect on return on asset, return on equity, and/or profit per share in just three industries (merchandising and lodging, oil and gas, financial service).
Branswijck et al. (2011),	As a result, they determined that capitalizing the operating leases has a negative impact on the liability/equity ratio, return on asset, and current ratio. Furthermore, they discovered that the impacts appearing in the financial ratios indicate variations between sectors.
Bostwick et al. (2013)	According to the findings of the report, retail companies are the ones that are most and least impacted by the capitalization of leases.
Sarı et al. (2016)	According to the findings, IFRS 16 would have a statistically relevant impact on certain financial ratios (debt/asset, debt/equity, return on assets, and return on equity) from 2010 to 2013. Furthermore, the findings indicate that the current lease standard will have a substantial impact on the financial metrics (total assets and total liabilities) in 2010 and 2011.
Tai (2013)	The ratio of unrecorded assets to unrecorded liabilities was estimated to be 85 percent relying on the assumption that the lease duration is 10 years, the interest rate is 6%, and 40% of the asset life cycles have been used, The proportion of unrecorded assets to unrecorded liabilities has been calculated as 79 percent predicated on the assumption that the lease period is 12 years, the interest rate is 6%, and 50% of the asset life cycles have been consumed, and as a consequence, the average of these two ratios has been taken and according to the results of the study in which the ratio of unrecorded assets to unrecorded liabilities. In general, there is a gap in the studies on IFRS 16 examining the implementation process throughout the different stages.

Appendix 2 - Interview invitation sent by email to the respondents.

Hi [Name],

We are writing our master's thesis within the MSc Accounting & Finance program at Lunds University. The study's purpose is to describe and analyze the implementation process of IFRS 16 and examine the internal processes post-implementation as a case study at [the company].

I am contacting you to ask if you are interested in participating in this study regarding the implementation process of IFRS 16 at [company]. The interview will range between 30-60 minutes. All material will be confirmed by the interviewee before the publication and will be anonymized. We aim to interview you as the Group Chief Accounting Manage/ Senior Group Accountant and Financial Director/ Accountant/Business controller who works with IFRS 16 leasing contracts hands-on.

I hope this is of interest to you, and I will further contact you during this week.

Best regards,
Rana and Hasan

Appendix 3- Interview guide Group Chief Accounting Manager

Introduction

- Please introduce yourself, Name, age, and position?
- What is your educational background?
- How long have you been employed at [the company]?
- What is your previous working experience?
- How long have you been working with IFRS 16?

Theme 1 Implementing new accounting policies.

General

1. Can you describe how procedures are developed when implementing new accounting policies?
2. Can you describe what structures and processes are in place with regards to implementing revisions in IFRS standards?
3. What about the procedures for IFRS 16?

Sub-questions

- Is the board involved in setting policies and procedures regarding IFRS implementation?
- Which other departments are involved? Do they communicate closely apart from the accounting department (e.g.? HR or Communication)
- Do you get adequate support through sufficient resources for the implementation of new accounting policies and IFRS?
- Are there any processes in place to assure the quality of implementation of the new accounting policies?

Theme 2 Pre-implementation

General

1. What was your role during the implementation of IFRS 16?
2. Can you tell us about the preparations taken prior to the implementation process of IFRS 16?

Sub-questions

- When did you start the implementation of IFRS 16?
- Who and which departments were involved in the implementation project of the IFRS 16? What were their respective roles?
- Did you face any significant challenges during planning the pre-implementation process?
- Tell us more about the preparations taken. How did you allocate resources? Did you hire additional staff? Was there a need for new software or updates on the one in use?

Theme 3 During the implementation

General
1. Tell us about how the revisions to IFRS 16 were implemented in both the group level and the subsidiaries. Is there a need for changes in this process?

Sub-questions
- Did you face any significant challenges during the implementation process?
- Were there uncertainties regarding the handling of IFRS 16? If yes, what are they?
- How often did you communicate throughout the process with the subsidiaries?
- In your opinion, what significant estimates and judgments were required while implementing the IFRS 16 standard?

Theme 4 Post-implementation
General
1. Can you tell us about the processes and procedures taken post-implementation?

Sub-questions
- Since IFRS is principal based, do you think professional judgment in IFRS aids in the different implementation in the subsidiaries?
- Did you face any significant challenges during the post-implementation process?
- Please tell me how you ensure the quality and consistency of the implementation?
- Do you have any plans for additional training in IFRS 16?
  If yes, in which aspects? (e.g., from system supplier)
- Are there uncertainties regarding the handling of IFRS 16? If yes, what are they?
- How is your assessment of the subsidiaries regarding their overall performance?
- In your opinion, is there adequate guidance regarding the application of the IFRS 16 standard from the IASB?
- Tell us about the handling process of IFRS 16 on both the group level and the subsidiaries. Is there a need for changes in this process?
- Is training a part of your internal control processes?
- Can you give an estimation of the total cost of the implementation process?

Closure

- Where do you think there is a need for improvement in the standard itself? What about improvements in the implementation process? Any need for improvement in the technical floor level, systems, etc.
- What lessons have you learned? Would you take different actions today?
- What do you think I should have asked you, but I did not?
- Thank you for your participation.

Appendix 4– Interview guide Senior Group Accountant

Introduction

- Please introduce yourself, Name, age, and position?
- What is your educational background?
- How long have you been employed at [the company]?
- What is your previous working experience?
- How long have you been working with IFRS 16?

Theme 1 Implementing new accounting policies.

General

1. Can you describe how procedures are developed when implementing new accounting policies?
2. Can you describe what structures and processes are in place with regards to implementing revisions in IFRS standards?
3. What about the procedures for IFRS 16.

Sub-questions

- Which other departments are involved? Do they communicate closely apart from the accounting department (e.g., HR or Communication)
- Do you get adequate support through sufficient resources for the implementation of new accounting policies and IFRS?
- Are there any processes in place to assure the quality of implementation of the new accounting policies?
- Tell us about the handling process of IFRS 16 on both the group level and the subsidiaries. Is there a need for changes in this process?

Theme 2 Pre-implementation

General

1. What was your role during the implementation of IFRS 16?
2. Can you tell us about the preparations taken prior to the implementation process of IFRS 16?

Sub-questions

- When did you start the implementation of IFRS 16?
- Who and which departments were involved in the implementation project of the IFRS 16? What were their respective roles?
- Did you face any significant challenges during the pre-implementation process?
- Tell us more about the preparations taken. How did you allocate resources? Did you hire additional staff? Was there a need for new software or updates on the one in use?
- Do you think more help from qualified opinions was needed during the pre-implementation?

Theme 3 During the implementation
General
1. Tell us about how the revisions to IFRS 16 were implemented in both the group level and the subsidiaries. Is there a need for changes in this process?

Sub-questions
- Did you face any significant challenges during the implementation process?
- Were there uncertainties regarding the handling of IFRS 16? If yes, which are these?
- How often did you communicate throughout the process with the subsidiaries?
- In your opinion, what significant estimates and judgments were required while implementing the IFRS 16 standard?

Theme 4 Post-implementation
General
1. Can you tell us about the processes and procedures taken post-implementation?

Sub-questions
- Since IFRS is principal based, do you think professional judgment in IFRS aids in the different implementation in the subsidiaries?
- Do you think professional judgment in IFRS aids in the different implementation between subsidiaries?
- Did you face any significant challenges after the implementation process? (IT system)
- Please tell us how you ensure the quality and consistency of the implementation?
- Do you have any plans for additional training in IFRS 16? If yes, in which aspects? (e.g., from system supplier)
- How do you assess the subsidiaries regarding their overall performance?

- Tell us about the handling process of IFRS 16 on both the group level and the subsidiaries. Is there a need for changes in this process?
  Is training a part of your internal control processes?

Closure

- Where do you think there is a need for improvement in the standard itself? What about improvements in the implementation process? Any need for improvement in the technical floor level, systems, etc.
- What lessons have you learned? Would you take different actions today? What do you think I should have asked you, but I did not?
- Thank you for your participation.

Appendix 5- Interview guide System supplier

Introduction

- Please introduce yourself, Name, age, and position?
- What is your educational background?
- How long have you been collaborating with [the company]?
- What is your previous working experience?
- Please tell us about your clientele.
- How long have you been working with IFRS 16?
- What was your role in the implementation process during the implementation of IFRS 16 at [the company]?

Theme 1 Pre-implementation

- When did [the company] contact you to handle the transition of IFRS 16?
- Tell us about the system solution you have presented for [the company]? Was it specifically tailored for [the company]?
- What features does the software provide?
- Who was involved in the development of the leasing system software at your company? E.g. IFRS 16 specialists? Was it in collaboration with [the company]?
- Can you tell us about the system set up that was prepared for [the company]?
- Who did you communicate within [the company] during the pre-implementation process?
- What were the issues raised during the pre-implementation?
- Did you provide any type of training for the users at [the company]?
- What were the challenges with the [the company] project during the pre-implementation?

Theme 2 During the implementation

- When did you start the implementation at [the company]?
- What were the issues raised during the implementation?
- What was the objective of the software? Was it to solve reporting requests and/or provide control checks?
- What were the challenges with the [the company] project during the implementation?

Theme 3 Post-implementation

- What were the challenges in general post-implementation?
- What were the challenges specifically for the [the company] case post-implementation?
- Did you take any measures to cope with [the company]´s requests?

Closure

- What do you think I should have asked you, but I did not?
- Where do you think there is a need for improvement?
- Thank you for your participation.

Appendix 6 - Interview guide Financial Director/Financial Manager/ Accountant/Business Analyst/

Introduction

- Please introduce yourself, Name, age and position?
- What is your educational background?
- How long have you been employed at [the company]?
- What is your previous working experience?
- How long have you been working with IFRS 16?
- What was your role in the implementation process during the implementation of IFRS 16?

Theme 1 Pre-implementation

General

1. Can you tell us about the preparations taken prior to the implementation process?

Sub-questions

- When did you start the implementation of IFRS 16?
- Who and which departments were involved in the implementation project of the IFRS 16? What were their respective roles?
- Did you face any significant challenges during planning the pre-implementation process?
- Tell us more about the preparations taken. How did you allocate resources? Did you hire additional staff? Was there a need for new software or updates on the one in use?
- Do you think more help from qualified opinions was needed during the pre-implementation?

Theme 2 During the implementation

General

1. Tell us about how the revisions/transitions to IFRS 16 were implemented in the subsidiaries. Is there a need for changes in this process?

Sub-questions

- Did you face any significant challenges during the implementation process?
- Were there uncertainties regarding the handling of IFRS 16? If yes, which are they?
- How often did you communicate throughout the process with the Group?

- In your opinion, what significant estimates and judgments were required while implementing the IFRS 16 standard?

Theme 3 Post-implementation

General

1. Can you tell us about the processes and procedures taken post-implementation?

Sub-questions

- Tell us about the handling process of IFRS 16 at the subsidiary. Is there a need for changes in this process?
- Are there uncertainties regarding the handling of IFRS 16? If yes, what are they?
- Do you think you get clear instructions from the Group company?
- Do you get enough support from the Group?
- Did you face any significant challenges during the post-implementation process?
- Do you think you have sufficient knowledge of the IFRS 16 standard?
- Describe the handover and training processes when you hire a new employee to work with IFRS 16?
- Do you have any plans for additional training in IFRS 16?
  If yes in which aspects? (e.g., from system supplier)
- Please tell me how you ensure the quality and consistency of the implementation?

Closure

- Where do you think there is a need for improvement in the standard itself? What about improvements in the implementation process? Any need for improvement in the technical floor level, systems etc.
- What lessons have you learned? Would you take different actions today? What do you think I should have asked you, but I did not?
- Thank you for your participation.