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The case of China

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SCHOOL OF ECONOMICS AND MANAGEMENT

National Adoption of International Financial Reporting Standards

– The Case of China

MARIA MING BENGTSSON | DEPARTMENT OF BUSINESS ADMINISTRATION

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National Adoption of International Financial Reporting Standards

– The Case of China

In the past few decades, there has been a global trend of international harmonization of accounting standards, with many countries having either partially or completely replaced their national accounting standards with the International Financial Reporting Standards (IFRS). The intended goal is to remove the barriers that hinder investors when comparing accounting information of companies from different nations, while simultaneously reducing the transaction costs for firms. Hower, research has shown that countries adopt IFRS unequally, ranging from resistance, partial adoption to full adoption. If the IFRS are not adopted to the same extent around the world, the central purpose of international standards can be compromised, as foreign investors cannot be confident when comparing financial statements. Uneven IFRS adoption could even be harmful to investors who believe that accounting standards have been converged worldwide—when, in fact, financial reporting differences continue to exist across national borders while being covered under the façade of the IFRS.

Using China as the case country, this thesis aims to conduct an analysis on the causes of different degrees of IFRS adoption at the national level and to examine how and why such causes affect accounting standard-setters' strategies in the era of international accounting harmonization. To build a holistic view within the complex empirical phenomenon of simultaneous convergence with and resistance to the IFRS, this thesis draws on the influence of neo-institutional theory while integrating the approach from international accounting classification. It puts forward the viewpoint that, in order to comprehend the coexistence of diversified acceptance levels of IFRS, it is necessary to understand the dynamics of the institutional variables that underlie the responses deployed by accounting standard-setters when deciding whether a set of exogenously developed accounting standards can really fit into their domestic institutional settings.

The research relies on extensive archival documents. The findings show that the factors influencing China's current convergence status with the IFRS are multifaceted, fluid, and interrelated. The Chinese accounting standard-setters' reaction to the pressure of international accounting harmonization is a strategic response that follows China's national ideology. Furthermore, IFRS convergence in the case of China reflects a cooperation and mutual dependence between the external institutional norm and the adopting organization, rather than a one-sided pressure. The Chinese experience also reveals that the economic incentives embedded in the technical attributes of the IFRS contributed to IFRS acceptance in China.

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National adoption of International Financial Reporting Standards

The case of China

Maria Ming Bengtsson

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To Ola, Ellen and Alice

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Lund, October 2021

Chapter 1. Introduction

1.1. Background: Uneven IFRS adoption around the world

National accounting standards have historically been developed by each nation or by a cluster of nations for the entities that reside within their accounting judiciaries (Camfferman and Zeff, 2018, Judge et al., 2010). These standards are typically designed to meet specific national needs (Roberts, 1995). However, in the past few decades, there has been a global trend of international harmonization of accounting standards, with many countries having either partially or completely replaced their national accounting standards with the International Financial Reporting Standards (IFRS) (Nobes and Parker, 2012, El-Helaly et al., 2020). As profiled by the International Accounting Standards Board (IASB) in 2019, over 140 jurisdictions in all major regions in the world (Figure 1.1) have either required or permitted IFRS usage for their domestic publicly accountable entities (IASB, 2019). Such a massive adoption of a single set of accounting standards worldwide may represent the most significant accounting regulatory change in recent years (Byard et al., 2011).

Figure 1.1 IFRS adoption by region

Source: IFRS Foundation 2019

The IFRS can be defined as a single set of accounting standards that are intended to be consistently and globally applied—that is, to be used by developed, transitional, and emerging economies alike (IASB, 2020). The IFRS are intended to provide investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with the companies' international peers. Conceptually speaking, adopting a single set of global accounting standards is undeniably appealing. In theory, global standards would remove the barriers that hinder investors when comparing the accounting information of companies from different nations, while simultaneously reducing the transaction costs for firms (Alon and Dwyer, 2014, Guerreiro et al., 2012, Riahi and Khoufi, 2019). Empirical studies have confirmed that IFRS adoption has (to a certain degree) increased the compatibility of financial statements across national borders, and that the IFRS have achieved many of the goals they were intended to reach (Aisbitt, 2006, Byard et al., 2011, Ye et al., 2018, Camfferman and Zeff, 2018).

However, despite the economic benefits of the IFRS and their apparent support by the great majority of countries, research has shown that national IFRS adoptions are difficult and problematic (Albu et al., 2014, Ball, 2006, Cieslewicz, 2014). One major issue is that countries do not adopt IFRS to the same extent. Nobes and Zeff (2016) show that some countries adopt the IFRS as issued by the IASB, while others claim that their own national GAAP are "based on" or "similar to" the IFRS—when, in fact, large differences remain. According to an extensive report compiled by Deloitte (2014), it is also common for countries to claim that they have "adopted" the IFRS while choosing to deviate or not to include certain provisions from the IFRS as issued by the IASB. In addition, despite the great number of countries that have adopted IFRS, the three largest economies in the world—the United States, China, and Japan—have not yet fully accepted the IFRS into their national reporting standards, even for listed companies (IASB, 2019).

Thus, it is debatable whether international accounting harmonization is indeed as successful as it seems to be (Kvaal and Nobes, 2012); in fact, it may be just a veneer over continued national differences (Ball, 2006, 2016). Users of financial information should be aware that IFRS do not necessarily carry the same implications throughout the world (Cieslewicz, 2014), despite the IASB's intentions. Some researchers warn that, if the IFRS are not adopted to the same extent around the world, the central purpose of international standards will be compromised, as foreign investors will be unable to be confident when reading financial statements (Ball, 2006, Nobes and Zeff, 2016). Uneven IFRS adoption could even be harmful to investors who believe that accounting standards have been converged worldwide—when, in fact, financial reporting differences continue to exist across national borders while being covered under the façade of the IFRS.

1.2. Academic debates on IFRS adoption and research problematization

In the accounting literature, a great deal of attention has been given to the international efforts to have all countries adopt a single set of accounting standards. These studies have advanced our understanding of why accounting standards have historically varied across countries, and how environmental pressures have reduced these variations internationally. However, certain important questions remain unanswered, as the extant literature presents conflicting results and the underlying theories need further clarification. In the section below, I discuss academic debates in the field of IFRS studies and thereby provide a foundation for the research motivation of this dissertation.

1.2.1. Advantages and disadvantages of IFRS adoption

Current research findings on IFRS adoption remain divided with regard to its benefits. Arguments in favor of IFRS adoption tend to focus on the effects on capital markets and investors. Such arguments state that the increased comparability of financial information has resulted in better investment decisions and has ensured a more optimal allocation of resources across the global economy (Ye et al., 2018). For example, Isaboke and Chen (2019) find that IFRS have a positive and significant effect on value relevance among Chinese firms. Similarly, Cai and Wong (2010) report that having a single set of internationally acceptable financial reporting standards eliminates the need for the restatement of financial reports, and thus facilitates the cross-border movement of capital and greater integration of the global financial markets. Some studies have also documented that the countries that have adopted IFRS have experienced significant increases in direct foreign investment inflows (Irvine, 2008).

The opposing views, however, argue that IFRS adoption per se is unlikely to produce substantial capital market effects (Zhao, 2010, DeFond et al., 2019). Some researchers even challenge the suitability of the IFRS as global standards and point out that the IFRS may not fit some jurisdictions due to different institutional, political, and economic contexts (Hassan, 2008), and that they are unlikely to cause material changes to the reporting policies in such jurisdictions (Daske et al., 2008, Nobes, 2006). Ball (2016) cautions that it may be naive to believe that uniform standards alone will produce uniform financial reporting. The same arguments apply to the comparability of firms' financial reporting. Hail et al. (2010b) note that moving to a single set of accounting standards is not enough to produce comparability of reporting and disclosure practices. Ahmed et al. (2013) support this argument and show that IFRS firms exhibit significant increases in earnings management and aggressive reporting of accruals. Similarly, upon examining the effect of IFRS adoption on the comparability and relevance of financial reporting in Spanish companies, Callao et al. (2007) conclude that local comparability has actually worsened, and that there has been no improvement in value relevance for local stock markets.

In sum, the existing literature shows mixed empirical results on the effects of IFRS adoption. The advantages and disadvantages of IFRS, therefore, are "somewhat conjectural" (Ball, 2006 p.5). Consequently, despite the IASB's intended purpose of eliminating international differences in financial reporting across national borders, national IFRS patterns continue to exist (Kvaal and Nobes, 2012). The intended effects of the IFRS on the international comparability of financial reporting remain doubtful, and it is unclear how much true convergence of accounting practices will occur. Given the importance of IFRS diffusion to the global economy, more research is needed to uncover the country-specific differences (Ball, 2016) that exist beneath the surface of IFRS adoption.

1.2.2. Theoretical differences

Another important area of debate regarding IFRS adoption centers on why, even though so many countries are adopting IFRS and are therefore moving toward international accounting homogeneity (Judge et al., 2010, Hope et al., 2006), international accounting variations continue to exist (Nobes and Parker, 2012). Based on an extensive literature review (see Paper 1), this thesis argues that the approach used in previous literature in this area tends to focus on either accounting convergence or accounting divergence. On the one hand, many IFRS scholars have suggested that national accounting standard-setting organizations are adopting IFRS because the IFRS have become an institutional norm for these organizations (Ames, 2013, Hassan et al., 2014, Judge et al., 2010, Guerreiro et al., 2020). In this vein, the theory of institutional isomorphism, as established by DiMaggio and Powell (1983), has been an important lens used to explain why accounting standard-setting organizations are moving toward convergence. Mir and Rahaman (2005) show that legitimacy seeking embedded in institutional isomorphism is a true and useful explainer of the Bangladeshi government's decision to adopt IFRS. Hassan (2008) investigates IFRS adoption in Egypt and reports a strong presence of isomorphic pressures in the decision toward full adoption. Applying the same theoretical lens to a large sample of 132 countries, Judge et al. (2010) reach a similar conclusion: namely, that institutional isomorphism positively affects national decisions to adopt IFRS.

In short, this genre of research focuses on external pressures toward IFRS adoption. This perspective suggests that economic globalization and the integration of the world's financial markets have dramatically changed the external organizational environment in which national accounting standard-setters operate. There is a common trend for these national organizations to comply with external institutional pressure by adopting the IFRS (Hope et al., 2006). According to this view, insofar as national accounting standard-setting organizations need the legitimacy provided by IFRS to promote their national economy, they become dependent on such institutional norms. These institutional pressures effectively reduce the variations between nations by pushing toward accounting convergence among national accounting standards.

In contrast, other scholars argue that accounting is heavily influenced by diverse national institutional traditions (Ball et al., 2003, Hellman et al., 2015, Mueller, 1967, Evans, 2018). These studies utilize a long tradition of international accounting classification framework. They emphasize that it is unlikely that the accounting standards of different nations will become the same as long as their national institutional structures continue to differ (Ball, 2006). This school of thought implies that national accounting standard-setters must first be loyal to their own domestic constituents and must comply with their own national accounting environment before they can converge with international practices. Such specific national institutional characteristics may or may not be compatible with those outside of the national borders.

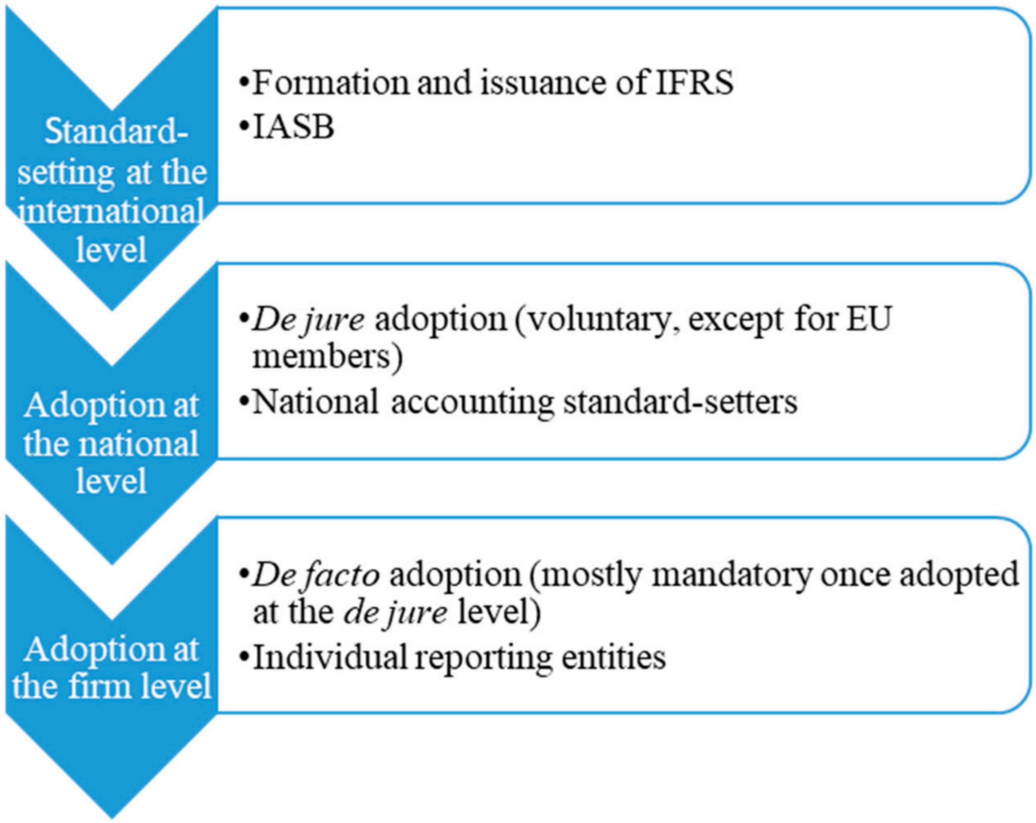
Nobes (2006) summarizes the reasons for pre-IFRS accounting differences and shows that the most common factors causing national accounting variations are country specific, such as legal systems, taxation systems, and financing systems. He states that accounting classification is still relevant during IFRS era because the original motives for international accounting differences may still be effective in the IFRS context, albeit in different ways. Similarly, Soderstrom and Sun (2007) argue that cross-country differences in accounting quality are likely to remain following IFRS adoption, as accounting quality is a function of a firm's overall institutional setting, which includes the legal and political system of the country in which the firm resides. In short, this group of researchers argue that differences in national institutional variables have resulted in different approaches toward IFRS adoption (ranging from full adoption to partial adoption and non-adoption) by accounting standard-setting organizations. These unique institutionally based variables remain diverse among nations and have therefore motivated different levels of acceptance toward a single set of exogenously developed accounting standards (Ding et al., 2007).

To summarize, both of the aforementioned streams of studies provide important theoretical and empirical insights into international accounting development in recent decades. One common trend that binds the two groups of literature together is the relevance and importance of environmental factors in national accounting change in general and IFRS adoption in particular. However, it remains unclear why similar environmental factors, such as economic openness and legal systems, are identified by the two groups as supporting two opposite sides of an argument (see Paper 1 for details). As noted by Ball (2016), there is a lack of established theory that can be used to address the current international differences that exist within the same accounting standards—that is, the IFRS. Hassan et al. (2014) also argue that explorations of IFRS adoption largely lack a theoretical foundation. Thus, there is a need for a careful synthesis of the environmental characteristics identified by the two groups of IFRS research, because they ultimately focus on the same topic.

1.2.3. A multi-tier adoption process

A country's IFRS adoption is a complex and multi-level governance process (Judge et al., 2010, Richardson, 2009). After being promulgated by the IASB, IFRS adoption occurs at both the *de jure* level (e.g., recognizing the IFRS as part of a nation's law) and the *de facto* level (e.g., annual and quarterly reporting by the nation's entities). That is, a country may choose to adopt the IFRS as issued by the IASB, include it as part of its mandatory regulations (Qu and Zhang, 2010), and require some or all of the entities within its jurisdiction to comply with the IFRS. On the other hand, when allowed by national regulation, firms may also choose to adopt IFRS before the country's official IFRS adoption (Guerreiro et al., 2012). These two level of adoption are interrelated, although differences must be acknowledged (Ramanna and Sletten, 2009). National accounting standard-setters are likely to take domestic firms' needs into consideration when deciding whether or not to adopt IFRS. By the same token, firms need to comply with the national requirements to either mandatorily adopt or voluntarily adopt IFRS. Figure 1.2 depicts the multi-level diffusion and adoption of IFRS.

Figure 1.2 Multi-tier IFRS adoption



It is important to recognize that firm-level IFRS adoption is conditional on countries' decisions to allow or mandate IFRS in an adoption process (Ramanna and Sletten, 2009). Many countries first voluntarily adopt IFRS at the national level, and then write the standards into the local GAAP, which then become mandatory at the firm level. It has been shown that countries have adopted IFRS unevenly (Deloitte, 2014), so differences in countries' IFRS adoptions already exist at the national level before trickling down to the firm level (Chen et al., 1999, Ding and Su, 2008, Nobes and Parker, 2012). Since most domestically listed firms must comply with the national GAAP or with other regulations at an equivalent level, rather than directly complying with IFRS, they may have no choice but to deviate—to a certain degree—from the IFRS as issued by the IASB (Brandau et al., 2013, Byard et al., 2011, Daske et al., 2008, Holthausen, 2009).

Thus far, most empirical studies on IFRS have focused on firms, and have examined their financial reporting practices and the consequences of their IFRS adoption (Hail et al., 2010a). More specifically, firm-level studies analyze direct capital market effects, such as earnings management (Chen and

Zhang, 2010, Jeanjean and Stolowy, 2008, Krzywda and Schroeder, 2007), income forecast (Byard et al., 2011, Hodgdon et al., 2008), or compliance (Ding and Su, 2008, Haller et al., 2009). By comparison, less is known about why countries themselves adopt (or do not adopt) IFRS and how such decisions affect national accounting changes. Although firm-level research has provided valuable findings, country-level IFRS studies are nonetheless important, as they provide a context—such as the national economic and political institutional characteristics—for the findings of existing firm-level studies (Ramanna and Sletten, 2014).

Some scholars have raised concerns that evidence from the firm level alone is insufficient to enable a full understanding of national convergence with—or deviation from—IFRS (Hassan, 2008; Hope et al., 2006; Judge et al., 2010). As Hope et al. (2006) point out, country-level IFRS research serves as a complement to studies of the firm-level determinants of IFRS adoption. National accounting standard-setters often choose to deviate from the clearly stated standards in the IFRS due to country-specific reasons, and it is likely that they will continue to do so in the foreseeable future (Ball, 2006). Different challenges and characteristics between the adoption of standards at the country (de jure) level and that at the firm (de facto) level must be acknowledged (Albu et al., 2014, Richardson and Eberlein, 2011). Thus, IFRS adoption should be examined not only at the firm level, but also at the legislature level (Hassan, 2008, Judge et al., 2010, Ramanna and Sletten, 2014), because eventual decisions about requiring, permitting, or disallowing IFRS for companies (domestically listed companies, at least) are made at the country level (Ramanna, 2013).

To summarize, international accounting harmonization occurs not only at the firm (*de facto*) level, but also at the jurisdictional (*de jure*) level. Although governments are likely to consider the expected firm-level consequences in their decisions to adopt IFRS, domestically accountable firms adopt the standards only after their government allows or requires them to do so (Ramanna and Sletten, 2014). Therefore, it is important to separately examine IFRS adoption at the country level as opposed to the firm level. In other words, when conducting research on international accounting standards, it is first necessary to be clear about what bodies set the standards that regulate firms' financial reporting, and at what level this occurs (Leuz, 2010). Thus far, studies on country-level IFRS adoption remain inadequate, and more research is needed in order to advance our understanding of the uneven adoption of IFRS by national accounting standard-setters.

1.3. A call for new perspectives

The above discussions show that accounting scholars have largely argued that a country's financial reporting standards are inseparable from its economics, politics, and the culture of its institutional arrangements, which have primarily remained local. Fast adoption of IFRS will not automatically change how a nation's underlying accounting environment is structured, operated, or funded (Cieslewicz, 2014). It is thus puzzling why so many countries have attempted to adopt a set of exogenously developed accounting standards so rapidly. Given the continued divergence of national IFRS adoptions, questions remain regarding whether the trend of international accounting harmonization is sustainable in the long run. Furthermore, it is not yet fully clear why some prominent countries are still reluctant to adopt IFRS. In light of these concerns, more IFRS research on a country-by-country basis is needed, because it is important to empirically and theoretically examine IFRS adoption in different national contexts (Judge et al., 2010, Nobes and Parker, 2012). In particular, Nobes and Zeff (2016 p.289) remind accounting researchers to be alert regarding the great variety that exists in the so-called "adoption" of the IFRS. More recently, Ball (2016) argues that, although some evidence on the actual outcomes of IFRS adoption has come to light in recent years, the evidence to date is largely insufficient, and IFRS studies still lack theoretical foundations.

The neo-institutional sociology (NIS) perspective and the accounting classification framework, which are the two dominant approaches in the relevant literature, tend to produce conflicting empirical results (see Paper 2). Both approaches emphasize the passiveness of accounting standard-setting organizations toward their environment, and both identify the same key factors, but use them to explain different results. However, neither can fully explain the various degrees of national IFRS adoption. To cross-fertilize and synthesize the abovementioned theories, this thesis emphasizes the notion that national accounting changes in the era of IFRS are not necessarily only passive results from external pressure or internal national traditions. Rather, decisions on IFRS adoption and on the degree of adoption can also be strategic choices made by national accounting standard-setters in order to actively adapt to or even influence their environment.

Theoretical perspectives on strategic responses recognize organizational activeness and strategic adaptation to the environment, which can result in diverse reactions ranging from non-conformity to total conformity. Recognizing the limitations in earlier works on institutional theory, some scholars argue that prior organizational studies and institutional research have over-emphasized how organizations are forced by institutional pressure to adopt similar practices or structures in order to gain legitimacy and support (Greenwood and Hinings, 1996, Oliver, 1991). They point out that organizations, including national accounting standard-setters and corporations, can react to their institutional environment by developing strategic responses (Oliver, 1991) and proactive corporate strategies (Aragón-Correa and Sharma, 2003). Thus, organizations do not invariably conform to their internal and external environment. Instead, organizations can respond to institutional pressure in a variety of ways, depending on the situation and its possible consequences for the entities involved.

The strategic choice perspective has been widely influential in other academic disciplines, including organizational studies (Greenwood and Hinings, 1996, Romanelli and Tushman, 1994, Aldrich, 1999, Scott, 2013, Barley and Tolbert, 1997) and strategic management (Bansal, 2005, Suchman, 1995, Ahlstrand et al., 2001, Hoskisson et al., 2000, Frooman, 1999). This framework has also been utilized—albeit to a lesser degree—in accounting research, including public sector accounting (Bergevärn et al., 1995), corporate disclosures (Neu et al., 1998), and international accounting (Albu et al., 2014). Peng (2003) argues that, although much newer intuitional theories have emerged on how organizations make strategic choices, little is known about how organizations make strategic choices when confronting largescale institutional transitions (e.g., international accounting harmonization in the era of globalization).

Accounting studies based on the strategic response framework generally stand by the core assumption of the framework, which is that organizational compliance is one of several strategic responses, rather than being a passive non-choice behavior, as it is depicted in institutional theory (Oliver, 1991). One of the earliest studies applying the strategic response model in accounting research is a work by Etherington and Richardson (1994). These researchers explore how eight Canadian universities dealt with pressures for change in accounting education in the public sector. They show that the universities responded strategically to competitive, coercive, normative, and mimetic pressure. In addition to passive acquiescence strategies, these organizations used resistance strategies (ibid.). In another study on public sector accounting using Oliver's (1991) model, Hyvönen et al. (2009) investigate how differences in the accounting-related institutional logics of two Finnish defense force organizations explained their reactions to institutional pressures to develop new cost accounting and reporting systems. The study shows that, when military personnel were involved in management accounting tasks, various resistance strategies were adopted; furthermore, when military personnel were not involved, the response was acquiescence.

In sum, in order to address the theoretical gaps identified in the previous section, this thesis introduces new insights on understanding different degrees of IFRS adoption by highlighting the strategic choices made by national accounting standard-setting organizations during their interactions with their environment. These concepts can be useful in international accounting research for understanding the uneven adoption of IFRS. During economic globalization, the necessity to increase the comparability of accounting information across national borders provides common grounds for negotiation and compromises among national and international accounting standard-setters, thus opening up the possibility of strategic choices. National accounting standard-setters may be willing to conform to external expectations because they want to increase their credibility or to survive. At the same time, the country may be unwilling to give up control due to certain self-interests (Oliver, 1991), or may be unable to conform due to internal institutional constraints (Ball, 2006).

1.4. *De jure* harmonization versus *de facto* harmonization

An important conceptual distinction that needs to be addressed in more detail early on in this thesis is the difference between the two levels of accounting harmonization: the *de jure* and *de facto* levels. *De jure* harmonization of international accounting standards involves the formal harmonization of regulations at the country level, while *de facto* harmonization refers to the material harmonization of the financial reporting practices performed at the firm level (Qu and Zhang, 2010). In the accounting literature, both Tay and Parker (1990) and Canibano and Mora (2000) refer to *de jure* harmonization as the harmonization of accounting regulations and to *de facto* harmonization as the increase in comparability that arises from greater conformity in practice. Qu and Zhang (2010) argue that *de jure* harmonization is the basis for achieving *de facto* harmonization. In fact, *de jure* harmonization can but does not necessarily lead to *de facto* harmonization, if the standards allow for more options for companies (Canibano and Mora, 2000). Nevertheless, *de facto* accounting harmonization cannot be achieved without first achieving *de jure* accounting harmonization (ibid.). The decision to adopt IFRS can be made both at the *de jure* level (if the IFRS are mandated to be followed as nationwide reporting standards) and at the *de facto* level (if the IFRS are one of the reporting standards firms are allowed to choose from) (Hope et al., 2006). For the purposes of this thesis, *de jure* accounting harmonization is understood as country-level IFRS adoption and *de facto* harmonization is understood as firm-level IFRS adoption. The scope of this thesis is within the *de jure* level of accounting harmonization, in which publicly listed companies are required to follow the national set of accounting standards.

1.5. Research aim

Based on the above problematization, the research aim of this thesis is to *use China as a case to conduct an analysis on the causes of different degrees of IFRS adoption at the national level and to examine how and why such causes affect accounting standard-setters' strategies in the era of international accounting harmonization.*

This thesis focuses on the national legislative level that governs companies, especially publicly traded firms, which are typically required to submit audited financial reports to the general public on a regular basis. This thesis seeks to examine the driving forces that have impacted and are likely to continue to impact national decisions to fully adopt, partially adopt, or reject IFRS. As presented earlier, it has been argued that it is important to understand what national environmental factors shape accounting standards in order to predict the progress of harmonization efforts. Accounting quality is a function of the reporting entity's overall institutional setting, such as the legal and political system of the country in which the entity resides (Soderstrom and Sun, 2007). Therefore, an understanding of what factors affect a country's IFRS adoption is vitally important for international investors, as well as for policymakers, accounting professionals, and multinational firms (Ding and Su, 2008, Hope et al., 2006, Judge et al., 2010).

Factors influencing national accounting system development have been studied by accounting researchers since the 1960s, if not earlier (e.g. Mueller, 1967). The global adoption of IFRS has provided a new venue in which these factors may be linked with accounting development in different ways (Nobes, 2008). Some factors, such as culture, change very little over time and thus may hinder IFRS adoption efforts, while other variables, such as economic development and globalization, are more dynamic and may therefore push toward IFRS adoption (Shima and Yang, 2012). As present, most IFRS studies focus on the effects of IFRS adoption. With the increased public availability of financial information based on IFRS and the resulting stock market data, it is perhaps natural to see IFRS research shifting toward the effects of IFRS. However, in order to better assess the advantages and disadvantages of countries' IFRS adoption, it is necessary to understand the underlying causes. The driving forces that influence national decisions on IFRS adoption—such as culture, access to capital, and quality of governance (see Paper 1 for details)—can shed additional light on why national differences continue to exist while countries converge toward the same set of accounting standards.

This dissertation contributes to the current accounting literature in a number of ways. First, it contributes to recent academic efforts to examine IFRS adoption at the national level (see Paper 1) by investigating the Chinese experience of converging toward IFRS. Second, this thesis bridges the theoretical approaches used in current studies—namely, convergence and divergence (see Paper 2)—and applies the framework of strategic choices to examine how national accounting standard-setting organizations proactively respond to institutional changes (see Papers 3 and 4). Third, it facilitates the IASB's and other international agencies' efforts to promote the IFRS worldwide by providing insight into how national accounting standard-setters achieve a balance between their accounting environment and the pressure to adopt a set of externally developed accounting standards. Finally, it provides insights from the Chinese experience that can give useful policy guidance to other countries looking to follow China in their efforts to adopt IFRS.

1.6. A summary of the four papers

All four papers in this dissertation are designed to realize the same research aim, as outlined in Section 1.5, although each paper also has its own distinct objective. The papers are built upon the theoretical foundations presented in Chapter 2, share the same environmental contexts presented in Chapters 3 and 4, and follow the research process and method outlined in Chapter 5. In this section, I outline each paper by providing the authorship, followed by the research aim, research results, and contributions.

Paper 1: "Determinants of the *de jure* adoption of International Financial Reporting Standards: A review"

This paper is a single-authored paper with the purpose of systematically reviewing the extant studies on what causes a country to fully adopt, partially adopt, or not adopt IFRS and categorizing these factors into meaningful categories. In so doing, this paper facilitates policymaking for accounting and economic standard-setters, and identifies conflicting viewpoints in the current literature, thereby highlighting opportunities for future research. This paper is a literature review of academic studies that examine the factors influencing national IFRS adoption. The reviewed articles are limited to published, peer-reviewed papers. Overall, this review suggests that, although a wide range of determinants of national IFRS adoption have been identified, the literature consists of conflicting viewpoints regarding what factors influence national accounting policies toward IFRS adoption. Thus, it highlights areas with needs for future research.

Paper 2: "International accounting convergence and divergence: Toward a framework for understanding *de jure* adoption of IFRS"

The paper was coauthored by me, as the main author, and Daniela Argento. By bridging two approaches that are commonly used to examine national IFRS adoption—namely, convergence and divergence studies—this paper proposes a comprehensive framework of the *de jure* adoption of IFRS. This framework offers an understanding of accounting regulators' efforts to achieve a balance between pressures to adopt IFRS and country-specific conditions that may conflict with IFRS requirements. The proposed framework consists of four propositions: the degree of IFRS diffusion, national accounting system compatibility with the IFRS, country dependence on external constituents, and accounting regulators' international networking. The framework assumes that the current IFRS adoption status by country is not static and may change over time. These four dimensions jointly predict the national adoption level of IFRS, ranging from non-adoption to partial adoption and full adoption.

Paper 3: "China's accounting convergence with International Financial Reporting Standards: A strategic choice."

This single-authored paper aims to provide a reflexive analysis of China's accounting convergence with the IFRS and to assess the implications for China's future development. A reflexive and abductive qualitative research approach was used, based on data collected from a variety of archival documents. The study also utilizes an institutional framework complemented by an institutional strategic choice framework to reflect the joint effects of external isomorphism and internal motivation during China's IFRS convergence. The current convergence status between the Chinese GAAP and the IFRS is the result of the combined pressure from international investment and the internal need to grow China's economy. Major convergence has been achieved through voluntary adoption and negotiation between Chinese accounting standard-setters and international organizations. This research provides a unique reflexive analysis of China's accounting development, while using a complementary theoretical lens to examine more deeply the driving forces behind the current major convergence yet non-full adoption of IFRS in China.

Paper 4: "The role of national ideology in China's recent IFRS convergence"

This is a single-authored paper that examines how the national ideology has affected contemporary Chinese accounting changes during China's convergence with the IFRS by presenting how national identity, pride, and politics impact accounting development in the era of globalization. Drawing upon the theory of ideology, this thesis applies an extensive analysis of archival documents to explain Chinese accounting standard-setters' reactions to IFRS since 2006. This paper shows that, although accounting has been labeled as "science and technology" since the Chinese economic reforms, it has not been separated from ideology and the national identity, which has affected its future convergence. This paper demonstrates the role of ideology in the context of international accounting harmonization and highlights the need to closely examine accounting policies in relation to their national environment, especially in emerging economies.

1.7. Outline of the dissertation

The rest of the thesis is organized as follows. Chapter 2 provides a theoretical foundation and discusses the key concepts utilized throughout the research. Chapters 3 and 4 introduce the background and set the scene for an empirical understanding of the research topic. Chapter 5 discusses the research method and process adopted in this dissertation. Chapter 6 concludes the thesis, presents its main contributions to the field, and suggests future research opportunities. The four papers are included in the appendix.

Chapter 2. Theories and concepts

Various theories have been used in the prior literature to explain international accounting harmonization and the continued variations that occur in nations' IFRS adoption (see Paper 2). Regardless of the agreement or disagreement of their research results (see Paper 1), accounting scholars generally agree that national IFRS adoption is influenced by a nation's institutional environment. Institutional analysis has been recognized as an important lens for explaining both international convergence and the continued differences among nations' IFRS adoptions. This chapter presents the theoretical perspectives and key concepts in IFRS studies that have guided this thesis. The first section discusses how institutional theory, with its emphasis on isomorphism and legitimacy, has been utilized as the most dominant research framework to explain accounting convergence. The second section examines several influential frameworks that have been used to explain the continued variations among national accounting standards. The third section proposes the overarching theoretical framework for this thesis. The fourth section clarifies the key concept of "institution" in this thesis. The fifth section argues that national accounting standard-setters operate within their organizational field. The last section clarifies key terminologies and presents the definitions used in this thesis.

2.1. Institutional analysis in accounting research

Institutional analysis comprises a diverse range of schools of thought. Moll et al. (2006) describe three branches of institutional theory that have influenced accounting research: (1) old institutional economics (OIE), (2) new institutional economics (NIE), and (3) NIS.

2.1.1. Old institutional economics

For many years, “old institutional economics” was the only type of institutional economics that existed. OIE, which was founded by the American economists Thorstein Veblen, Wesley Mitchell, and John R. Commons, emphasizes a broader study of institutions and views markets as a result of the complex interactions among various institutions (Rutherford, 2001). It generally considers why and how particular behaviors and structures emerge, are sustained, and/or change over time (Moll et al., 2006), and focuses on understanding the role of the evolutionary process. OIE rejects the notion of rational individual choices, as they cannot be taken as given in order to capture the cumulative path of economic life.

2.1.2. New institutional economics

The term “new institutional economics” (also known as “neo-institutional economics”) refers to work based on the transactional cost approach of Ronald Coase, Oliver Williamson, and Douglas North. It has also been extended to cover game theory approach and the evolution of social conventions (Rutherford, 2001). Moll et al. (2006) state that NIE seeks to explain the existence or appearance of some institutions and the non-existence or disappearance of others. It assumes that institutions display rational-optimizing behaviors, especially when the benefits exceed the costs.

2.1.3. Neo-institutional sociology

Neo-institutional sociology (hereafter called “institutional perspective” or “institutional theory”) focuses on how organizations are influenced by their environment (DiMaggio and Powell, 1983, Meyer and Rowan, 1977). It argues that institutional norms and routines determine how organizations behave. In other words, particular organizational behaviors exist not because they are perceived as the optimal choice, but because they confirm the institutionalized expectations. This perspective focuses on legitimacy as a reward for organizations that are not penalized for being outliers in their environment; thus, institutional theory emphasizes the role of the environment in shaping organizations and their structures (DiMaggio and Powell, 1983). In recent years, NIS has been recognized as the most influential theory in the field of organizational (Davis and Marquis, 2005) and institutional development (Beckert, 2010). NIS-informed research assumes that intro-organizational structures and procedures, including accounting, are largely shaped by external factors.

In accounting research, an influential stream of studies grounds itself in accounting institutionalization (Cooper and Robson, 2006, Covaleski and Dirsmith, 1988, Durocher and Fortin, 2011, Johnson and Solomons, 1984, Ezzamel et al., 2007). Institutional theory has been extensively employed to make sense of accounting phenomena, the institutional roles of accounting (Burns, 2000, Irvine, 2008, Rahaman et al., 2004), and how new accounting systems are adopted in order to cope with external pressures (Lounsbury, 2008, Scapens, 1994, Moll et al., 2006). According to the institutional perspective, when faced with regulatory changes, organizations design structures to legitimize themselves in front of their external constituents (Oliver, 1991). DiMaggio and Powell (1983) state that, in the initial stages of their life cycle, the firms within organizational fields display considerable diversity in approach and form. However, once a field becomes well established, there is an inexorable push toward homogenization. These observations appear to be consistent with the diffusion process of IFRS. Despite originally comprising a range of diverse accounting traditions (Nobes, 1998), the field of international accounting has become more homogeneous (Judge et al., 2010), as a majority of the nations in the world have adopted IFRS.

The fundamental emphasis of institutional theory is on institutional homogenization rather than institutional divergence (Oliver, 1991). Dillard et al. (2004) note that institutionalization is a process in which practices such as accounting are developed and learned together by multiple actors. The more a country's economy is open to the outside world, the more that country will be exposed to the international norms and expectations brought out by economic globalization (Campbell, 2004). Such pressures may lead some countries—especially developing countries—to adopt IFRS (Cooke and Wallace, 1990). As the goal of converging national accounting standards is to eliminate international differences in financial reporting and increase the comparability of financial performances across national borders (Ball, 2006), studies on national accounting harmonization are interested in why and how national accounting standards are converging—at least, for most listed firms (Hope et al., 2006, Judge et al., 2010, Mir and Rahaman, 2005, Zeghal and Mhedhbi, 2006). As a means of answering such questions, institutional theory has been very useful (Hassan, 2008) and has become the dominant theory in IFRS convergence studies. Accounting research following this perspective explains organizational similarities in accounting practices—instead of organizational diversities—as a result of expectations from the institutional environment

(Lawrence and Suddaby, 2006, Tempel and Walgenbach, 2007). This school of research assumes that accounting changes are largely shaped by external factors (Dillard et al., 2004). It emphasizes institutional homogeneity by showing how and why IFRS have spread out across national accounting organizations and are reducing accounting diversity (Lounsbury, 2008).

2.1.4. Social legitimacy

Another important concept within institutional theory—namely, social legitimacy—is regarded as a useful explainer behind social practice changes (DiMaggio and Powell, 1983, Meyer et al., 1997). As organizations widely adopt new requirements, they become more homogeneous and reach higher levels of legitimacy within a society (DiMaggio and Powell, 1983, Meyer and Rowan, 1977). This process of increasing legitimacy takes place over time. When legitimacy gaps exist, organizations try to narrow them by adopting various legitimating strategies, such as common accounting standards. At the national level, DiMaggio and Powell (1991, p. 7) argue that nations, in an effort to realize joint gains, agree to "bind" themselves to international regimes that subsequently limit their freedom of action. Such constraints converge to create isomorphism and legitimacy, resulting in similar structures, thoughts, or actions within the institutional environment (DiMaggio and Powell, 1983, 1991). In other words, local entities are likely to model themselves after other organizations in their field so as to be perceived as more legitimate and successful (DiMaggio and Powell, 1983). Consequently, in the search for legitimacy, nations choose structures and policies that have previously achieved social acceptability (Meyer and Rowan, 1977). Thus, the drive to legitimize national structures and practices creates a need to adopt internationally accepted models (Meyer et al., 1997), such as IFRS. This perspective reinforces the notion that macro-social institutions influence lower level social activities and organizational behaviors (Scott, 2001, Meyer and Rowan, 1977).

According to the institutional legitimacy perspective, the accounting regulations of organizations are rational and well-controlled to help legitimize the organizations within their controlling external environment (Meyer, 1983). Although various groups in the same accounting environment may have different desires, they often negotiate with each other to attain social legitimacy (Cooper and Robson, 2006), allowing legitimacy to increase and/or funding to continue to flow (Meyer, 1983). Accounting studies have shown that IFRS adoption is one way in which nations can signal that they are participating in an already legitimatized global accounting model (Judge et al., 2010). For example, Mir and Rahaman (2005) provide empirical evidence that institutional legitimization is a major factor driving Bangladesh's decision to adopt International Accounting Standards (IAS) due to the pressure exerted by key international donors and lending institutions on the Bangladeshi government and on professional accounting bodies. Such pressure results from not only the need to exhibit credibility in front of foreign investors, but also the need for strong accountability arrangements with lending and donor agencies. Hope et al. (2006) find that countries with relatively weak investor-protection mechanisms in place are more likely to adopt IFRS if they seek to improve their legitimacy by "bonding" to a reporting standard that provides more comparable and comprehensive financial information.

2.2. Divergent IFRS acceptance by nations

Although institutional theory, with its emphasis on isomorphic pressures, has been widely applied to explain international accounting convergence, it has been shown that studies examining differences in the levels of countries' IFRS acceptance have predominantly relied on various categories of factors that differentiate national accounting systems from one another. The theoretical assumption of the latter approach stems from a long tradition of international accounting classification research (Nobes, 2008). The general aim of such research is to identify accounting patterns by classifying potentially influential factors. Sets of factors are typically proposed to serve as an explanation for internationally observed differences in prevailing accounting principles or practices (Böckem and d'Arcy, 1999). Mueller (1967) pioneered the idea that country-specific attributes such as culture, economic systems, and legal systems should be considered in the formulation and examination of differences in national accounting standards. Since then, a great deal of attention has been given in international comparative accounting literature to classify various national accounting systems based on clusters of national characteristics. Accounting classification studies assume that certain unique characteristics that exist within a country or in a cluster of countries' accounting systems differentiate these countries from other countries (Roberts, 1995). These country-specific environmental factors contribute to the various classes and types of national accounting systems and can hinder the uniform acceptance of IFRS (Nobes, 2011, Ball, 2006).

Prior literature on national IFRS adoption has shown that accounting classifications that are linked with accounting development can help to explain why some countries choose to adopt IFRS while others do not. Shima and Yang (2012) apply an accounting classification proposed by Choi and Meek (2008) and conclude that differences in national IFRS adoption create a natural experiment to test these categories of environmental variables. They argue that groups of factors based on differences in a country's economic, historical, institutional, and cultural background can be used to theoretically explain these differences. In their study of differences in national IFRS adoption among countries in the South Pacific region, Chand and Patel (2008) similarly rely on the international accounting classification of country-specific characteristics. They find that these factors—which existed before global IFRS diffusion—continue to exist and hinder the full harmonization of international accounting. Mita and Husnah (2015) confirm that, in the 54 countries they study, nation-specific factors that existed before the IFRS continue to hinder the uniform adoption of IFRS by these countries. Furthermore, Ding et al. (2005) apply Hofstede's culture classification as an underlying theory to understand the various IFRS adoption statuses. Their study suggests that a "diverging" status with regard to IAS can be explained by variations in national culture (ibid., p. 343). The next section elaborates in more detail certain accounting classification approaches that have influenced the research on international accounting in general and national IFRS adoption in particular.

2.2.1. Types of accounting classification models

A number of studies have developed influential models to identify factors that may explain differences in accounting systems among countries. Prominent examples include the Mueller (1968) model, the Nobes (1983, 1998, 2006) model, the Gray (1988) model, and the Freedman and Power (1991) model.

The Mueller model: Social system-based classification

One of the earliest accounting classification models is provided by Mueller (1968), based on countries' general social regulatory frameworks. By using four basic parameters of separation—namely, the state of economic development, the stage of business complexity, the shades of political persuasion, and reliance on a particular system of law—the author identifies 10 distinct sets of accounting environments worldwide and provides an understanding of why accounting systems differ internationally.

1. The United States, Canada, and the Netherlands: Countries in which industry is highly developed and strong business innovation exists;

2. The British Commonwealth (excluding Canada): Countries in which comparable companies' legislature exists;

3. Germany and Japan: Countries in which rapid economic growth has occurred since World War II and whose accounting practices have been influenced by the United States' practices;

4. Continental Europe (excluding Germany, the Netherlands, and Scandinavia): Countries in which private property and the profit motive are not the center of national economic planning;

5. Scandinavia: Countries whose economy is well developed and whose government tends more to social legislation than to the rate of business growth;

6. Israel and Mexico: Countries in which there is a trend of shifting from government control to more reliance on private enterprises;

7. South America: Countries in which significant economic underdevelopment is mixed with social and educational underdevelopment;

8. Developing nations of the Near and Far East: Countries in which the desire to trade dominates other parts of society and often clashes with traditional cultural and societal values;

9. Africa (excluding South Africa): Countries with little or no native business environment due to being in the early stages of independent civilization;

10. Communist nations: Countries in which the government exercises complete control over all business activities.

It can be argued that some of the original parameters proposed in Mueller's model may have changed; however, many still remain valid. For example, a later study by the American Accounting Association (AAA, 1977) builds upon ideas similar to those of Mueller (1968) and identifies "zones of accounting influences" based on historical-cultural-socioeconomic sources. A few years later, Zysman (1984) provides a similar accounting system classification based on three types of socioeconomic systems that affect international accounting differences. The first system is capital market based, in which prices are determined in a competitive and efficient market; the second is credit (government) based, in which the government controls the flow of economic resources; and the third is credit (financial institution) based, in which banks and other major financial institutions administer the financial flows of the national economy.

The Nobes model: Institutional system-based classification

Another influential accounting classification method used in an evolving stream of research is provided by Nobes (1983, 1998, 2006). In his earlier version of the classification model, Nobes (1983) proposes classes of accounting systems based on Mueller's model, and sub-classifies them into United Kingdom- and United States-influenced accounting families and tax- and law-based accounting families. In his later work, Nobes (1998) proposes another two-way classification using two variables: the strengths of the equity markets and the degree of cultural dominance. This model can be expressed in terms of propositions:

P1: The dominant accounting system in a culturally self-sufficient (CS) country with a strong equity-outsider system is Class A.

P2: The dominant accounting system in a CS country with a weak (or no) equity-outsider system is Class B.

P3: A culturally dominated (CD) country has an accounting system imported from its dominating country, irrespective of the strength of the CD country's equity-outsider system. *P4*: As a country establishes a strong equity-outsider market, its accounting system moves from Class B to Class A.

P5: Outsider companies in countries with weak equity-outsider markets will move to Class A accounting.

A few years later, Nobes (2006) continued his line of research on prior IFRS adoption by the European Union (EU) and further provided a theoretical model with eight hypotheses to explain different degrees of IFRS convergence:

H1: International differences in practice exist among IFRS companies due to differences in the version of IFRS being used.

H2: For some topics, different translations of IFRS lead to different practices.

H3: For topics on which there are no specific rules in IFRS, the German practice is different from the UK practice.

H4: The choice of IFRS options by UK and German groups is different.

H5: Covert options in IFRS are exercised differently by UK groups than by German groups. H6: Estimations under IFRS are biased differently in German groups than in UK groups.

H7: Pre-IFRS differences between national practices have a significant effect on IFRS financial statements.

H8: Compliance with IFRS by German groups is lower than that by UK groups.

The Gray model: Cultural cognitive framework

Another approach for classifying international accounting systems is centered on cultural influence on the development of accounting standards. According to Scott (2008), cultural cognitive frameworks provide deeper foundations for institutional forms. In formulating the classificatory systems, assumptions, and premises that underlie institutional logics, they provide the infrastructure on which not only beliefs, but also norms and rules rest (Scott, 2008). The most influential model used in accounting studies based on the cognitive framework may be the cultural dimension theory proposed by Hofstede (1983)[1]. Gray (1988) formally introduced the construct of culture into theoretical accounting models by linking Hofstede's original four cultural dimensions of power-distance, individualism, masculinity, and uncertainty avoidance with accounting values. In his seminal paper, "Towards a theory of cultural influence on the development of accounting systems internationally," Gray (1988) identifies four accounting classifications that affect national accounting systems:

1. Professionalism versus statutory control: Nations with a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control;

2. Uniformity versus flexibility: Nations with a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies;

3. Conservatism versus optimism: Nations with a preference for a cautious approach to measurement so as to cope with the uncertainty of future events, as opposed to a more optimistic, laissez-faire, risk-taking approach;

[1] Hofstede's cultural dimensions theory is a framework for cross-cultural communication developed by Geert Hofstede. It describes the effects of a society's culture on the values of its members, and how these values relate to behavior, using a structure derived from factor analysis. The dimensions are: Power distance index (PDI); Individualism vs. collectivism (IDV); Uncertainty avoidance index (UAI); Masculinity vs. femininity (MAS); Long-term orientation vs. short-term orientation (LTO); and Indulgence vs. restraint (IND).

4. Secrecy versus transparency: Nations with a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing, as opposed to a more transparent, open and publicly accountable approach.

Furthermore, Gray (1988) proposes four hypotheses on the relationship between the cultural dimensions identified above and the development of national accounting systems:

H1: The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance, the more likely it is to rank highly in terms of professionalism.

H2: The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism, the more likely it is to rank highly in terms of uniformity.

H3: The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity, the more likely it is to rank highly in terms of conservatism.

H4: The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity, the more likely it is to rank highly in terms of secrecy.

Gray (1988)'s accounting dimensions are intended to capture the underlying cultural values that would tend—in the absence of external influences or other factors—to influence a culture toward the development of certain types of accounting systems. This framework has influenced a great deal of the later accounting literature, including IFRS research. For instance, Salter and Niswander (1995) empirically test Gray's model and find that societies with low UA are less likely to have accounting systems that are dictated by prescriptive legal requirements yet are more open in reporting practices (i.e., financial disclosure driven by the marketplace rather than by rigid accounting rules). It follows that countries with low UA may be more attracted to IFRS for similar reasons.

The Freedman and Power model: The legal system classification model

In their method of accounting classification, (Freedman and Power, 1991) identify relationships along four general themes between accounting systems and law: (1) interests and associated bodies of knowledge, (2) the regulation of financial reporting, (3) the role and liability of auditors, (4) and the nature of substance and the future of professionalism. They predict that accounting practices can expect many changes in all four areas, which will not only impact the ways in which professions are regulated, but also affect the form of financial reporting.

Following the same legal classification trend, Ball et al. (2000) classify national accounting systems into two categories using the proxies of *common law* and *code-law* countries. They claim that, in common-law countries such as Australia, Canada, the United Kingdom, and the United States, accounting standards are normally determined by private sectors, whereas in code-law countries, such as Germany, France, and Japan, accounting standards tend to have a high degree of government control in accounting standard-setting. The researchers conclude that, in code-law countries, there is a comparatively strong political influence on accounting at the national and firm levels. More specifically, at the national level in code-law countries, governments establish and enforce national accounting standards, typically with representation from major political groups such as labor unions, banks, and business associations. At the firm level, politicization typically leads to a stakeholder's governance model involving agents for major groups contracting with the firm. On the other hand, common-law countries use a "shareholder" governance model, in which shareholders alone elect the members of the governing board. Therefore, the demand for accounting information is determined primarily in the disclosure market, and involves fewer political processes.

In sum, international accounting comparative research scholars tend to argue that the reasons behind national differences in accounting systems lie in the institutional environment surrounding these accounting systems (Tay and Parker, 1990, Mueller, 2011). Research on national differences in accounting systems seeks to identify and describe the accounting systems within a country that have an important influence on the outcomes of accounting standards. In other words, such research examines how various institutional variables combine to create existing, unique, country-specific accounting practices and, by the same token, explains why accounting practices differ across national borders (Nobes, 2008). The core assumption of the accounting classification approach is that the accounting environment normally varies from one country to the next (Gray, 1980, Freedman and Power, 1991). Although some characteristics may well be country-specific, a region or group of countries can bear very similar or essentially the same environmental conditions (Mueller, 1968). This assumption can be reduced to the proposition that the dimensions of an accounting environment can be drawn based on particular sets of institutional factors (ibid.). Nobes (2008, p. 191) notes that "classification, if done well, can help organize a mass of data. It can sharpen description and analysis, and reveal underlying structures."

2.2.2. The survival of accounting classification in the IFRS era

The part of the above title that reads "the survival of accounting classification" may sound dramatic at first. However, it captures the essence of an important question that has emerged as nations around the world have begun to converge their accounting systems toward a single set of accounting standards. In his influential work, "The survival of international differences under IFRS: Towards a research agenda," Nobes (2006, p. 233) asks if the accounting differences between jurisdictions have disappeared under IFRS. That is, will the accounting classification theory "survive" the IFRS era? Admittedly, research examining differences in national accounting practices around the world is hardly new and well preceded research on international accounting convergence (Zysman, 1984, AlHashim, 1992, Hoarau, 1995, Nobes, 1998). This genre of studies lays out the reasons why differences exist among national accounting standards and identifies the most important factors causing such differences. Nevertheless, given that over 140 jurisdictions have thus far adopted IFRS into their accounting legislature for most listed and publicly traded companies, it is reasonable to ask whether the factors causing national accounting differences have vanished. Or, to put it differently, does the international diffusion of IFRS imply "the end of international accounting" as an important field of study (Nobes, 2006 p.233)?

The answer is clearly "no," due to the continued divergence that can be found in national IFRS practices and in the various degrees of IFRS acceptance across national borders (Chand and Patel, 2008, Nobes, 2008). Even after a nation has adopted the IFRS and established new accounting regulations for its domestic entities, the new set of standards will be subject to the same institutional and market pressures that shaped the old set of standards in the first place (Ball, 2006). Thus, some of the original variables that cause international accounting differences remain influential, such as the financing, governance, and legal systems (see details in Section 2.2.1). Accordingly, a study by Nobes (2008) describes five ways in which accounting classification might still be helpful in the IFRS era. First, the degree to which national regulators allow or require IFRS for various purposes differs. Second, in many countries that have adopted IFRS for consolidated reporting by listed companies, the great bulk of accounting nevertheless continues under national rules. Third, the degree to which these individual national systems are converging with the IFRS differs in a way that classification can predict. Fourth, whether foreign countries' accounting systems are acceptable in particular exchanges, because they are IFRS or converging to IFRS, can be explained by classification. Finally, different national versions of IFRS practices are emerging, which can perhaps be classified. The last point particularly emphasizes the relevance of the classic literature on international accounting classification to the continued national differences in IFRS practice.

More recent studies have generally concluded that, despite the intention of applying a single set of accounting standards by the IASB and other international agencies such as the World Bank, complete comparability in financial reporting is difficult to achieve across countries since national specific institutional characteristics continue to persist (Chand and Patel, 2008, Kvaal and Nobes, 2010, Hail et al., 2010a, Tarca et al., 2013). As Hail et al. (2010a) note, unless other institutional factors across countries also converge, countries that start with a common set of accounting standards are likely to drift apart over time due to local adaptation and interpretation. The implications for the users of IFRS financial statements are that international comparability may have increased, but large differences will still remain (Nobes, 2006). Nobes and Zeff (2016) argue that previous accounting classification work done by accounting scholars can help to explain the internationally different degrees of convergence with IFRS. It can also help to predict the reaction of national accounting standard-setters regarding whether to require or allow IFRS for their domestically accountable entities. Therefore, instead of ceasing to exist, academic research focusing on the divergence of accounting practices has taken on a renewed mission to examine why nations continue to display differences despite the efforts to harmonize accounting standards worldwide (Nobes, 2006). In other words, accounting classification has "survived" the IFRS era thus far. The adoption of IAS provides a new venue in which these classifications may be linked with accounting development.

However, there have been criticisms of classification as an approach to understand international accounting. Roberts (1995) raises the question of whether international accounting systems can be clear cut enough for classification. He argues that, if the process of classification involves the selection of attributes of objects in a particular set that are used to identify resemblance and divergence between those objects and then leads to some objects being classified into one group and others into other groups, then it would appear that the process of comparison has already taken place in the very act of classification. Similarly, other researchers argue that international accounting research seems to be driven by a strong impetus to provide classifications and categorizations without considering whether these categorizations provide relevant insights. For example, Heidhues and Patel (2011) argue that cross-cultural accounting research appears to be in danger of relying on over-generalizations and an obsession with categorizations and cultural dimensions that often fail to capture the complexity and dynamics of cultures. According to the classification approach, national accounting systems are explained as the results of their national environment in an evolutionary, macro-like perspective. Hence, theorists explain the differences in national accounting systems by changing their combinations of environmental factors (ibid.). As Böckem (1999) points out, such shortcomings may be rooted in the approaches that aim to explain the different characteristics of accounting systems at the national level. These critiques have brought out an important issue that needs to be considered when conducting IFRS-related research: Multiple dimensions (i.e., similarities and differences) in the degree of IFRS adoption need to be taken into consideration simultaneously.

2.3. A comprehensive framework for understanding national IFRS adoption

The discussions above demonstrate that institutional isomorphism can explain accounting standard-setters' conformity due to external institutional pressures, while accounting classification brings out important country-specific factors that may prevent conformity to IAS (Nobes, 2008). Both perspectives are built upon the foundation of institutional analysis. Both can explain certain phenomena in national adoptions of IFRS. However, each tends to focus on a one-sided explanation of either convergence or divergence. Such a one-sided viewpoint may have contributed to the conflicting results that can be found in the extant IFRS literature (see Paper 1).

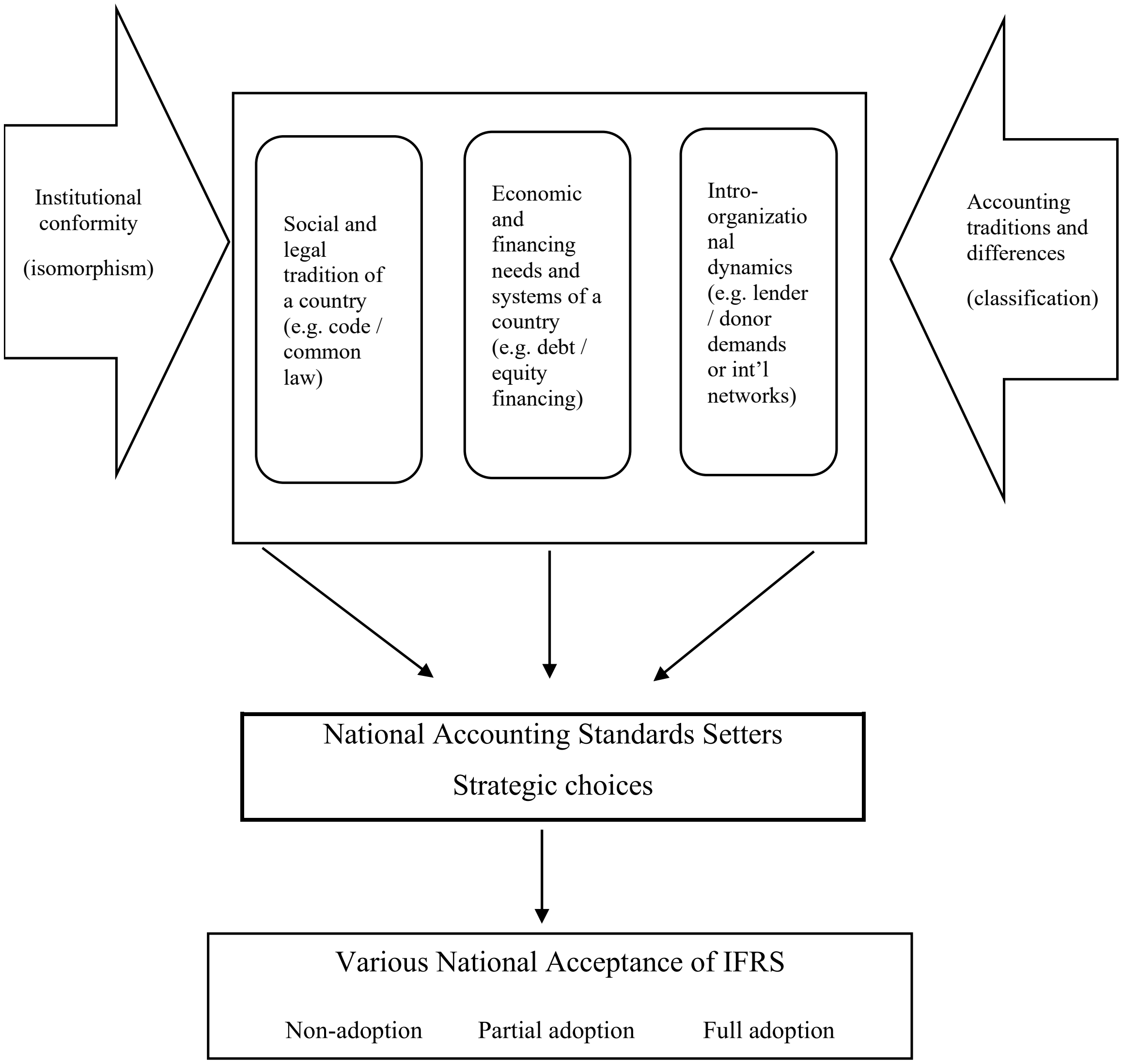
The adoption of IFRS at the country level is mostly a voluntary choice rather than being mandatory conformity. It has been argued that the reasons for voluntary adoption arise from countries' own need to be competitive and efficient, in addition to external pressure (Callao et al., 2007, Carmona and Trombetta, 2008, Meek and Thomas, 2004). This argument is particularly true for developing countries, which supposedly benefit the most from IFRS adoption (Mita and Husnah, 2015). Given that the accounting information in many developing countries is still difficult to rely on, international investors demand better standard quality. According to Zeghal and Mhedhbi (2006), IFRS adoption is the cheapest way to improve the financial reporting in developing countries. However, as the IFRS have been developed based on the accounting principles of developed countries, it is not clear whether they can be easily "plugged in" to the less developed institutional setups that surround accounting practices in developing countries.

To build a holistic view of institutional analysis within the complex empirical phenomenon of simultaneous convergence with and resistance to the IFRS, this thesis draws on the influence of NIS while integrating alternative views on international accounting classification. To facilitate the research aim of this thesis, the proposed framework also takes into consideration empirical findings on national IFRS adoption in the existing literature. A systematic review of studies on national IFRS adoption (see Paper 1) shows that there are three main categories of determinants: (1) socio-legal traditions, such as governance, national culture, education, and code law versus common-law systems; (2) economic and financing needs, such as a need for national economic growth and competition for foreign direct investment (FDI); and (3) intro-organizational dynamics, such as lender/donor relations and membership networks of national accounting standard-setters in the international arena. The proposed theoretical framework thus links the two dominant research approaches in international accounting studies and builds upon the empirical findings identified by previous research.

As argued in section 1.3, this framework further argues the notion that national reactions towards IFRS are not necessarily only passive results from external pressure or internal national traditions (see paper 2 for more details). Rather, they can also be strategic choices made by national accounting standard-setters to actively adapt to or even influence their environment. The various causes that motivate accounting standard-setters to totally conform, partially conform, or actively resist IFRS are an important dimension when studying the different degrees of national IFRS acceptance. Motivations for conformity include the self-serving advantages of compliance with the IFRS, which have been established as an international institution norm and meet international requirements (Ramanna, 2013). Countries can be motivated to choose an adoption level based on their specific needs, such as to ensure economic survival (Hassan, 2008), compete for economic resources (Hope et al., 2006), or improve their economic efficiency (Mita and Husnah, 2015). The rewards of conformity, as reported in the literature, include increased legitimacy, external commitment, and access to capital, among others (Judge et al., 2010, Mir and Rahaman, 2005, Qu and Zhang, 2010). Motivations for noncompliance, on the other hand, include the ability to maintain discretion or autonomy over decision-making (Hail et al., 2010b), the flexibility to permit continual adaptations (Meyer, 1986, Walker, 2016) as new economic contingencies arise, and the capacity to alter or control the environment (Oliver, 1997) in accordance with national objectives.

This framework provides a more integrated institutional perspective from which to examine international accounting harmonization. It puts forward the viewpoint that, in order to comprehend the coexistence of diversified acceptance levels of IFRS, it is necessary to understand the dynamics of the institutional variables that underlie the responses deployed by accounting standard-setters when deciding whether a set of exogenously developed accounting standards can really fit into their domestic institutional settings. Figure 2.1 illustrates how the proposed theoretical underpinning is connected to the existing empirical research to form an overview of a dynamic and diverse range of IFRS adoptions by nations. This framework serves as overarching guidance for the empirical investigations of this thesis.

Figure 2.1 Strategic choice framework for de jure IFRS adoption



2.4. The concept of institution in accounting research and in this thesis

The notion of *institution* plays a central role in this research. There are various understandings and definitions of institution. It is therefore necessary to examine how this term is defined here and why. The term, institution, refers to the relatively enduring systems of social beliefs and socially organized practices associated with varying functional areas of overall society (e.g., religion, work, politics, education, laws, and regulations) (Scott, 1987). In this vein, Scott (2001) provides a conceptual framework that differentiates the nature of institutions and their linkages with different types of environmental norms and rules. According to Scott, “institutions are composed of three pillars, namely, regulative, normative, and culture-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life” (ibid., p. 48).

Table 2.1 Pillars of institutions

Institution constraints organisational activity through three different dimensions:

	Pillars		
	Regulative	Normative	Cultural-Cognitive
Basis of compliance	Expedience	Social Obligation	Taken-for grantedness shared understanding
Basis of order	Regulative rules	Binding expectations	Consultative Scheme
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, Laws, Sanctions	Certification, Accreditation	Common beliefs Shared logic of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible. Recognizable, Culturally Supported

Source: Scott (2001)

The first of these three pillars, the regulative pillar, refers to the constraining and regularizing dimension of institutions. Central aspects of this dimension include rule-setting, observation, control, and the sanctioning of behavior. The second, the normative pillar, concerns the prescriptive, evaluative, and obligatory dimensions of institutions. Organizations follow norms, not just because doing so benefits them in terms of the cost-benefit ratio, but because compliance is expected and they have a moral obligation to meet expectations. The third pillar, the cognitive pillar, centers on the institutions that determine how reality is conceived in a society and through which reality is given meaning. Organizations follow such cognitive patterns, not because of coercion or because there is a moral obligation to do so, but because these patterns are taken for granted as the way things are done, making other types of behavior inconceivable.

Scott (2001) further provides a framework to analyze how the higher level environment (e.g., the IASB) affects lower level institutions (e.g., national standard-setters). According to Scott, institutional theory utilizes three levels of analysis. At the highest level, there are societal (and global) institutions, where models and menus are both formally proposed and informally enacted. These provide the institutional context: what is deemed possible, acceptable, and legitimate. Such institutions shape, constrain, and facilitate structures and actions at lower levels. At the next level of Scott's model, there are governance structures, which consist first of organizational fields, and then of organizations themselves. These include organizations operating within the same domain (as indicated by the similarity of their services), such as the accounting profession, along with other organizations that critically influence their performance (e.g., lenders, contractors, partners). Organizations vary by function, size, structure, culture, and capacity for change, and all organizations influence—and are influenced by—their organizational fields and institutional environments. Finally, at the third level, there are actors in institutional settings, who may be individuals or groups. Each of these levels influences and is influenced by the forces of the diffusion and imposition of institutional norms (e.g., using the same set of accounting standards), while inventing new ways of operating and negotiating the establishment of institutional norms. Therefore, the key assumption within institutional theory is that all social actors are seeking legitimacy and/or reinventing legitimacy norms within the institutional environment (ibid.).

In accounting research, institutional analysis has traditionally been applied at the organizational level; however, the theory has also been used to explain the impact that powerful institutional forces, operating at an international level, have on individual nation states (Hassan et al., 2014, Irvine, 2008) and regulations (Judge et al., 2010). In line with their application in prior IFRS literature at the national level, the research in this thesis focuses on the first and second levels within Scott's framework (Scott, 2001). Table 2.2 summarizes how I interpret and apply Scott's framework in this thesis.

Table 2.2 Interpretation of Scott's (2001) institutional framework in IFRS adoption

	Scott's (2001) institutional framework	IFRS adoption
First level	Societal (and global) institutions Formally propose and informally enact menus and modes	The IASB, along with other international organizations Propose and advocate the adoption of IFRS
Second level	Governance structure Operate in the same domain, influence and are influenced by the institutional environment	National-level accounting standard-setting organizations Ensure IFRS adoption flow from higher level to lower levels
Third level	Actors May be individuals or groups	Reporting entities Eventually serve the financial statement users

In this thesis, the highest level is understood to be the IASB, along with other international organizations that advocate for international accounting harmonization and push for the adoption of IFRS, such as the World Bank and the International Money Fund (IMF). These organizations set the rules and expectations, and propose changes to the next level (Scott, 2001). They also facilitate expected accounting changes by providing assistance, content, and advice, as well as engaging in negotiations with lower levels (ibid.). The second level as defined in this thesis includes accounting standard-setters and parties that participate in the accounting standard-setting process at the national level. This level of accounting organization serves as an intermediary between the higher level and the lower level (i.e., the firm level) to ensure that the institutional expectations from the higher level (i.e., of adopting IFRS) will work for the intended beneficiaries at the lower level (i.e., the investors, firms, and other financial statement users). The third level consists of individual actors or groups that either voluntarily or mandatorily produce financial reporting in accordance with the IFRS for financial statement users. The scope of this research encompasses the first and second levels of analysis.

2.5. The organizational field of national accounting standard-setters

Although the previous literature does not specifically discuss it, I bring forward here the argument that IFRS research is largely built upon a common assumption: namely, that national accounting standard-setting organizations operate within their organizational field. I believe that this underlying concept needs to be clearly and separately discussed in order to better understand the interactions among national accounting standard-setters and the changes that occur as a result. The development of national accounting standards involves the collaboration of various institutional actors, such as the IASB, the World Bank, national government agencies, the capital market, the accountancy profession, financial statement users, management/preparers, and regulators (Cooper and Robson, 2006). The process of developing accounting regulations may have distributional consequences, as some institutions are likely to benefit while others may be harmed. According to DiMaggio and Powell (1983), this may lead to a redistribution of power among those involved in the process; therefore, some institutions may suffer from a loss of self-regulation in comparison with other institutions.

Such a redistribution of control can be subject to resistance, or may at least be a source of conflict. The activities of various actors and their impact on each other constitute what DiMaggio and Powell (1983) call "an organizational field." DiMaggio and Powell (1983, p.148) define an organizational field as "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products." Following this logic, one can perceive that national accounting standard-setters in the context of international accounting harmonization operate within the "organizational field of IFRS." Although their mutual target is to develop accounting regulations, the relative power of whoever is involved in the development process will influence both the form and the content of these regulations. Greenwood et al. (2002 p.58) further elaborate that an organizational field "represents an intermediate level between organization and society and is instrumental to processes by which socially constructed expectations and practices become disseminated and reproduced." Accordingly, an organizational field comprises multiple institutions with potentially conflicting interests.

Scott (2008) argues that a great deal of work has taken place at the level of the organizational field, even though NIS arguments are often applied at the individual organization level. According to DiMaggio and Powell (1983), the virtue of using the organization field as the point of analysis in research is that it takes into account the totality of the relevant actors, instead of simply focusing on competing organizations or networks of several organizations. They emphasize that the emergence and structuration of an organizational field is a result of the activities of these diverse set of organizations. Such a concept focuses not on organizations in environments, but on the organization of the environment, with attention to organizations as the major players (Davis and Powell 1992; Scott and Davis 2007). Thus, an organizational field can also be conceptualized as a potentially contradictory inter-institutional system in which each sector represents a different set of expectations of social behavior (Friedland and Alford, 1991). But once the field is established, powerful forces emerge that lead the organizations within the field to become more similar to one another (DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

In addition, DiMaggio and Powell (1983) argue that organizational fields only exist to the extent that they are institutionally defined. According to these scholars, the process of defining a field consists of four parts: first, an increase in the extent of interaction among organizations in the field; second, the emergence of sharply defined inter-organizational structures of domination and patterns of coalitions; third, an increase in the information load with which organizations in the field must contend; fourth, the development of a mutual awareness among the participants in a set of organizations that they are involved in a common enterprise.

Thus, one can argue that IFRS adoption has helped to form an organizational field among accounting standard-setters and other interested parties around the theme of international accounting harmonization. In this field, national accounting standard-setters are increasingly interacting with each other through various forms of collaborations. These collaborations, which mainly occur through the IASB, have the main goal of developing and improving IFRS as the single set of accounting standards used internationally (IASB, 2004). Mutual awareness of the importance of converging national accounting practices across national borders has formed a common goal within the network of accounting standard-setters (McCreevy, 2005). Admittedly, although these national organizations are connected with each other on the same issue, they may not necessarily agree with each other on whether and/or how to adopt IFRS. As Hoffman (2001) points out, when a field is formed around an issue, such as international accounting harmonization, relations are structured as much by disagreement as by agreement.

The international accounting literature generally argues that national accounting changes involve multiple actors, including various organizations (Cooper and Robson, 2006, Hassan, 2008) such as capital markets, those in the accounting profession, and accounting standard-setting organizations (Judge et al., 2010). These actors share a mutual final goal, which is to ensure the functionality of accounting regulations; however, the relative power these actors hold will influence the outcomes of the accounting changes (Hassan, 2008). Power struggles can appear in accounting regulation changes because various institutional actors need to secure or increase their own power, legitimacy, and positions (Oliver, 1991). The results of accounting changes, regardless of outcome, may lead to a redistribution of control among the parties within the field. Therefore, the organizations within a field are subject to conflicts, resistance, or deal-making. Hail et al. (2010a) argue that changes in accounting standards cannot be considered in isolation from other elements of the institutional infrastructure. Due to the totality of (DiMaggio and Powell, 1983) and complementarities among (Hail et al., 2010a) multiple constituents, changing one element may worsen the system or economy, even when the element itself improves along a particular quality dimension. Thus, it is not obvious that a country should adopt a new set of accounting standards, even if this set is unambiguously "better" than the existing one, because the standards may not be institutionally suitable within this organizational field.

2.6. Key terms in this dissertation

Financial accounting research is often loaded with special concepts, both technical and theoretical, that bear specific meanings that either clarify for or further confuse readers. This issue is manifested in international accounting due to the scope of diversity in accounting traditions. During the literature review, it became obvious that some of the important concepts in this field have been unclearly used or defined. Many researchers employ these concepts, but few define them. In addition, certain concepts are often treated as interchangeable, even though they do not represent precisely the same thing. This is perhaps inevitable for a subject as complex as IFRS. Nevertheless, for the purposes of this thesis, it is necessary to clarify the embedded meanings. In this section, I examine some of the frequently used key terms and discuss how this thesis uses these concepts, since different usages may tilt the discussion in somewhat different directions. It is also important to note that the purpose of this discussion is not to determine the "right" or "wrong" definitions of these terms, as important and evolving concepts can hardly be expected to have clear-cut definitions. Rather, the purpose is to note blurred or unclear definitions and introduce some clarity to the extent that has been identified in the literature.

2.6.1. International accounting system

A dichotomy exists in the accounting literature in regard to what is meant by the term "international accounting system" and how it should be approached. One approach defines "accounting system" at the national level. For example, Gray (1983) states that a country's accounting system constitutes various national characteristics, such as the structure and development of capital markets, legal requirements, professional accounting standards, and tax law. Similarly, Doupnik and Salter (1995) believe that the international accounting system resides in national legislature. By contrast, other authors regard an accounting system as a firm-level practice. For instance, Nobes (1998, p. 164) defines an accounting system as "a set of practices used in a published annual report." Commenting on the difference in the two approaches, Nobes (1998) argues that, although there is a formal set of rules or systems at the legislature level, companies sometimes choose to depart from these rules. According to Nobes, the advantage of using the firm-level definition, although it is admittedly narrow, is that this definition can actually have wider empirical implications. As stated in Chapter 1, the research scope of this thesis comprises the national-level IFRS, which will be examined separately from firms' decisions. The use of "accounting system" in this thesis thus follows Doupnik and Salter (1995)'s definition and refers to accounting standards and practices adopted at the country level.

2.6.2. Convergence versus adoption

The terms "convergence" and "adoption" have recently come into use as nations attempt to narrow the gap between their national accounting standards and the IFRS. It is important to note that convergence is not equivalent to adoption (Ball, 2006, Nobes and Parker, 2012). The differences between these two concepts have set off a great deal of debate within the field of international accounting research. Nobes (2008) argues that, in order to be called adoption, relevant entities must state that their financial statements are in full compliance with the IFRS as issued by the IASB. Thus, at the country level, “adoption” should mean that the national set of accounting standards is directly replaced by the IFRS as issued by the IASB. This position is taken by the Member States of the EU, which have fully applied the IFRS since 2005. By comparison, “convergence” is the gradual mechanism of changing local accounting standards into IFRS. Although it does not mean full adoption, convergence can indicate only a minimal difference between a nation’s standards and the IFRS (Mita and Husnah, 2015). According to the IASB’s position, convergence will not, by definition, lead to a common set of global standards. Nevertheless, convergence has been and will likely remain a useful process to facilitate adoption by narrowing differences. Thus, convergence should be a means of making the transition to the full adoption of IFRS standards, and not an end in itself (IASB, 2017). By the same token, Zeff and Nobes (2010) emphasize that convergence is a dynamic process of consistency with IFRS in accounting principles and substance, which is neither a direct adoption of IFRS nor a word-for-word translation of IFRS. Rather, convergence is the act of moving toward uniformity. Zeff and Nobes use China and Venezuela as examples of countries that use the IFRS as a starting point for drafting national standards, but then diverge significantly from the IFRS as issued by the IASB. Some countries that have “converged” with the IFRS are nonetheless counted by the IFRS Foundation and by others as adopters of the IFRS, which—according to Zeff and Nobes (2010)—is misleading.

In the same vein, Ball (2006, p. 9) notes that convergence is “the process of narrowing the differences between IFRS and the accounting standards of countries that retain their own standards.” Convergence is a modified version of adoption in which multiple sets of rules or practices are the same (Nobes and Parker, 2012). Therefore, the relation between convergence and adoption is not dichotomous. These two concepts represent the subtleties of the development and diffusion of IFRS at various stages. Following this logic, Nobes (2008, p. 194) states that the word “convergence” is more correct when applied to the joint program of the IASB and the United States’ Financial Accounting Standards Board (FASB), because both have changed particular standards to match each other’s, and the IASB and FASB have run many joint projects. In the case of other countries, however, convergence with the IFRS is a euphemism for the piecemeal adoption of IFRS (ibid.). In this thesis, the terms “adoption” and “convergence” do not have the exact same meanings, although both refer to the efforts made by national accounting standard-setters to move closer to IFRS. When the term “adoption” is used to represent the status of a convergence, it will be given a more specific range such as “full adoption,” “partial adoption,” or “non-adoption.” The term “convergence,” on the other hand, is not used to describe the adoption status, because this thesis agrees with the previous literature stating that convergence by itself does not produce standards identical to those produced by adoption.

2.6.3. Standardization versus harmonization

Standardization and harmonization are often used interchangeably in IFRS studies. However, the difference between them should not be ignored (McLeay et al., 1999). Standardization implies a movement toward uniformity, whereas harmonization is a movement away from total diversity (Tay and Parker, 1990). In the context of IAS, McLeay et al. (1999, p. 43) suggest that "whilst international standardization implies a movement towards global uniformity, harmonization implies a movement towards similarity in the choice between alternative accounting treatments." They define international standardization as a process that constrains choice, ultimately resulting in the adoption of the same accounting method by all firms and all countries. International accounting harmonization, on the other hand, is a process that results in a systematic choice between accounting methods across national borders (ibid.). Such choices are dependent upon the nature of the nation or firm and its operating environment, but are otherwise independent of the location in which the nation or firm happens to be registered (ibid.). Similarly, Canibano and Mora (2000) argue that harmonization is a more realistic and conciliatory approach than standardization, and is also more attainable and less rigid. However, other scholars disagree. For instance, Arnold (2012) believes that harmonization is equivalent to standardization. That is, according to Arnold, accounting harmonization equates to the standardization of financial reporting standards, auditing standards, and/or other accounting-related rules and regulations such as licensing and qualification requirements or ethics rules (ibid., p. 361). This thesis follows the distinction set out by McLeay et al. (1999), meaning that the IASB's efforts to promote a single set of accounting standards worldwide represent a movement toward the harmonization of international accounting practices and, eventually, to standardization of IFRS.

Chapter 3. The history and legitimacy of IFRS

It has been argued that the international harmonization of accounting standards is a result of the economic integration and increasing trading between national borders (Campbell, 2004). IFRS research has also gained much attention and has grown quickly in the past couple of decades (Ball, 2016). Although these studies have been conducted in a variety of empirical settings, by either drawing insight from single-country experience (e.g. Albu et al., 2014, Hassan et al., 2014, Mir and Rahaman, 2005) or examining multi-country results (e.g. Hope et al., 2006, Judge et al., 2010), they share the same general context, with economic globalization and international accounting harmonization having formed an environment in which accounting standard-setters must operate. In addition, corporate economic scandals have shaken investors' trust in financial reporting. To regain both inventors' trust and economic order, it has become necessary to strengthen the comparability and transparency of financial reporting across national borders (IASB, 2020). To facilitate an understanding of the research purpose, this chapter presents the contextual background of IFRS diffusion. The first section discusses the effects of globalization and a series of financial crisis on the need for global financial accounting standard harmonization. The second section introduces the history and development of the IFRS and its diffusion process. The third section summarizes the chapter.

3.1. Economic integration and global financial crisis

Economic globalization and integration form an important context in which national IFRS adoption has become not only necessary, but also urgent (Al-Htaybat, 2018, Alon and Dwyer, 2014). Economic globalization has created a new common ground for businesses to engage in trade and transactions across national borders (Campbell, 2004). In this new "game," certain common rules must be understood and followed by all participants to ensure a functional trading place. As the vice chairman of IASB, Ian Mackintosh comments:

> It is increasingly difficult to see different and often incompatible national accounting standards as anything other than a legacy of a bygone era. They add cost, complexity and translation risk to companies and investors operating in today's global marketplace (IASB, 2014).

According to the IASB, about one third of all financial investments in the world are international transactions. It is essential for differences in national accounting standards to be eliminated, or at least understood by all players. Thus, it is necessary for national accounting standard-setters to change their existing national accounting systems in order to facilitate international economic changes, assuming that a growing economy is part of the national plan. Global standards are achievable and an inevitable consequence of continued economic globalization. As stated on the IASB website:

> This [globalization] evidence indicates that global standards are both desirable, achievable and inevitable. As economic globalization continues apace, so too will the force of the arguments in favor of IFRS adoption within those remaining jurisdictions. (IASB, 2014)

In addition to global economic integration, the accounting scandals in the early 2000s that brought down large multinational corporations (MNCs) such as Enron and Arthur Anderson have increased investors' awareness of the importance of trustworthy accounting standards. Furthermore, in the summer of 2007, accumulating losses on U.S. subprime mortgages triggered widespread disruption to the global financial system. In less than a year, the situation developed into an international financial crisis and eventually resulted in a global economic downturn that further shook investors' confidence in the stock market. As stated on the IASB website:

> Post-crisis, policymakers are all too aware of how every national capital market in the world, even the largest, functions as little more than a satellite of the global financial system. (IASB, 2014)

To reestablish confidence in the soundness of markets and financial institutions, as well as to prevent further crises, the G20[2] summit in

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2 The "Group of 20" (G20) is made up of the finance ministers and central bank governors of 19 countries and the European Union: Argentina, Australia, Brazil, Canada, China, France,

Washington on November 15, 2008, produced a thorough analysis and summary of the root causes of these crises and put forward action plans that included improving the IASB's governance and supporting the IFRS as the single set of high-quality global accounting standards. Both national and international organizations developed recommendations and resources aimed at promoting the IFRS. The G20 called on the IASB and the FASB to improve standards on valuation and provisioning and to achieve a single set of accounting standards. The G20 summit in London in April 2009 further required proactive collaboration from member countries on convergence with the IFRS in order to prevent similar financial crises. In the same year, the G20 formed the special Financial Crisis Advisory Group (FCAG). The FCAG supports the IASB in promoting the IFRS to be the single set of global accounting standards in order to reestablish investors' confidence in accounting information.

However, the G20 has never required countries to fully adopt the IFRS. Instead, it encourages its members to converge with the IFRS. The IASB does not agree with this position and has expressed on multiple occasions that only full adoption of IFRS, not convergence with IFRS, can ensure global financial stability and prevent similar financial crises. According to the IASB, the G20 and its various committees, while pushing the diffusion of IFRS, have frequently focused on national interests, which can create barriers and impediments to economic growth and jeopardize global financial stability. As the chairman of the IASB remarked:

> This inability to deliver compatible outcomes with the FASB clearly demonstrates the inherent instability of convergence as a means to achieve a single set of global accounting standards. For this reason, our Trustees wisely concluded that convergence can never be a substitute for adoption of IFRS. Thankfully, throughout the financial crisis, the momentum towards adoption has continued unabated in many countries. (IASB, 2014)

Despite this disagreement from the IASB, the G20—which promoted the IFRS in the past due to the financial crisis—has recently been less enthusiastic. Support for the work of the IASB has been decreasing. For example, in the past years, the communiqués always included a paragraph such as this:

Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, the Republic of Korea, Turkey, the United Kingdom, and the United States.

> We underline the importance of continuing work on accounting standards convergence in order to enhance the resilience of the financial system. We urge the International Accounting Standards Board and the US Financial Accounting Standards Board to complete by the end of 2013 their work on key outstanding projects for achieving a single set of high-quality accounting standards. (G20 summit in St. Petersburg, 2013)

However, the newest communiqués published after the meeting of the G20 Finance Ministers and Central Bank Governors in Sidney in 2014 and thereafter no longer contain a call for converged accounting standards.

3.2. The history and development of IFRS adoption

This section briefly describes the history and development of IFRS and how they have gradually become the institutional norm (Guerreiro et al., 2020) for national accounting standard-setters in the past couple of decades. Through this effort, I try to form a holistic picture of both the successes and difficulties that have occurred during the IFRS diffusion process. Given that the vast majority of IFRS studies emphasize the importance of environmental factors (see Paper 1 for details), such contextual information is important to help readers understand the reactions of national accounting standard-setters when deciding whether to fully adopt, partially adopt, or not adopt IFRS.

3.2.1. The history and development of the IASB

The formal history of the IASB began with the International Accounting Standards Committee (IASC). In 1973, the IASC was jointly established by professional accounting bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland, and the United States. Between 1973 and 2001, the IASC issued IAS. The IASC was essentially a structure, rather than a committee in the traditional sense of a group of people. The IASC originally had a goal of "harmonization" by reducing differences between accounting standards in major capital markets. By the 1990s, however, the IASC reshaped its goal into "convergence," which, according to the organization, is a step above harmonization. The convergence concept is to develop a "single set of high-quality, international accounting standards that would be used in at least all major capital markets." In 1995, The IASC and the International Organization of Securities Commissions (IOSCO) agreed on what constituted a comprehensive set of core standards. The IASC undertook a project to complete those core standards by 1999. The IOSCO agreed that, if it found these core standards acceptable, it would recommend the endorsement of IASC standards for cross-border capital and listing purposes in all capital markets. In May 2000, the IOSCO completed its assessment and accepted the IASC's core standards. Members of the IOSCO were encouraged to use the IASC standards to prepare their financial reporting for international offerings and listings, supplemented where necessary to address outstanding substantive issues at a national or regional level, or to use waivers of particular aspects of the IASC standards without requiring further reconciliation under exceptional circumstances.

In 1997, after nearly 25 years of existence, the IASC concluded that, in order to continue to bring about convergence between national accounting standards and practices and high-quality global accounting standards, it had to find a better way to perform its role effectively. To do so, the IASC saw a need to change its structure. The standard-setting body was thus renamed as the IASB. Formally, the IASB is a private standard-setting organization based in London. It operates under the IASC Foundation, which is more widely known as the IFRS Foundation. The IASB is primarily funded by fundraising activities, which are the responsibility of the IFRS Foundation. The governance, oversight, and standard-setting processes of the IASB are similar to those of the FASB in the United States. The IASB has 14 board members (including a chair and a vice chair) with a variety of functional backgrounds and from different continents. The currently sitting IASB Chair is Hans Hoogervorst, and the Vice Chair is Sue Lloyd. The primary purpose of the IASB is to promulgate IFRS. It is committed to the mission of developing a single set of high-quality, understandable, and enforceable global accounting standards and working with national standard-setters to achieve accounting standards convergence. The IASB has inherited 25 standards issued by the IASC, covering various issues. Because the IAS standards were essentially distillations of existing accounting practices used around the world, they often allowed alternative treatments for the same transactions. The IASB decided to undertake a comparability and improvement project to reduce the number of allowable alternatives and make the IFRS standards more prescriptive than descriptive.

3.2.2. The development and adoption of IFRS around the world

Although IFRS have now been accepted by the majority of countries around the world, their initial acceptance by national accounting standard-setters and firms was not as smooth as many might think. The process began in the 1970s, and it took a long time for the IFRS to gain worldwide recognition. In this section, I present a brief history of the development and adoption of the IFRS. Following the prescribed theoretical framing of this thesis, the purpose of this section is to illustrate the formation and position of IFRS as the institutional norm in today's international accounting field. Thus, the discussion takes on a chronological order.

3.2.2.1. Initial hesitations and uncertainties regarding adoption

Prior to the first major wave of IFRS adoption among the European countries in 2005, there was a great deal of debate about the relevance and feasibility of implementing a single set of accounting standards worldwide. During this time, national and international standard-setters tried to understand how the globalization of the economy had influenced countries' acceptance of IFRS; they also tried to identify key factors or obstacles that could affect a nation's capacity for adoption and willingness to adopt. In this process, there were concerns that, even if countries or firms chose or were required to adopt IFRS, they might not be ready and might apply IFRS differently, creating a bigger problem than before. The KPMG issued a survey of 149 accounting professionals showing that there was general concern that uncertainty over the applicability of IFRS among EU companies had delayed the voluntary IFRS adoption of many (KPMG, 2000). Similarly, the Institute of Chartered Accountants in England and Wales (ICAEW) raised concerns regarding the lack of preparation for the introduction of IFRS. The ICAEW conducted a survey among its members asking whether they would, if given the choice, move to IAS. Only over a third of the businesses said that they would be likely to move to IAS. The ICAEW concluded that tardy preparation for IFRS adoption by some firms could cause them to receive qualified audit opinions upon IFRS adoption (ICAEW, 2004).

Another concern was the feasibility of implementing an Anglo-Saxon accounting model into other social contexts. Some observers have regarded international accounting harmonization as predominantly implying compliance with an Anglo-Saxon accounting model (Hoarau, 1995), and contend that the international accounting standards agenda of the IASB is a means of imposing an Anglo-American hegemony. Such a contention was somewhat evident in the 1990s, when the staffing complement of the IASB was dominated by Anglo-Americans. For example, even though the ASEAN Federation of Accountants (AFA) had sought a greater level of representation and participation by Asian nations in the deliberations of the IASC, prior to 1995, only Malaysia and Singapore out of the ASEAN AFA member countries had been represented on working committees. Setting aside the achievability of global standardization, Dye and Sunder (2001) also question whether having a single global set of accounting standards is even desirable. They argue that there were several benefits in allowing firms to follow either IFRS or the U.S. GAAP, and contend that competitions among standard-setters can help to meet the needs of globalization and increase the efficiency of accounting standards.

3.2.2.2. Major waves of IFRS adoption around the world

Despite the skepticism in the early stage of IFRS harmonization, during the push for the internationalization of accounting standards, the accounting differences between IFRS and other major national accounting standards, such as the U.S. GAAP, were narrowing (Street et al., 2000). In the late 1990s, some countries began to allow voluntary adoption of IFRS. For example, in 1998, the law §292a HGB was passed in Germany, permitting German listed companies to prepare consolidated accounts in accordance with the IFRS. In the meantime, many major stock exchanges around the world, including the London, Frankfurt, Zurich, Luxembourg, Bangkok, Hong Kong, Amsterdam, Rome, and Kuala Lumpur stock exchanges, began to accept financial statements from foreign listed companies prepared under the IFRS without reconciliation. In the United States, the SEC also began to allow disclosures based on IFRS. As stated by the SEC, the reasons for accepting such standards in the U.S stock changes were as follows:

> Our decision to adopt the International Disclosure Standards was based on our conclusion that the standards were of high quality and that their adoption would provide information comparable to the amount and quality of information that U.S. investors receive today. (SEC, 2000)

The FASB decided that the need for international standards was strong enough to warrant more focused activity on its part. The then FASB Chairman, Dennis Beresford, expressed his support for "superior international standards" that would gradually replace national standards, and identified new initiatives to get the FASB more directly involved in the drive to improve international standards. The FASB and the IASC began to undertake concurrent projects to improve their earnings per share standards with the specific objective of eliminating the differences between them.

The large listed European companies that chose early voluntary adoption of IFRS did so because they believed that the use of international standards would enable better communication with information users, especially international investors. For example, KPMG (2000) reported in a survey that the reasons for European companies to switch from national standards to international standards included (1) the possibility of increasing the availability of capital and lowering its cost; (2) the perceived high quality of the IFRS; and (3) the preferences of institutional investors and analysts.

Then, in the early 2000s, efforts to internationally harmonize accounting standards finally evolved into a broad worldwide convergence effort at the national level. In 2002, the EU adopted legislation requiring all listed companies to prepare their consolidated financial statements using IFRS starting in 2005, which represented the first major capital market to require IFRS. The regulation states that IFRS adoption is intended to achieve "a high degree of transparency and comparability of financial statements and hence an efficient functioning of the (EU) Community capital market and of the Internal Market." In the same year, the FASB and the IASB embarked on a partnership to improve and converge the U.S. GAAP and international accounting standards. That partnership is described in the Norwalk Agreement, which was issued after the joint meeting. The Norwalk Agreement set out the shared goal of developing compatible, high-quality accounting standards that could be used for both domestic and cross-border financial reporting. Beginning in November 15, 2007, the U.S. SEC allowed the listing of foreign companies using the IFRS on the NYSE without having to first reconcile their financial statements with the U.S. GAAP. In the meantime, several other jurisdictions such as Hong Kong and Australia also chose to adopt IFRS. Japan and China also formed convergence plans with the IASB. In 2007, China achieved major convergence between the Chinese GAAP and the IFRS.

In addition, there was a continuation of the worldwide planning efforts at the international level. For example, in response to the international financial crisis, the G20 summit in Washington on November 15, 2008 produced a profound analysis and summary of the root causes of the crisis and put forward action plans that included improving the IASB's governance and establishing a single set of high-quality global accounting standards. The G20 summit in London in April 2009 required proactive collaboration from member countries in converging accounting standards. The IMF routinely provided foreign aid to developing countries or countries in financial trouble with the demand that reform be enacted in the public and private sectors. Such demands were often tied to the demand that IFRS accounting standards be adopted. After the few rounds of major waves of IFRS adoption around the world, the success of IFRS convergence is now apparent. According to the recent IASB report, more than 140 jurisdictions have adopted IFRS with very few modifications, and the few jurisdictions that have made modifications are generally regarded as taking temporary steps in their plans to adopt IFRS.

3.2.2.3. Recent slowdown and increased skepticism

In more recent years, despite the momentum of IFRS adoption by nations, there have been renewed concerns over the success and legitimacy of IFRS. Notwithstanding the claims by the IASB that modifications to the IFRS are rare, some academic research has shown continued major differences among national financial reporting (Ball, 2006, Jeanjean and Stolowy, 2008, Kvaal and Nobes, 2010, Tarca et al., 2013). Of course, as Nobes and Zeff (2016) point out, the most obvious limitation to the scope of the mandatory use of IFRS is that the phrase "all the major countries" does not include the world's three largest economies: the United States, China, and Japan. They argue that, with the great increase in adoptions of IFRS, warnings about the vague claims are even more relevant, because the population of adopters is now much larger yet still shows considerable variety.

In addition, the speed of IFRS adoption has begun to slow down as the initial enthusiasm fades away. The Chinese GAAP, for example, have remained in a convergence but non-adoption status since 2006. The Chinese Ministry of Finance (MOF) originally set 2011 as the target year for the continuing and full convergence program of the ASBE, making 2010–2011 a critical period for China's convergence. The MOF planned to initiate the overhaul of its ASBE system in 2010 and finish by 2011. All large and medium-sized enterprises would be required to use the revised standards as of 2012. This goal, as of 2019, remains in the planning stage without further movement. In the United States, in January 2008, participants in an FASB roundtable predicted that it would take about 5 years to complete the full adoption of IFRS by the United States. More than 12 years have passed since then, yet the United States has not only not adopted the IFRS, but also started to actively resist them.

Even if IFRS could achieve global convergence in the short term, observers have questioned whether these benefits are sustainable. By adopting IFRS, a country essentially allows a foreign entity with no local accountability to dictate its reporting laws and thereby control the economic incentives and activities of its people and businesses. The former chairman of the SEC, Cox, points to this concern as a reason why a full-scale adoption of IFRS is unlikely to occur in the United States. He expressed his frustration and the downgrading of his trust in the IFRS in a keynote speech addressing the SEC:

> …when I was SEC Chairman, I worked to ensure that the United States was doing everything necessary to make financial information from companies in different countries both comparable and reliable. But that was several years ago. And a great deal has changed since then. Today, I come to bury IFRS, not to praise them. (SEC, 2014)

Cox further argued that the full adoption of IFRS by the United States might once have been possible, but is no longer so (Cox, 2014). Some of the IFRS-adopting economies have also been requiring a national standard-setter to review and, if needed, modify the IFRS before they become the law of the land. This cherry-picking approach may lead each national regulator to adopt certain standards while rejecting others, thereby causing countries to diverge again in their accounting standards in the long run. On the other side, the IASB, which is facing increasing resistance, has emphasized that it remains committed to the long-term goal of the global adoption of IFRS as developed by the IASB, in their entirety and without modification. The IASB believes that convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement, but, whatever the mechanism, they should enable and require relevant entities to state that their financial statements are in full compliance with IFRS as issued by the IASB. As stated on the IASB's website:

> There is a natural temptation for countries (and stakeholders within those countries) to argue against full adoption of IFRSs, to call for convergence of national standards and IFRSs rather than adoption, or to introduce national exceptions to IFRS rules. The temptation to pursue convergence rather than adoption should be resisted. Full adoption of IFRSs must be the end goal…Having once achieved convergence, standards could well diverge again. (IASB, 2011)

3.3. Chapter summary

In this chapter, I have presented the history and development of IFRS and the IASB. The most important reasons for the speedy and wide diffusion of IFRS are the growing integration of the world's economy and a series of financial crises. This combination has increased the demand from international investors for better quality and comparability of financial reporting. As a result, the mission of the IASB has evolved over time. After initial hesitation on the part of nations, followed by fast adoption in many parts of the world, IFRS harmonization has begun to slow down in recent years.

This chapter depicted the diffusion of IFRS and described how they have gradually become the institutional norm for national accounting standard-setters around the world. It also highlighted how the development of institutional norms has exerted pressure on adopting entities. This discussion can help in developing a better understanding of the important institutional changes that have occurred in the organizational field of international accounting harmonization. It is also important as a further examination of the impact and effects of such institutional changes among the actors in the organization field. Although the purpose of this thesis is not to focus on the globalization and diffusion of IFRS *per se*, their globalization has precipitated dramatic institutional changes in the international accounting arena. This chapter gathered and developed insights into the implications of the uneven adoption of IFRS around the world, along with other important phenomena related to this situation.

Chapter 4. The case of China

Accounting changes within a country cannot be separately understood without knowledge of that nation's surrounding environmental factors, such as its historical development, institutional structure, and socioeconomical infrastructure (Cooke and Wallace, 1990, Hellman et al., 2015). To facilitate the research purpose of this thesis, this chapter briefly introduces China's history and economic development as the backdrop for a discussion of accounting convergence with IFRS in China. The chapter is organized as follows. The next section argues why China is a suitable empirical setting to realize the research aim of this thesis. The second section explains why China's economic development in recent times has been directly linked to the accounting changes in China. The third section compares the Chinese GAAP with the IFRS in order to highlight the differences between these two sets of standards. The last section summarizes the chapter. During the data analysis, an examination of the differences of specific standards proved to be important because it facilitated a specific understanding of why China has not fully adopted IFRS since its major convergence in 2006.

4.1. IFRS adoption in China: Simultaneous acceptance and resistance

The empirical focus in this research is IFRS adoption in the Chinese context. According to Eisenhardt and Graebner (2007), cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories. The former refers to predicting similar results and the latter to predicting contrasting results but for anticipatable reasons. Following this logic, China's reaction toward IFRS is well suited to highlight the current simultaneous convergence of and variations within IFRS adoption (Chen et al., 2002, Chow et al., 1995). Although China has moved very close to IFRS thus far, the nation continues to display some major differences from the IFRS as issued by the IASB (Nobes and Parker, 2012, Peng and Smith, 2010).

Since the late 1980s, the Chinese economy has become increasingly integrated with the world market (Gong and Cortese, 2017). In 2001, China officially entered the World Trade Organization (WTO). Chinese accounting standard-setters, as well as the Chinese accounting community, have realized the necessity and importance of accepting IFRS in order to trade with the outside world (MOF, 2006). Like many other emerging economies, Chinese accounting standard-setters see the IFRS as part of embracing the logic and realities of globalization in order to participate in the wealth enjoyed by developed nations. The IFRS can also enable Chinese companies to enter the international market.

In 2006, the MOF officially announced the convergence of China's accounting standards with the IFRS and required all domestic publicly traded companies to follow the 2007 Chinese GAAP, which is "substantially converged" with the IFRS as issued by the IASB (IASB, 2006). Chinese accounting standard-setters have also been an active participant in the G20 and in various efforts to promote IFRS since the global financial crisis and largescale accounting scandals. For example, in June 2009, the FSB decided to establish a steering committee that would be responsible for regulatory cooperation and standards implementation. The MOF, the People's Bank of China (PBOC), and the China Banking Regulatory Commission (CBRC) are members of this committee. One main task of the FSB's Standards Implementation Committee is to promote the international convergence of national accounting standards in order to prevent future international financial crises. As stated in the MOF document,

> We must do all we can to complete the G20-endorsed transition toward global financial reporting standards. There is an enormous amount of support for a single set of global financial reporting standards, from the G20 leaders down. (MOF, 2011)

However, after more than a decade, the two sets of standards remain different and there is no definite plan for full adoption in China. Thus, the Chinese context provides relevant empirical evidence for examining the issue of national versions of IFRS remaining despite convergence efforts. Furthermore, China is currently an emerging, transitional, and major economy, and therefore represents an interesting and important context in IFRS-related research within a broad context. Insights from China's convergence toward IFRS can provide a useful understanding of country-specific effects on IFRS diffusion within the accounting research community and among accounting standard-setters. Although the institutional arrangements surrounding accounting in China may not be identical to those in other jurisdictions, the Chinese experience of attempting to adopt IFRS is important to academics, practitioners, and policymakers (IASB, 2011, Nobes and Parker, 2012). As Nobes and Parker (2012, p. 268) put it, given its growing economic power in the past decade, China's accounting will "no doubt grow in international importance."

4.2. Economic development surrounding China's accounting changes

In recent years, China has undergone significant changes in its economic and accounting environment. The country has moved quickly from a planned economy to a market economy and has grown to be one of the most powerful economic actors in the world. In this section, I briefly present the three stages in China's recent economic development.

4.2.1. Transition from planned to market economy

For more than two decades after the 1950s, China experienced multiple episodes of political turmoil and natural disasters. The 1958 movement of the Great Leap Forward was followed by three years of famine and 10 years of the infamous Cultural Revolution, which together ran the country into economic and political disarray (Xiao et al., 2004). Mao's Great Leap Forward was intended to make China into a rich and strong country in a very short time but completely from within, without borrowing anything from the capitalism model. The State set targets, distributed resources, took all profits, and covered all losses for business enterprises. All funds allocated from the central government were secured through the State or its bank loans. No private bank loans were allowed (Winkle et al., 1994). However, despite Mao's intentions, the experiment failed miserably (Ito and Shibata, 1968).

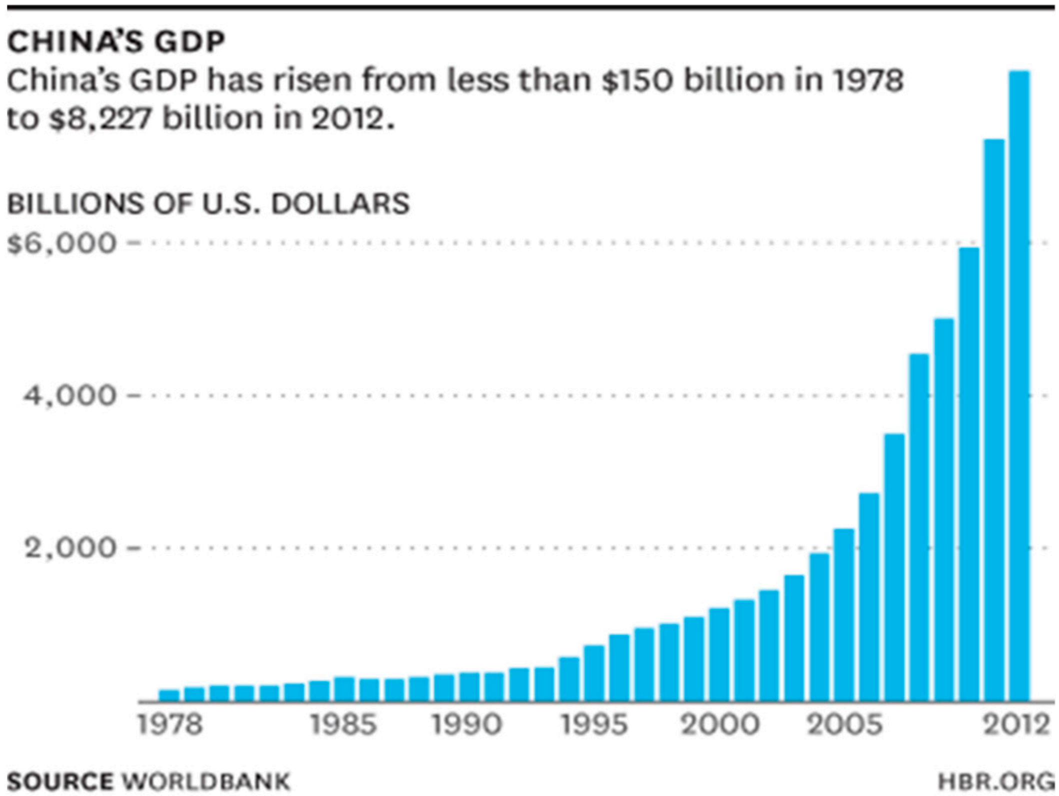
Learning from the failure of Mao's radical socialism reform, the next government, under the leadership of Deng Xiao Ping, initiated the famous "open-door policy" to borrow economic concepts from the West and allow foreign investments to flow into China. This movement started the country's transition from a planned economy to a market economy by gradually eliminating the government monopoly over industries (Zhou, 1988). The goal was to gradually improve the country's economic condition and allow a small portion of the population to become rich first (Saich, 2010). State enterprises were reorganized as profit and investment centers with a substantial degree of managerial autonomy and a separation of management from ownership (Xiang, 1998). The State reduced its administrative controls over both economic and business activities, and enterprises were increasingly exposed to the pressure of market mechanisms (Ge and Lin, 1993).

To accomplish the transition to a capitalism economic model, relevant legal and institutional framework-bearing market economy characteristics started to emerge. For example, the 1994 Central Bank Law and the 1995 Commercial Bank Law allowed State-owned banks to concentrate on commercially oriented lending and emphasized the need for financial institutions to incorporate commercial criteria into their lending practices, including the adoption of accounting standards (CPC, 1978). During this shift, the MOF regained control of accounting regulation, restored the industry-based uniform accounting system, and later began to promulgate newer accounting standards suitable for the new economic model (Xiao et al., 2004). Since then, China's most dynamic economic sector has been non-State-owned industrial firms (Byrd et al., 1990, Xiang, 1998). While the output of State-owned firms has also grown steadily, it has dramatically shrunk relative to that of the private sector (East Asian Forum, 2016).

4.2.2. Initial fast growth

Since China opened its doors to market liberalization, the country's economy has experienced tremendous growth. Until 2015, China was the world's fastest-growing major economy, with growth rates averaging 10 percent over 30 years (IMF, 2015). Its gross domestic product (GDP) has surged from less than \$150 billion USD in 1978 to \$8227 billion USD in 2012 (World Bank, 2014) (Figure 4.1). Among many other things, this led to the reopening of the Shanghai stock exchange in December 1990 for the first time in over 40 years and, ultimately, to China's accession to the World Trade Organization (WTO, 2017). The sharp increases in productivity and wages have enabled China to become the world's second-largest economy in a relatively short time. This is a marvelous achievement for any country, let alone one as geographically large and populous as China.

Figure 4.1 China's GDP growth from 1978 to 2012

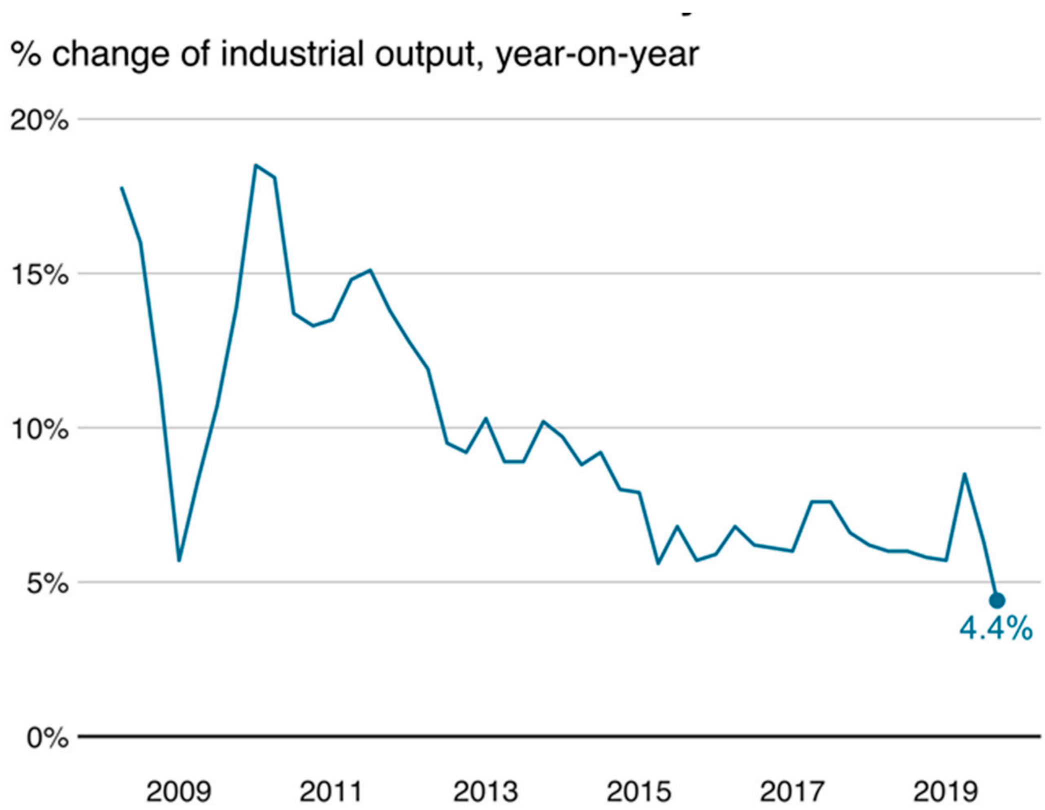


China's economy has since entered into a critical phase. During its initial growth, the country's economic policies tended to emphasize investment activities and export-led manufacturing above domestic consumption (World Bank, 2016). This economic model generated high rates of growth and the inflow of FDI. Yet, as stated in a report by the World Bank, China remained a developing country (as its per capita income was still a fraction of that in advanced countries), and its market reforms were incomplete. According to China's poverty standard (a per capita rural net income of RMB 2300 per year at 2010 constant prices), 55 million people lived in poverty in rural areas in 2015. Rapid economic ascendance also introduced many challenges, including high levels of inequality, rapid urbanization, challenges to environmental sustainability, and external imbalances (World Bank, 2017).

4.2.3. Recent slowdown

In 2014, China's economy grew by 7.4 percent, according to the National Bureau of Statistics of China (NBSC). In 2015, China's GDP expanded by 6.9 percent, less growth than in 2014 and the weakest growth in 25 years (NBSC, 2016). This trend of decreasing growth has continued and represents a recent slowdown of the Chinese economy (Figure 4.2).

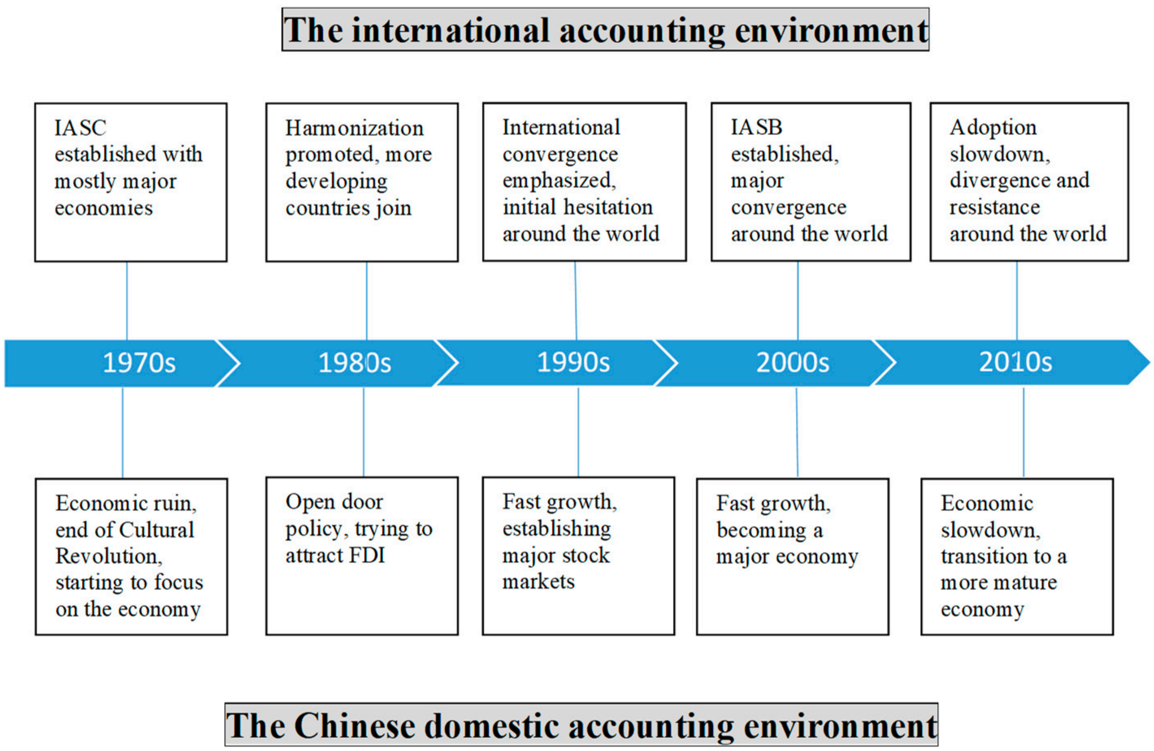
Figure 4.2. The decline of Chinese economic growth



Source: Chinese National Statistics Office (2020)

In the following section, I summarize the parallel historical development of the international (Chapter 3) and domestic (Chapter 4) environment surrounding China's accounting changes. This holistic and parallel view of both external (international) and internal (domestic) progress in accounting development emphasizes their joint effects on China's accounting changes and facilitates the theoretical analysis of this thesis. It also helps readers to better understand the complex contextual background of the undertaking of this thesis.

Figure 4.3 Development of China's international and domestic accounting environment



4.3. Main differences between the Chinese GAAP and the IFRS

To assist my analysis of the convergence and divergence between the Chinese accounting standards and IFRS, I have compared and categorized the key differences between the 2007 Chinese GAAP and the IFRS as issued by the IASB on a standard-by-standard basis. I grouped the differences into three main categories: *direct conflicts*, *alternative choices*, and *silence*. Direct conflicts occur when the two sets of standards have opposite requirements. Alternative choices occur when one set has two or more choices while the other set has fewer choices. The third category, silence, occurs when one side has certain requirements but the other side has none of the same requirements. This comparison has proved to be critical and was very useful later on in the research process, especially when analyzing why China has been reluctant to fully adopt IFRS.

4.3.1. Direct conflicts

- In the Chinese GAAP, accounting for pensions is treated on a cash-paid basis, which ignores liability and related expenses. In the IFRS, liability of pensions and related expenses must be recognized on both income statements and balance sheets.
- The definition of related party entities in the Chinese GAAP excludes most SOE, whereas the IFRS consider all SOEs to be related parties. The ASBE standard for related party disclosures is the same as IAS 24, except for State-controlled, substantially influenced, and jointly controlled features of disclosure. Related party disclosure requirements are modified to reflect the context of State ownership. State enterprises are exempt from the "related party" disclosure provisions because of the dominance of government enterprises. State-controlled entities are not regarded as related parties simply because they are State controlled. There is no exemption for State-controlled entities under IAS 24.
- For consolidated and separate financial statement presentations, IAS 27 requires subsidiaries, associates, and jointly controlled entities to be accounted for in the separate financial statements of the parent, either at cost or in accordance with IAS 39. ASBE 2 requires: (1) subsidiaries to be stated at cost; and (2) associates and jointly controlled entities to be accounted for using the equity method.
- The use of the equity method, or proportionate consolidation in the case of joint-venture companies, is allowed by the IFRS but not allowed under the IFRS-converged ASBE.
- Under ASBE 5, biological assets shall be measured using the cost model unless there is evidence of a reliable fair value. This is in direct contrast to IAS 41, which requires fair value to be used unless it is clearly unreliable.
- For a construction contract, IAS 11 allows the direct costs incurred in securing a construction contract to be included as part of the contract costs if they can be separately identified and measured reliably and if it is probable that the contract will be obtained. ASBE 15 requires such costs to be expensed as incurred.

4.3.2. Alternative choices

- Under the ASBE, land-use rights are normally classified as intangible assets and not as operating leases. Where the land-use rights meet the criteria to be accounted for as an investment property, the accounting is not restricted to the fair value model as in IAS 40. The cost model may be used.
- ASBE 4 and ASBE 6 only allow the cost model for the measurement of fixed assets and intangible assets, while IAS 16 also allows a revaluation model.
- For jointly controlled entities, ASBE 2 only allows the equity method of accounting. IAS 31 also allows proportionate consolidation.
- For presentation purposes, the ASBE restrict certain options that are available under the IFRS; for example, expenses shall be analyzed by function for income statement presentation purposes. The direct method is required for cash flow statements, and only the gross presentation is allowed for government grants related to assets.
- Borrowing costs meeting the capitalization criteria should be capitalized according to the ASBE. However, IAS 23 gives an option to expense all borrowing costs.
- IAS 20 allows either the presentation of asset-related grants as deferred income and their recognition as income on a systematic and rational basis over the useful life of the asset, or the deduction of the grant from the carrying amount of the asset (i.e., recognition as income over the useful life of the depreciable asset by reducing the depreciation charge). ASBE 16 only allows the former method.
- ASBE 17 requires the capitalization approach when the capitalization criteria are satisfied. Under IAS 23, borrowing costs are either expensed as incurred or capitalized provided the capitalization criteria are met.

4.3.3. Silence

- The ASBE specifies that an enterprise shall exercise prudence in the recognition, measurement, and reporting of transactions or events for accounting purposes. It further emphasizes that entities shall not overstate assets or income, nor shall they understate liabilities or expenses. Under the IASB’s Framework, “prudence” means that financial information shall be neutral and free of bias.

- ASBE 8 prohibits the reversal of all impairment losses, whereas IAS 36 only prohibits the reversal of the impairment of goodwill.
- Unlike IFRS 3, ASBE 20 includes and addresses within its scope business combinations involving entities under common control. However, ASBE 20 does not cover reverse acquisitions.
- ASBE 2 does not address the accounting treatment for jointly controlled operations or assets.
- In terms of the scope covered under investment properties, in addition to those properties within the scope of ASBE 3, IAS 40 includes land held for undetermined use and certain property interests under an operating lease, provided that certain criteria are met.
- Regarding defined benefit plans, IAS 19 requires the recognition of a defined benefit liability and an expense throughout the expected service period of the related employees. ASBE 9 does not address the accounting requirements for defined benefit plans.
- IFRS 2 for share-based payment requires an entity to recognize share-based payment transactions (in which the entity receives goods or services) in its financial statements, including transactions with employees or other parties. ASBE 11 only covers the accounting for share-based payment transactions for which services are received.
- ASBE 17 does not deal with finance charges with respect to finance leases, which are dealt with under ASBE 21; in contrast, under IAS 23, borrowing costs include finance charges with respect to finance leases.
- For business combinations, reverse acquisitions are covered in IFRS 3 but are not addressed in ASBE 20.

4.4. Chapter summary

This chapter discussed the history and development of the Chinese economy as the backdrop for understanding China’s IFRS adoption. Three core points can be drawn from this chapter. First, China currently exhibits simultaneous acceptance of and resistance toward the IFRS as developed by the IASB. Second, the Chinese economy surrounding its accounting development has experienced a transition from a planned to market economy, with fast growth followed by recent slowdown. Third, major differences exist between the current Chinese GAAP and the IFRS. The most notable difference between the Chinese GAAP and the IFRS is that, according to the ASBE, Chinese companies can only use the historical cost method to valuate fixed and intangible assets, whereas the IFRS allows both the use of the historical cost method and the possibility of re-evaluating the asset.

In connection with the discussion in Chapter 3, it is clear that national accounting standard-setters, such as the MOF, must face a great deal of change, both internationally and domestically. The common goal of national and international organizations in this scenario is to ensure the free flow of capital in order to benefit investors and multinational firms. There is little doubt that national accounting standard-setters contribute to international accounting harmonization while simultaneously exhibiting national specific conditions. National accounting standard-setters face one-sided pressure from both internal and external sources. The great difficulties they encounter thus lie in the coordination and balancing of these two pressures.

Chapter 5. Research method

This chapter discusses the research methodology of the thesis. The chapter is organized as follows: The first section, below, presents the research process and describes how the research has resulted in the four papers, while the second section illustrates the research design. The third section discusses the data analysis. The last section examines the research trustworthiness.

5.1. Research process

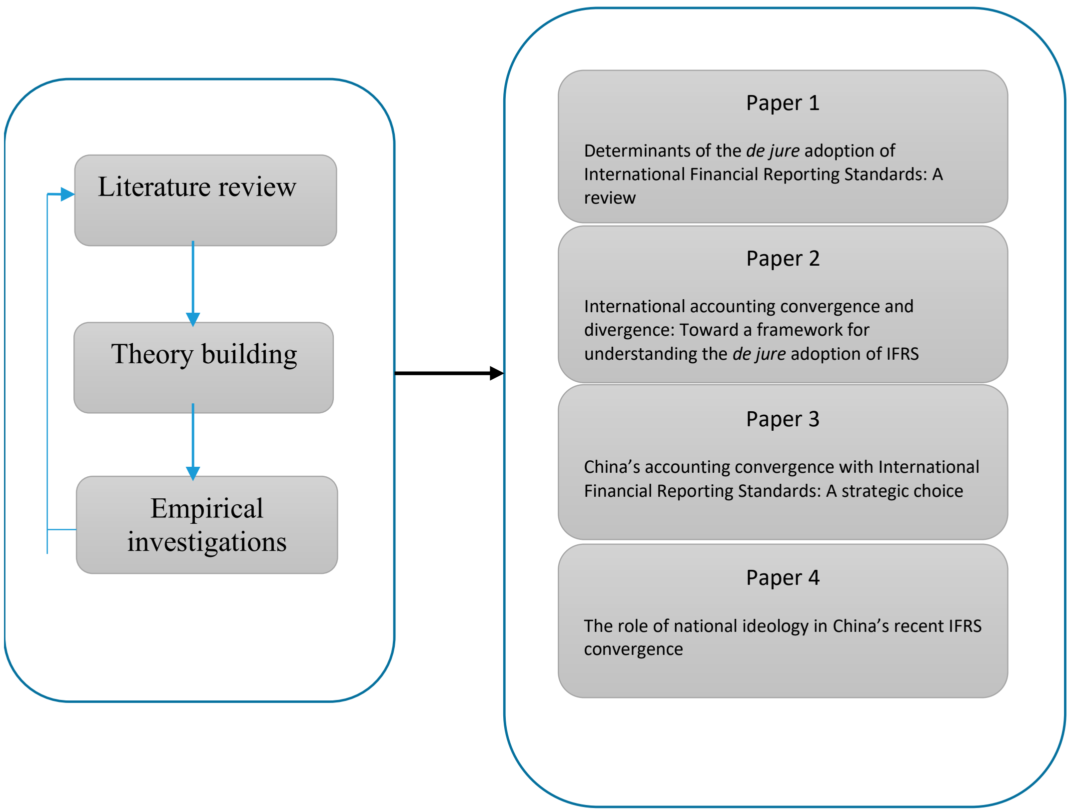
The research undertaking of this thesis was long, with the process beginning in the fall of 2012. Shortly after, I took about a year off due to personal reasons, but the research process later resumed on its original track. Since 2018, I have spent 50 percent of my time working on the thesis and 50 percent teaching.

This thesis was originally written as a monograph. In 2019, I decided to pursue publication of a set of individual papers, thus changing the thesis from a monograph to a compilation. As the research was already divided into sections, with a literature review, theory formation, and empirical investigation, it was natural to attempt to convert these sections into four publishable papers. This process took about a year. All four papers received revisions and resubmissions from four different journals. Their publication status has contributed to the strength of this thesis. However, I must admit that the process of converting a monograph into a compilation was not easy. Two main challenges arose, which may provide some tips for future PhD students considering similar efforts. First, the monograph thesis was written with a main thread that followed through the study, whereas the papers had to have their own unique angles and contributions. Although some parts of the monograph could be used, the main bodies of the papers had to be reconstructed, which was a very time-consuming process. Such changes were particularly difficult when the papers were written with a particular journal in mind, since contributions and theories must also fit within the journal’s scope. Second, bringing the four papers back to align with this thesis presented another challenge. The original monograph form could be used to start the thesis. But, since the monograph was a continuous development of the same literature review and theory, it was necessary to expand the discussion and angle to capture the four papers as well. For example, my first compilation draft was an incomplete transition in which the signs of the monograph were obvious. It took some drastic revision and, most importantly, a change in mindset for me to complete it. In the end, I was happy with the transition and considered all the challenges to be worthwhile. With publication as an external confirmation of the quality of the thesis, my perseverance has been rewarded.

In terms of learning process, the knowledge-building of this thesis started from an empirical observation of the simultaneous convergence and divergence of IAS. That is, some countries have adopted the IFRS entirely and some have adopted them partially, while others have so far rejected the IFRS. At the beginning of the research process, the theoretical lens was not clear. Once the research goal was defined, the literature was taken as the starting point to approach the theoretical perspectives on this research topic. The goal was to familiarize myself with the current debates within the topic of national IFRS convergence and form a theoretical understanding of the research field. Thus, the task of the first stage was to find a theory that could account for simultaneous convergences and variations in the national adoption of IFRS. According to Miles and Huberman (1994), theory construction begins by reasoning from phenomena, which are understood as a presumed effect of their theoretical explanation in terms of the underlying causal mechanism.

For this research, a thorough literature examination was conducted that revolved around the convergence and variations of IFRS adoption at the national level (see Paper 1). At the beginning of the literature review, the theoretical framework was not clear. One challenge was the number of scattered factors identified in previous studies and the often-contradicting conclusions drawn from them. In order to perform a comprehensive and systematic literature examination, an extensive Excel database was constructed to capture and categorize the research findings and theories. The database also tracked the research method, data sources, countries studied, and years of data collection by all the relevant studies. As the academic viewpoints of previous researchers were thoroughly and systematically examined, the conceptual framework began to form. The earlier literature led to the insight that there are basically two dominant theoretical approaches in the current IFRS research. Institutional isomorphism is the most common theoretical perspective in accounting research used to study IFRS convergence, while classification has been used mainly to explain national accounting differences. Based on the problematization of these two dominant theories and building upon the common theoretical assumption in the prior literature, a preliminary theoretical lens—namely, strategic responses toward institutional transitions during IFRS adoption—was constructed for the research purposes of this thesis (see Paper 2). The framework was then used in the subsequent research to guide the data collection and analysis (see Papers 3 and 4). Figure 5.1 illustrates the relation between the research process and the four papers.

Figure 5.1 An overview of the research process in relation to the four papers



It is important to note here that the inductive research approach used in this thesis does not imply that the research was conducted in a theoretical vacuum in the early stages of the research process. Rather, the previous literature helped me build a fundamental understanding of the theoretical viewpoints of the scholars in this field. The theoretical underpinning served as a guide, so that data collection could have a scope and purpose. However, when collecting documents and analyzing data, I kept an open mind during the entire process to allow any new relevant perspectives to emerge, as suggested by Alvesson and Sköldberg (2009).

After establishing a theoretical framework that could guide the data collection and analysis, the next stage was to collect empirical data. The conceptual framework served as overarching guidance for collecting document data. This helped both to reduce the data quantity and to keep me focused on the research questions during the data collection, based on Miles and Huberman (1994) recommendation. However, the initial framework was not applied strictly in a way that would blind the view of the researcher. As Alvesson and Sköldberg (2009) suggest, although a theoretical framework serves as guidance for empirical exploration, it should not be seen as a rigid frame that restricts the researcher's view. Thus, the data collection was conducted with an open mind to allow new empirical data to emerge.

More specifically, the data collection was divided into two rounds: the preliminary data collection and main data collection.

5.1.1. Preliminary data collection

The goal in the preliminary data collection stage was to collect initial documents. At this stage, the scope of the document review was wide in order to obtain a holistic picture of the events before narrowing down the examination to meet the specific research aim in the next round. The main purpose was to identify the major actors during China's IFRS convergence efforts in order to assess who had influence over whether and how the Chinese GAAP should be converged with the IFRS and why they had not been fully converged. This process commenced in the winter of 2014. I began by searching the online archives of both the IASB and the Chinese MOF. This search subsequently extended to include online blogs, discussion groups, universities, and research websites in both English and Chinese. Access to several online databases, such as BaiduWenku, CQVIP, and WanfangData, was also purchased. The data collected from the preliminary round had several benefits: First, it enabled me to outline a basic timetable for the convergence process and identify some key organizations and actors that participated in the decision-making; second, it allowed me to narrow down the research scope and focus on the elements that affected the decisions on the convergence and differences between the Chinese GAAP and the IFRS; and third, it assisted me to refine the data collection for the next round.

5.1.2. Main data collection

With the knowledge gained from the preliminary round, the main data collection commenced in the summer of 2015. In contrast to the first round, which was more exploratory in nature, the main data collection focused on collecting the empirical data that was directly related to the research aim in this thesis. In this stage, I further collected relevant documents. Most of the documents for the main study were obtained during a trip to China in the winter of 2016. During this time, I visited various libraries and downloaded and copied archival documents. The purchased database access allowed specific searches with keywords. Some documents, especially academic articles in Chinese, were extracted through these databases. The relevant official websites, such as those of the MOF, CICPA, and NBSC, generally had more information in Chinese than in English. Both versions were examined to compare the accounts and discover new information that was only available in Chinese. Some additional data were collected through a specific Chinese communication platform, *weibo*, which is similar to Facebook and Twitter, and where people connect and post their opinions on certain issues. Multiple forums around IFRS convergence in China can be found and followed on this platform, and I was able to post questions and follow discussions through this channel.

Since the archival document data are the primary source, I devoted a great deal of energy to plowing through the increasing amounts of text. As the texts were searched based on keywords, I sorted the document data on the same topics into the same file, tagged according to source. During this process, a comparison and triangulation process was performed to search for not only confirming, but also disconfirming or negative evidence. If the new texts were related to the same topics but pointed in different or opposite directions from the earlier data, they were noted while being categorized into the database created for coding. This was done while I was establishing themes and categories. Within each theme, there could be contradicting or disconfirming evidence, so necessary subcategories were created. The search for disconfirming evidence provided further support for the account's reliability, because reality is multiple and complex. As Miles and Huberman (1994) argue, a procedure closely related to triangulation is the search by researchers for disconfirming or negative evidence. In this process, researchers rely on their own lens, so this represents a constructivist approach in that it is less systematic than other procedures and relies on examining all of the multiple perspectives on a theme or category. During the research process, the search for disconfirming or contradictory evidence proved to be challenging because I often automatically tried to find confirming rather than disconfirming evidence. I had to constantly remind myself when reading through various texts.

5.2. Research design

To effectively realize the research purpose, this thesis was designed as a single case study built upon a qualitative research approach.

5.2.1. A single in-depth case study

This thesis utilizes a single in-depth case study method. This choice was based on considerations of both the research aim and the theoretical underpinning. In term of the research aim, this thesis seeks to examine specific factors causing Chinese accounting standard-setters' reaction toward the IFRS. As discussed previously, the current paradox of simultaneous convergence and variations in IFRS adoption is complicated and multifaceted. A case study method is suitable for this purpose because such a research aim is within a specific context and concerns the complexity and particular nature of the case in question (Bell et al., 2018). In addition, the research aim of this thesis consists of investigating how and why a certain set of factors affect IFRS adoption. A case study approach is suitable for exploring these more explanatory questions, because such inquiries require a contextually oriented interpretive methodology (Humphrey and Scapens, 1996). The case study approach helps to identify what explains a defined phenomenon. It can establish the cause and effect in real contexts by recognizing the power of the contexts as a determent of the causal relationship (Yin, 2017). The "how" and "why" questions embedded in the research aim of this thesis could therefore be properly addressed through a case study.

Furthermore, the choice of a case study approach drew upon the theoretical considerations of this thesis. As argued earlier, the theoretical framework of this thesis is to incorporate alternative viewpoints on the variety of national responses toward IFRS in order to obtain a comprehensive view of the simultaneous convergence and variations of IFRS. Yin (2017) argues that, when the intention is to extend and expand a theory, a single case study design is appropriate. Hitchcock et al. (1995) further suggest that case studies: (a) are set in temporal, geographical, organizational, institutional, and other contexts that enable boundaries to be drawn around the case; (b) can be defined with reference to characteristics defined by the individuals and groups involved; and (c) can be defined by participants' roles and functions in the case. Therefore, the possibility of extending an existing theory (Yin, 2017) as well as identifying and understanding contextual elements (Hitchcock et al., 1995) particularly motivated the choice for a case study design. An in-depth case study could enable this research to take into full account the variety of different aspects (Miles and Huberman, 1994) that most likely influence national accounting standard-setters' response to IFRS-related pressures to change, which may come from culture, economic conditions, legal structure, and membership networks, as identified in the previous literature.

5.2.2. A qualitative method

This thesis utilizes a qualitative study method. This choice was motived by the research aim and the theoretical consideration.

5.2.2.1. Research aim

The research aim concerns the factors causing different degrees of IFRS adoption at the national level, and how and why these factors affect accounting standard-setters' strategies. Previous studies have shown that such interactions are multifaceted and country specific (see Section 1.2). In the process of globalization, accounting standard-setting organizations inevitably face not only domestic constraints (Nobes, 1998), but also international pressure (Guerreiro et al., 2020). These may be compatible or may conflict with each other. Therefore, it would be difficult and even unrealistic to unveil the complexity and dynamics of these interactions using statistical modeling alone. A qualitative method makes it possible to identify and understand a complex pattern through a variety of data sources, including sources that may be non-obvious prior to the study (Miles and Huberman, 1994). Qualitative data are a source of well-grounded, rich descriptions and explanations of processes in identified local contexts.

In addition, the open-ended research questions of this thesis required the capturing of comprehensive and relevant factors (Yin, 2017) that influence national reactions toward the IFRS. A qualitative method allows the complicated phenomenon of different degrees of IFRS adoption to be unpacked by taking advantage of qualitative data sources and examining them from different dimensions. Given that accounting is inevitably a social phenomenon, the need and, therefore, efforts to interpret its roles in organizations and societies are unavoidable (Scapens, 1990). Thus, the flexibility (Yin, 2017) and depth (Miles and Huberman, 1994) of a qualitative method could better reveal the scope, dynamics, and interactions of the factors influencing national IFRS adoptions, and therefore could better realize the research purpose.

5.2.2.2. Theoretical considerations

The theoretical lens of this thesis is based on institutional analysis in order to unpack a complex paradox that involves multidimensional relationships among the specific national contexts surrounding accounting changes (see Paper 2). A qualitative approach is appropriate to unravel these complex relationships in order to test and expand theories (Eisenhardt, 1989) that have been utilized by previous studies. Regarding the use of a qualitative approach to conduct accounting research, Ahrens and Chapman (2006) specifically state that qualitative research methods are employed not simply to clarify empirical findings, but also for the complex activity of theory building. According to these scholars, qualitative methodology acknowledges that the field in itself is not only part of the empirical world, but shaped by the theoretical interests of the researcher. The practice of doing qualitative studies involves ongoing reflection on data and its positioning against different theories so that the data can contribute to and further develop the chosen research questions. For the purposes of this research, one of the theoretical contributions lies in bridging the theoretical gaps within IFRS studies. The organizational field in the conceptual framework is theoretically defined based on institutional analysis. During the research process, the data and the preliminary framework engage in constant dialog to refine and explain each other. Such a process is supported by the flexibility and nature of a qualitative study method (Alvesson and Sköldberg, 2009).

5.2.2.3. Historical approach

This thesis examines historical archival documents on the development of accounting and the adoption of IFRS. Historical perspectives on this research topic can contribute meaningfully to the ongoing debates on the evolution and diffusion of IFRS (Merino and Mayper, 1993). Historical archives, with their chronological development, provide a background for the international development of accounting. They also introduce evidence of China’s domestic accounting development. It is possible to draw parallel comparisons of these two threads and make meaningful predictions for future development. The historical approach can stimulate a dialog between seemingly passive and silent historical records and spark deeper insights into and understanding of the convergence between the Chinese GAAP and the IFRS. Although this thesis is not meant to be historical research *per se*, questions by historical research are indicated nonetheless, given the nature of the empirical data. In this way, the research highlights a fundamental challenge in engaging in reflexive analysis with respect to financial accounting research. The comparative examination cross-referenced the historic archives to reveal the underlying reasoning for IFRS convergence—information that was not readily available elsewhere. Here, a word of caution is relevant: The role of researcher does not simply involve compiling and coding historical data. A critical analysis with a prescribed theoretical framework is vital in order to understand the motivations for complex and interrelated phenomena (Kaplan 1964).

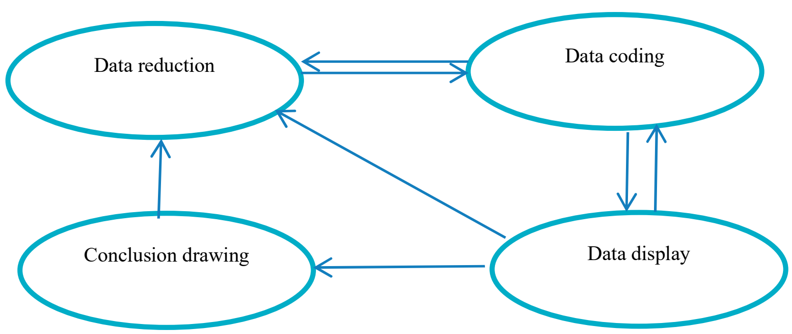
5.3. Data analysis

During the data analysis, it became clear that the task of reading through and categorizing such a huge amount of data was both monumental and tedious, to say the least. At this stage, a great deal of discipline and uninterrupted work time became essential in order to complete the task of connecting data, theory, and research aim. As explained earlier, the purpose of the preliminary framework was not to constrain the data, but rather to help in the collection of relevant data within the research scope. During the data analysis, the preliminary framework and theories used by previous scholars were put into concrete use as they were compared with the data. When the data confirmed the theoretical framework, they were categorized within the existing themes; when they contradicted a particular category, subthemes were created. Similarly, when at least two new similar pieces of evidence that were not already included in the preliminary framework emerged, a new theme and code were assigned to them.

Since the documents were obviously not created based on my research questions, they often contained large amounts of data that were sometimes relevant and sometimes not. Therefore, I printed out the documents, cut out the sections that were relevant to my research, and then sorted them into piles. This part was done manually rather than using a computer database. I also color-coded the documents to make it easier to sort them. A large conference room table and my living room floor were used to lay out the different piles. I also had tags that corresponded to the database categories. The segments were sorted, and I resorted to various categories in multiple rounds. The same coding system was used throughout the analysis process. The final sorting of the segments was then coded into the computer database.

More specifically, the data analysis mechanism used in this thesis included data reduction, data coding, data display, and drawing conclusions, as recommended by Miles and Huberman (1994). These four components were performed in a sequential manner in general, but did not occur strictly in order. For example, although data reduction was generally performed before data coding, data display, and drawing conclusions, the display matrix from the data display assisted in drawing conclusions and further helped to reduce the data (Miles and Huberman, 1994) (see Figure 5.2). In other words, during this phase, theory and data interacted with each other constantly. There was a great deal of cycling back and forth between them.

Figure 5.2 Components and the process of data analysis in this thesis



Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the information that appears in the original documents, notes, and transcriptions (Miles and Huberman, 1994). In this thesis, once data were collected, all raw data from different sources were viewed as a whole. The data were then taken apart into segments. Chunks of data were summarized with descriptive notes on the margin of the documents and transcriptions in order to "attribute a class of phenomena to a segment of text" (Miles and Huberman, 1994 p.57). For example, if particular documents were on the same topic, they were first sorted into the same pile. Certain documents that had been collected but were not relevant for the research questions were put aside. This process provided an overview of the full scope of the data range (Bryman and Bell, 2011) and prepared for the first round of data reduction. Careful evaluation was performed in order to avoid identifying a pattern too quickly, especially in the early stage of analysis—a pitfall that is warned against by Miles and Huberman (1994). Each category was compared with other sources and reviewed a few times to make sure that the categorization made conceptual sense according to the research questions.

Data coding refers to assigning units of meaning to the data compiled in a study (Miles and Huberman, 1994). These scholars recommend a first level and a second level of coding. As stated earlier, in this thesis, data collection was guided by the preliminary conceptual framework. Thus, coding began prior to the data collection, which is recommended as a "preferred way" by Miles and Huberman (1994 p.58). This level of coding is referred to as the "first-level coding," or "master codes," in this thesis. For example, Cause was coded as CAU, Constituents were coded as CST, and so on. The first level of coding helps to tie the conceptual framework and research questions to the data and prevents data overload (Miles and Huberman, 1994). The second level of coding in this thesis was empirically driven and followed an inductive approach. At this level, all quotes and texts providing similar views were grouped together. When at least two sources gave the same accounts about the same factor, these accounts were deemed to be representative for the unit concerned and were assigned a code. For example, the second-level coding of specific factors was grouped under the master codes CAU-FDI (Cause-Foreign Direct Investment), CAU-NTW (Cause-Network Membership), CAU-PRO (Cause-Accounting Profession), and so on. Data that did not fit into the master codes were given new codes. The total number of accounts for each code was tracked, which helped to rank the importance and relevance of each factor. The codes were then regrouped according to similarities in the pattern and recurring themes in order to reduce the number of categories. As Miles and Huberman (1994) argue, such an analytical coding process can not only provide novel insights into the data, but also allow an understanding of the broad contexts of the data. The cluster pattern technique also generates hierarchy within the coding.

Data display refers to a visual format that presents information systematically so that users can draw valid conclusions (Miles and Huberman, 1994). In this thesis, data display was assisted by an Excel matrix mechanism. Table 5.2 illustrates a snapshot of the data display. In the display matrix, the two left columns represent the coding schemes, while the top row represents the data sources. The center shows the frequency of patterns corresponding to the codes and sources. The farthest right column sums up the total frequency of the occurrence of each code. A list of code definitions was stored as notes at the bottom of the matrix. By the time the data was presented, the analysis had provided an initial sense of what dynamics were present, as names had been assigned to each pattern, presenting the categorizations among the data.

Table 5.2 An illustration of data display

		DOC				Total
		A	B	C	D	
CAU	CAU-FDI	2	1			3
	CAU-NTW	1		2	2	5
	CAU-PRO	3			1	4

Drawing conclusions refers to examining the data display, comparing it with the conceptual framework, and interpreting the data so that the data are made theoretically meaningful (Miles and Huberman, 1994). After the data were displayed in the Excel matrix, as described earlier, the display was compared with the preliminary framework in order to make theoretical sense of it. This process also helped to ensure that no loose codes were left unexplained by theories. Although the theoretical framework served as guidance for the empirical exploration and analysis, it was not seen as a rigid frame over the data. As new insights emerged from the empirical data, the framework allowed adjustment and refinement. The overarching theoretical framework was used as a guide to make sense of the empirical materials, instead of imposing certain explanations or structures onto the case. The data, in turn, refined and further developed the preliminary framework (Alvesson and Sköldberg, 2009), which served as the foundation of the data analysis. Descriptive and analytical text was written about each pattern. Representative quotes from each category were selected and presented under the corresponding themes in the thesis. In the end, conclusions were drawn and the research aim was realized.

5.4. Research trustworthiness

This thesis utilizes an extensive range of archival documents (see Table 5.1). The document data cover a wide scope of perspectives on China's efforts to converge with the IFRS, and reveal the dynamics among the different actors and organizations involved. Documents and reports were selected based on the following criteria: First, they had to express or include the opinions of those who were actively involved in, or at least close to, decision-making circles with respect to the development of accounting standards in China. Second, they had to be published and/or accessible. More specifically, these documents included unsolicited data, whether electronic or physical, and solicited data with special communicative intent. They included annual reports, press releases, online forums, archives, announcements, and news from both Chinese and international websites; publications of the MOF, IASB, World Bank, IMF, accounting firms, and accounting professional organizations; written records of political and accounting discourses; minutes of meetings and speeches made by Chinese and international officials; and legislative documents such as accounting laws, instructions, and pronouncements. Some documents were internal documents. About half of the documents examined were originally in Chinese, but they had been summarized in English and were merged with the rest of the documents that were originally in English.

The purchased databases were used to retrieve discussions by practitioners, academics, and others who held opinions on the relevant topics. Most were not anonymous, but peoples' organizational associations were not verifiable. However, the database normally guarantees the authentication of the publications. In order to avoid missing any relevant document, a wider search was used in the online databases, as these databases were not specifically related to accounting matters alone, unlike some accounting websites. Although these documents covered many different aspects, certain sections were relevant for the research questions. Searches with different keywords yielded mostly the same results, but would sometimes provide new results that were not included before. The selected databases contain different documents, albeit with some overlap. The online forum was a new and interesting channel for collecting data in China. It provided a valuable venue to examine different viewpoints from a variety of participants. The forum functions as a discussion group. However, unlike a conventional discussion group, the identities of the participants were next to impossible to determine, although certain comments revealed a discussant's occupation or years of experience. Due to the unreliability of such identities, I used data from the online forum mainly as a reference for the data collected from other sources. However, I was able to use this channel to post certain questions. In addition, when certain online forums presented points that either disconfirmed or conflicted with my expectations, they became a trigger I could use to search for further documents. In this sense, the online forums served not only as an additional document, but also as a triangulation tool.

Table 5.1 Summary of document data

Type	Source	Relevance	Example
Online media, newspapers, financial journals, and magazines	Forbes, wsj.com, Renmin Ribao, etc.	Opinions and forecasts from practitioners and the general public	Comments on the shortage of accountants in China and predictions on the number of CPAs needed
Statistical data	Worldbank.com, Chinese national statistics bureau	Statistical summary, extracted data according to selected parameters	Chinese listed company increase and stock market expansion
Meeting minutes	Solicitation from meetings, CICPA library, Beijing library, online archives	Discussions and debates on relevant issues; identification of key actors and tones of the opinions	Decision-makers and main participations at each meeting between the MOF and the IASB
Internal publications	Newsletters, drafts of publications, announcements from both Chinese and IASB	Process of changes, potential conflicts, and disagreements	Disagreements with provisions between the MOF and the IASB
Purchased databases	Baiduwenku, zhongguozhiwan, kuaijiwang	Articles by academics and practitioners, Chinese-only references	Academia’s view on why IFRS may not fully work for Chinese listed firms
Online forum	Weibo, chinaaccounting.com	Discussions and debates on the most current accounting changes	Personal informal opinions surrounding convergence

Chinese is a unique language in the sense that texts can often be understood in several different ways. This situation required me not only to read through the whole document to understand the underlying meaning from the context, but also to either triangulate the meaning from other parts of the same document or cross-reference from other document sources. Sometimes (but not often), the English translations for certain Chinese texts were available; however, these often did not provide clear explanations, in part due to different interpretations by the translators and in part due to certain omissions in the translation process. In these situations, I did not rely on the readily available English translation, but instead retranslated the texts myself.

Therefore, in order to stay as true as possible to the real meaning of the data, a great deal of time was spent on trying to cross-reference, triangulate, and interpret data context. After having conducted all due diligence, I made the most informed decision regarding where various data objectively belonged in the theme categorization. However, as the researcher, I still had to rely on my own judgment and reflection (Alvesson and Sköldberg, 2009) to a certain degree in such situations. The document data analysis underwent several rounds of sorting, and the patterns were eventually determined based on my most informed interpretation. In this sense, the role of the researcher was not only to take the data as given, but also to engage in interpretation. Consequently, it must be acknowledged that another researcher could have potentially interpreted the same data in a different way. Thus, the validity of this thesis is eventually subject to the researcher's interpretation of the credibility of the documents.

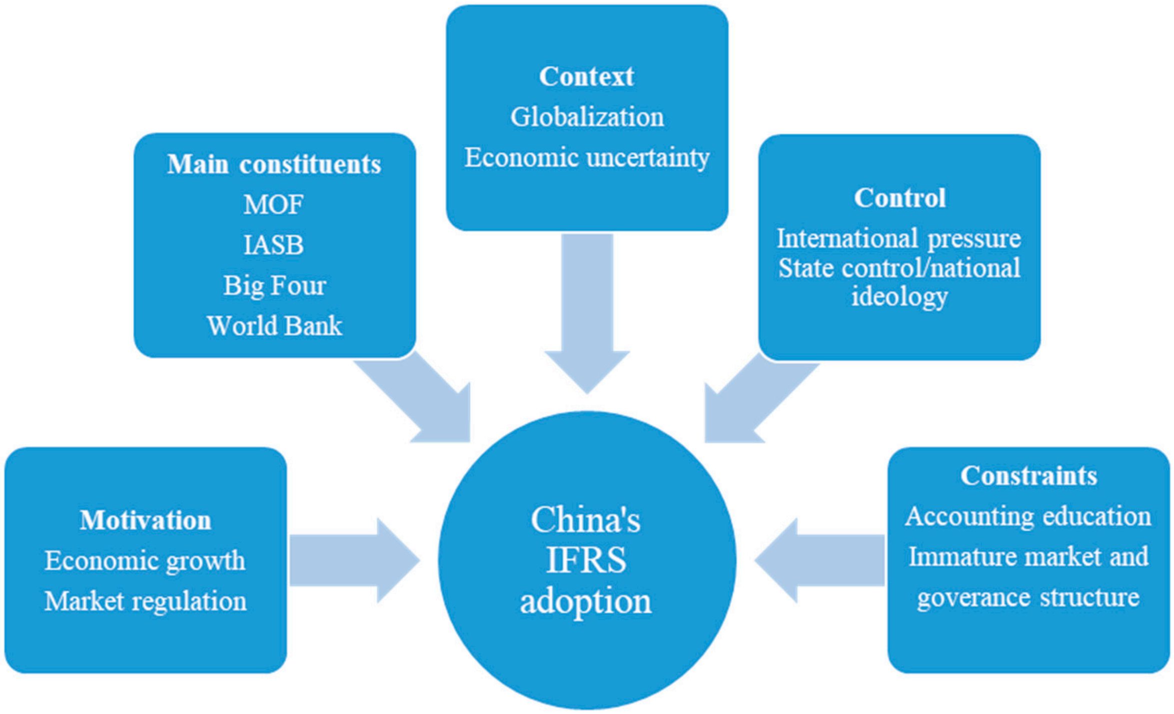
Chapter 6. Conclusions, contributions, and future research

This chapter, which concludes the thesis, is organized as follows: The first section summarizes the main findings, while the second section reflects on the expected and unexpected findings. The third section discusses the three dimensions of the contributions—namely, the theoretical contributions, empirical contributions, and policy implications. The fourth section suggests potential future research that can be derived based on the results and theoretical insights of this dissertation. The last section critically reflects on the research and discusses the potential future development of China's IFRS convergence.

6.1. Summary of the main findings

As stated in the introductory chapter, using China as the case context, the research aim of this thesis was to conduct an analysis of the causes of the different degrees of IFRS adoption that have occurred at the national level and to examine how and why these factors affect accounting standard-setters' strategy in the era of international accounting harmonization. In this section, I discuss the conclusions and findings based on the theoretical framework that was chosen and the analyzed empirical data. Figure 6.1 summarizes the factors that have been identified as influential to the adoption of IFRS in China. Specific discussions on how and why these factors affect China's IFRS adoption follow after and can also be found in Papers 3 and 4.

Figure 6.1 Summary of factors affecting China's IFRS adoption



6.1.1. Multiple factors influencing Chinese IFRS convergence

This research shows that the factors influencing China's current convergence status with IFRS are multifaceted, fluid, and interrelated. The Chinese IFRS convergence process reveals the complexity of the institutional changes that underlie the difficulty of converging a homogeneously developed set of standards with an exogenous set of standards. The empirical data on Chinese IFRS convergence suggest factors that are indicative of the country's readiness and or suitability to converge and harmonize with IFRS, as described below.

The desire to grow the national economy in the international and domestic equity market and the necessity of regulating a functional trading place have been shown to be the main favorable motivations toward IFRS convergence. The powerful institutional defenders that contribute to the continued divergence between national standards and IFRS are domestic equity market conditions, the immaturity of economic development, and the continued control of the Chinese government over the accounting standard-setting process.

Several institutional constituents, such as the State council, international organizations, and the "Big Four," have been influential in the MOF's decision to converge with IFRS. Among these, the main actors are the State council and the IASB. Despite the commitment of the World Bank to sponsor Chinese accounting standards development and the direct involvement of the Big Four in this process, their principal roles have been regarded as those of sponsors and trusted advisers to the standard-setting process, instead of decision-makers.

The changing role of accounting in Chinese society has also facilitated China's acceptance of IFRS. Although China's accounting principles and concepts are moving closer to those of the IFRS, major differences remain. Negotiation and cooperation among institutional actors were also important in the finalization of the 2007 GAAP, which reflects the mutual dependence (Oliver, 1991) that exists between the party imposing IFRS and the party adopting these standards. Contextual conditions that have caused Chinese accounting standard-setters to favor the IFRS include China's increasing economic integration and inherited economic uncertainty.

6.1.2. A strategic approach under the influence of national ideology

The second conclusion is that the multiple dimensions identified in the first conclusion reflect that the Chinese accounting standard-setters' reaction to the pressure of international accounting harmonization is a strategic response that follows China's national ideology. This thesis finds that, although isomorphic pressure is present (DiMaggio and Powell, 1983) in China's IFRS convergence, the accounting changes surrounding China's IFRS adoption have largely been driven by the desire to serve China's ideology (Eagleton, 1991, Ezzamel et al., 2007), self-interests (Oliver, 1991), and domestic needs (Nobes, 1998).

The first task of the MOF is to follow the national leader's ideology. At the beginning of the accounting reforms, China's national ideology focused on economic development to rebuild the country after political turmoil and natural disasters. Since then, China has been using economic globalization as an engine for growth and has developed quickly. China now has the goal of overtaking the United States as the world economic leader. Therefore, specific strategies must be developed to cope with the requirements and demands of the international investors who come as part of China's economic expansion toward the rest of the world. To achieve this goal, Chinese financial reporting first had to achieve a trustworthy status, and the benefits of conforming to external norms and or pressure (DiMaggio and Powell, 1983) were valuable for this purpose. At that time, the IFRS had rapidly become the institutional norm within the international accounting arena (Judge et al., 2010). Thus, the Chinese MOF strategically chose conformity to external pressure by using the IFRS as the means of gaining trustworthiness and legitimacy (DiMaggio and Powell, 1983) to meet its economic goals in the global market. This resulted in China's major convergence with IFRS in 2006. As China's economic goals are not being achieved and the intended legitimacy has been gained, as evidenced by the access to major markets that has been granted to Chinese firms, China's need to fully adopt IFRS has decreased, since doing so no longer supports the national goals.

Taken as a whole, the current Chinese GAAP are, for the most part, in line with the IFRS as issued by the IASB; however, the differences that do exist represent China's domestic institutional conflicts with the IFRS requirements. The findings show that pressures from both internal and external sources have exerted an important influence on the convergence efforts in China. That is, China's IFRS convergence is a result of ongoing socioeconomic reforms and developments, cross-fertilized by internal and external factors. This thesis also shows that the patterns of national accounting standard-setters' strategies are non-static and may shift as the standard-setters learn how to cope with the diffusion of IFRS and the global market's demand for accounting information. This process is fluid, which reflects China's accounting standard-setters' constant search for the best strategy (Oliver, 1991) to fit the national interests. This thesis suggests that the initial rush and recent slowdown in Chinese convergence with IFRS actually show a careful and mature way of adopting IFRS. The initial fast convergence was driven by China's need to increase its firms' legitimacy (Dillard et al., 2004) in order to access capital. China's recent reluctance to fully adopt IFRS is mainly because access to capital has largely been met by the current convergence status. This pattern indicates that Chinese accounting standard-setters are gaining more control over China's domestic accounting changes to ensure that the accounting standards suit the Chinese environment.

6.1.3. Bilateral rather than unilateral needs

The third finding is that IFRS convergence in the case of China reflects a cooperation and mutual dependence between the external institutional norm (DiMaggio and Powell, 1983) and the adopting organization, rather than a one-sided pressure (Oliver, 1991). In other words, the convergence status between the Chinese GAAP and the IFRS is not only due to pressure being exerted upon the MOF; it is also partly due to the IASB's need for the MOF's support in order to continue the IASB's own mission and maintain its leading status and legitimacy. Support from the MOF is especially important for the IASB, given that the other two of the top three largest economies—the United States and Japan—have actually reduced their enthusiasm toward converging with IFRS (Cohn, 2015). As China has gained substantial influence in the world economy, it has become an important ally and can provide key support for the legitimacy of the IFRS—and, hence, for the legitimacy of the IASB (IASB, 2011). Thus, the MOF's reaction to IFRS convergence and, even more, China's non-full adoption are the result of bilateral needs and negotiations between the MOF and the IASB. In short, China's IFRS convergence exhibits a proactive attempt from the Chinese side to enhance China's trustworthiness and increase its economic growth. In the meantime, IASB welcomes China's support because cooperation with China boosts the diffusion of IFRS among other jurisdictions.

6.1.4. An economic incentive embedded in technical standards

The fourth conclusion is that the Chinese experience reveals that the economic incentives embedded in the technical attributes of the IFRS contributed to IFRS acceptance in China, despite the argument on whether accounting is political or cultural, and whether accounting is inseparable from its institutional environment. This thesis shows that, in the initial stage of China's economic openness, technical aspects of the accounting standards outweighed the existing political and cultural constraints (Eagleton, 1991) surrounding the role of accounting in the MOF's IFRS convergence. By officially upgrading the technical level of the Chinese accounting standards to bring them closer to the IFRS, the MOF gained legitimacy and trustworthiness (Beckert, 2010) in the international community, and therefore fulfilled the economic incentives set out by the national leaders. In the meantime, restructuring and an emphasis on the politically neutral nature of accounting have eased the transition of IFRS into the specific Chinese institutional structures that traditionally surround accounting functions. China's regulatory choices are in line with its economic objectives, which are to attract foreign investors and develop its capital markets. Therefore, the rationale behind the changing role of accounting in China is consistent with China's economic objectives. Accounting was labeled as a technical tool at a time when there was a strong desire to grow the domestic economy. Technical upgrades increase legitimacy (Gillis, 2014) and in turn increase a nation's economic competitiveness, thereby facilitating that nation's economic goals.

However, the above findings do not imply that accounting standards in China are completely regarded as technical either. Rather, accounting standards are perceived as something between entirely technical standards, such as those of information technology, and regulations that are subject to total interpretation, such as political agendas. On the international and cross-border organization level (Scott, 2001), the need to grow China's national economy means that Chinese accounting standard-setters must compete as well as cooperate with other accounting standard-setting entities for the global equity market, and must gain trust (DiMaggio and Powell, 1983) at the international level. In order to attract FDI, the MOF must step out of its obsolete traditional accounting system (Zhou, 1988) and search for the best institutional practices (Yang et al., 2018). By imitating better and more technically efficient accounting systems, China can improve its competitive global position, or at least avoid falling further behind. Thus, in the cross-national context, China's emphasis on the technical aspect of accounting standards has masked the IFRS as politically neutral, even though China's IFRS adoption is not totally separated from China's institutional surroundings (Ezzamel et al., 2007). The perspective of IFRS as being purely technical was used by Chinese accounting standard-setters to relax the national institutional constraints in order to allow IAS into the Chinese market.

6.2. Reflecting on expected and unexpected findings

In this thesis, I have analyzed and examined the influential factors in the case of Chinese IFRS adoption efforts through an institutional analysis lens, bearing in mind that these factors can reveal accounting standard-setting bodies' strategic choices and active adaptation toward institutional environmental changes. The research has produced fruitful results, some of which were expected, while others were not expected before the empirical investigation commenced.

It was expected that the reasons for the current convergence status between the Chinese GAAP and IFRS would be multifaceted. The previous literature implies that national accounting changes in the era of international accounting harmonization are determined by a variety of factors. An important reflection is that the dynamics among these factors are fluid—meaning that each factor can change in importance and relevance at a given time. These factors are also interconnected, while specific factors and the integration of factors and theories are country specific. The potential adoption status of IFRS by national accounting organizations involves tradeoffs among these factors, depending on the surrounding circumstances. At a collective level, a nation's adoption status reflects the benefits that may be gained by choosing some position between adopting IFRS in their entirety and rejecting the standards completely. The reactions from accounting standard-setters depend on the degree of organizational dependence that nation has on the pressuring institutional constituents for its legitimacy and for the benefits it needs to promote its economic viability. Whether a change in the accounting environment can trigger IFRS adoption depends on how accounting standard-setters sense the current situation.

The systematic review of previous studies and the empirical findings of this thesis also led to reflection on the environmental pressure (DiMaggio and Powell, 1983) caused by the need for international accounting comparability, which contributed to China's IFRS adoption. Many countries continue to diverge in terms of their acceptance or application of IFRS, as the institutional rules surrounding accounting that originally differentiated national accounting systems continue to prevail. This confirms Nobes (2008) prediction that the causes for the international accounting differences that pre-dated the IFRS remain influential.

The analysis also emphasizes that accounting standard-setters often confront multiple and frequently incompatible demands from a variety of constituents (Oliver, 1991), which can influence accounting changes. As accounting is part of a nation's economic and institutional infrastructure (Scapens, 1994), the adoption of or adaptation to international standards is a process that involves balancing demands from multiple constituents within society and beyond. The analysis shows that total IFRS adoption can be difficult to achieve when there are significant conflicts between the demands from multiple powerful sources. Partial adoption may occur when these conflicts prevent accounting standard-setters from adopting IFRS in their entirety, as in the current adoption status in China. In such a context, even when national accounting standard-setters have the same goal of competing in the global equity market, they can still differ substantially in the way in which or extent to which they adopt IFRS. When making accounting changes, accounting standard-setters are confronted with the challenge of choosing an optimal international practice that is also complementary to their domestic traditions. Thus, countries' divergent choices regarding IFRS adoption reflect the balance their accounting standard-setters have achieved between multiple demands from different sources. The interconnections and power balances between these actors influence the institutional context and the organizational reactions to external institutional norms (Greenwood and Hinings, 1996).

On the other hand, unlike previous research, this thesis finds that the Chinse experience shows that core characteristics, both individually and in combination, influence the accounting changes made by Chinese accounting standard-setters. These factors do not necessarily push accounting changes toward only one direction or another, and their dynamics may change with the evolution of other institutional factors. Another critical yet unexpected insight is that national accounting standard-setters themselves are active in the process of IFRS adoption, while simultaneously being constrained by international accounting standard-setters and the technicality of the IFRS. National accounting standard-setters engage in negotiations (Ramanna and Sletten, 2014) with international accounting standard-setters. The interactions between these two sides are complex and multidimensional.

The allocation of responsibility and the degree of dependence between national and international organizations in the process of harmonization continually change, implying interdependence and mutual legitimacy seeking. During this interaction, accounting standard-setting organizations are engaged in pursuing their own interests (Oliver, 1991), converging across fluid boundaries, and restructuring themselves in terms of how they connect with each other (Ramanna and Sletten, 2014) in the field of international accounting harmonization. By the same token, international accounting standard-setters prefer uniform IFRS adoption with no modifications (IASB, 2017), but also need national acceptance in order to continue the success of the IFRS (IASB, 2011). The mutual dependence between the parties imposing external pressure and the adopting nations thus results in a variety of acceptance levels of IFRS convergence at the country level.

This thesis also reflects on the viewpoint that the IFRS adoption decision made by accounting standard-setters depends on the degree of compatibility between the domestic institutional constraints and goals and the IFRS requirements. The analysis recognizes that accounting standard-setters do not passively react to their environment; rather, they can actively preserve their autonomy and retain control over their own activities when facing incompatible demands from external sources (Oliver, 1991). Accounting standard-setters will be more willing to conform to external pressures when these pressures or expectations are compatible with their own internal goals. Resistance toward the IFRS is predicted to increase with the degree of loss of autonomy that is associated with conforming to these pressures. When total conformity is perceived as incompatible with the internal institutional conditions, accounting standard-setters may act in their own interests to actively influence the institutional conditions that constrain the adoption or interfere with the pressure itself in order to resolve the incompatibility. Consequently, non-adoption or partial adoption are likely outcomes in such cases. Thus, the standard-setters' desire to retain control over their own accounting standard-setting process and outputs will impose limits on other factors involved in adopting IFRS, and vice versa.

The emergence of IAS can reduce the transaction costs of national organizations and decrease the uncertainty in their future interactions within a special area, such as accounting information exchanges (Ovodenko and Keohane, 2012). International organizations, such as the IASB, can help facilitate cooperation among national organizations. However, they can only do so effectively when national accounting standard-setters see that what these international organizations bring to the table can indeed help their nations to avoid economic uncertainty and achieve their economic goals in the globalization era. The analysis shows that international standard-setting entities can depend on the adopting entities for legitimacy and the continued diffusion of their standards. Such dependence can affect the degree of adoption in either direction. The perspective that guides the analysis recognizes how interdependencies between the adopting parties and the imposing parties can produce a range of relationships that reflect the distribution of power and other resources among these parties and hence result in diverse national accounting organization responses.

6.3. Contributions

In this section, I discuss the contributions made by this thesis to the field of international accounting research literature in terms of theory, empirics, and policy implications.

6.3.1. Theoretical contributions

This thesis utilizes an institutional analysis to examine the factors involved in Chinese accounting standard-setters' decision to adopt the IFRS and how these factors have affected the convergence between the Chinese GAAP and the IFRS. In doing so, this thesis adds to recent international accounting research efforts examining the ever-increasing push toward the international harmonization of accounting standards (Judge et al., 2010) and the continued differences that exist among national accounting systems (Nobes and Zeff, 2016). The theoretical contributions of this thesis stem from its proposition of a comprehensive analysis that includes identified variables and their suggested explanatory power in influencing national accounting standard-setters' reactions to international accounting harmonization. National responses to IFRS can range from passive conformity to active rejection (Oliver, 1991). This analysis takes into consideration not only what factors push harmonization forward, but also what factors prevent national accounting systems from fully converging with IFRS. The specific theoretical contributions of this thesis are outlined below.

The diffusion of the IFRS as global accounting standards is a social issue involving human perceptions and beliefs of legitimacy (Perren and Grant, 2000). It is a socially constructed empirical phenomenon that calls for an interpretive theoretical framework to take into account the assumptions and perceptions by relevant actors (Perren and Grant, 2000). One of the primary contributions of this thesis lies in its use of an integrated theoretical approach toward institutional changes to describe and explain the degrees of national IFRS acceptance that can be observed. This research recognizes that accounting changes are driven by both external pressure and the adopting entities' own incentives. The responses exhibited by accounting standard-setters consist of a wide range and are continually changing. The analytical framework used in this thesis provides a comprehensive set of dimensions to examine different factors affecting national IFRS adoption and to capture the dynamics and interrelations among these factors. In doing so, this thesis helps to bridge certain explanation gaps and demonstrates the applicability of the strategic choice framework in understanding international accounting harmonization.

The two streams of studies on IFRS adoptions—namely, the convergence and divergence perspectives—share some common assumptions yet disagree on certain points. Both sides recognize the importance of environmental constraints on the national accounting system. However, these two streams of literature disagree on the sources and effects of environmental factors. In addition, neither theory pays sufficient attention to self-motivation (Oliver, 1991) on the part of accounting standard-setters or mutual dependence among the involved actors. Thus, this thesis complements these two streams of literature by highlighting the fact that accounting standard-setters can utilize their discretion to serve their national interests instead of passively reacting to environmental factors. In practice, mutual dependence among the involved actors largely determines a nation's acceptance level of IFRS. Therefore, the underlying rationale in the theoretical assumption made here embraces the willingness and capability for negotiation of national accounting standard-setter organizations, as well as the openness of their environment for such negotiations.

This thesis emphasizes the interplay between internal factors and external factors. The theoretical propositions of this thesis permit the synthesis of different theoretical assumptions in order to overcome a limited and one-sided understanding of organizational passive conformity. It highlights the roles of both the standard-adopting party and the standard-imposing party, as well as the connections between them. On the one hand, accounting standard-setters are under pressure to conform to external expectations, or may perceive benefits in doing so (Dillard et al., 2004). On the other hand, they must balance exogenously developed standards against their national needs and the capacity of their current domestic institutional arrangements (Mueller, 1967). These two perspectives may conflict or compromise with each other due to isomorphic pressure from external constituents (DiMaggio and Powell, 1983) and/or the domestic accounting system embedded in the nation's social, legal, or cultural traditions (d'Arcy, 2001). In this situation, the benefits of conformity to external norms are balanced against domestic constraints.

Furthermore, building upon the existing literature, this research proposes dimensions and factors that can be used by future research to analyze how national accounting standard-setters in other countries and international accounting standard-setters interact with each other, and why national accounting standard-setters may choose to move toward or away from IAS (see Paper 2). Evidence from China, as well as from prior studies in other countries, is brought into the framework to substantiate its analytical power with concrete institutional parameters that are operationalizable in future research within certain specific national contexts. Therefore, although this conceptual approach may not prove to be definitive or generalizable, it provides a framework for differentiating among theoretical assumptions while encompassing current international accounting research, and suggests a categorization of the empirical indicators that have been fruitfully pursued by accounting scholars.

This thesis also recognizes that certain institutional factors can cause both convergence with and resistance against the IFRS, depending on specific national contexts. For example, domestic constraints can stem from legislature structures, and may determine the degree of adoption because IFRS diffusion is voluntary rather than mandatory (Hope et al., 2006, Mita and Husnah, 2015).

The quality of a nation's accounting education and the size of its stock markets can both constrain its capacity and increase the willingness of national accounting standard-setters to fully adopt IFRS (Hassan et al., 2014, Judge et al., 2010). Hence, the results suggest that accounting research focusing on an understanding of the harmonization of IAS and its effects should shift to incorporate multiple dimensions of institutional factors in order to gain a full understanding of the issues imbedded in the decision-making of accounting standard-setting organizations. The synthesis of different viewpoints provides an opportunity within IFRS literature by showing how legitimacy, power, organizational compatibility, and interdependence—when combined with urgency due to economic globalization—can result in different types of reactions among national accounting standard-setters.

6.3.2. Empirical contributions

The evidence in this thesis also complements the growing body of literature on IFRS adoption at the national level by providing empirical evidence from China. These empirical results provide a general understanding of China's political, economic, and regulatory environment, as well as—more specifically—changes in its accounting and financial reporting systems. Understanding the accounting and financial reporting environment is crucial to any successful investment or economic decision (Ball, 2006). While limited prior research has documented the nature of the political and economic development in the Chinese accounting environment, no studies have comprehensively investigated the development of the accounting system in China in relation to its IFRS adoption. This thesis serves this purpose and provides an understanding of the unique institutional factors that have influenced IFRS adoption in China, while yielding lessons other countries can learn from the Chinese experience, which may affect their transition to IFRS.

This thesis answers the calls from scholars to provide country-specific factors influencing national accounting changes in the era of international accounting harmonization (Ball, 2006; Judge et al., 2010). As argued at the beginning of this thesis, since there are relatively few studies on the country-level adoption of IFRS, one contribution of this thesis may be its exploration and description of the identified factors. As the Chinese accounting environment shares certain characteristics with other nations with emerging economies, transitional economies, and—to certain extent—large economies, the factors identified in this thesis may have implications for other empirical research on countries' transitioning to IFRS. Nations with relatively weak economic positions that need external financial aid to survive may be more likely to submit to the requirement of full IFRS adoption by international agencies. Emerging economies that are eager to increase their economic competitiveness in the global market may be more likely to volunteer to adopt IFRS in order to enhance their financial reporting's trustworthiness. Once these economies have become large and powerful, they may rely less on IFRS and are thus more likely to partially adopt or even reject IFRS. In this sense, this thesis has logically grouped the factors affecting the degree of IFRS adoption based on predefined dimensions so that these factors can be analyzed independently or collectively in an empirical setting. Compared with previous studies, this thesis provides a broad range of factors. In the meantime, the suggested categorical dimensions still allow the further testing of certain variables, either in aggregate or separately by controlling other variables.

This research is a single case study. Although certain findings and implications align with those of other case studies (e.g. Hassan, 2008, Nobes and Zeff, 2016), China is a unique case. The future of IFRS convergence in China is not easily predictable. The research findings show that China has already achieved its intended economic goals with its current convergence status, and the external institutional pressure is now giving way to the national ideology surrounding Chinese accounting.

6.3.3. Policy implications

This thesis has practical relevance for both international and national accounting standard-setters' policymaking. After 20 years of rapid diffusion around the world, the IFRS have been widely recognized as high-quality accounting standards that can make it possible for financial information to be compared across national borders (IASB, 2020). However, this success can only be sustained if the IFRS are adopted and applied properly in practice (Ball, 2016, Kvaal and Nobes, 2010). Since China is not alone in its deviation from the IFRS (Deloitte, 2014), this thesis provides important information for international accounting standard-setters, such as the IASB, as well as other international institutions, such as the World Bank and the G20, in their continued efforts toward accounting harmonization. The framework proposed in this thesis can be used by accounting standard-setters to gauge their convergence choices and analyze the reasons for different degrees of IFRS adoption. Thus, for the IASB, this research helps identify areas that need to be addressed in order to achieve their goal of uniform adoption by all countries. The dimensions identified in this thesis can assist the IASB and the World

Bank in collaborating with countries on an individual basis to address the needs of relevant constituents. The results imply that the IASB's strategy should focus more on cooperation with local regulators or groups of regional cooperation in order to reach its objective to develop a single set of high-quality international standards.

In a traditionally planned economy like China, all institutional components were developed consistently and are mutually dependent on each other under the same central system (Roberts, 1995). Thus, they may not be compatible with a true market economy that is completely investor oriented—and for which the IFRS were designed (Hassan, 2008). There is more to harmonizing accounting standards than just replacing national accounting standards with IFRS. A nation's economic structure, accounting regulations, and the education of its accountants must all be changed in order to achieve true accounting harmonization. Therefore, another important implication of this research is that the IASB should be cautious in promoting the IFRS among emerging and transitional economies whose institutional settings are very different from their Anglo-Saxon counterparts. Transitional or emerging economies face special capital market constraints and are not yet mature or ready to fully implement IFRS, although the intention may be present (Mir and Rahaman, 2005, Mita and Husnah, 2015, Zeghal and Mhedhbi, 2006). The IFRS need to be developed to take into consideration the special needs of these national conditions. However, doing so is not as simple as just relaxing the standards or allowing more room for interpretation, which may hinder the comparability purposes of the IFRS.

The findings of this thesis are likely to be of interest to other countries and regions, especially those with emerging economies. Countries in the process of adopting IFRS can benefit from China's experience. In the development of the current version of the Chinese GAAP, Chinese standard-setters incorporated certain issues that are particularly relevant for the Chinese environment, which represent a departure from the IFRS as issued by the IASB. Where applicable, the Chinese MOF has also included additional guidance in the relevant standards to provide more detailed instructions than those included in the IFRS. This thesis demonstrates that, in countries such as China, which do not yet have mature institutional infrastructure in place, converging with a set of accounting standards developed based on the systems of developed countries may present some concerns. More specifically, the implication from this thesis for other accounting standard-setters is that initial IFRS acceptance due to the changing nature of the local capital market and the technical difficulties brought by IFRS can appear to be confusing or even frustrating at times. Thus, certain amendments to IFRS may be required to take into account country-specific contextual factors and make the IFRS applicable for such countries. While the economic and political situation in China may not be identical to that in other nations, much of the experience in China is anticipated to be useful nonetheless. China's experience may assist national standard-setters to identify an approach toward IFRS adoption that is most suitable to their context. The costs of switching from domestic standards to IFRS may not be a one-time thing. Policymakers must consider the costs and benefits when deciding whether and to what extent they should adopt IFRS.

6.4. Research limitations and suggested future research

6.4.1. Research limitations

The empirical data of this research is mainly based on documents. Other data sources such as interviews and observations may provide additional valuable evidence to complement the research results (Bell et al., 2018). Due to the nature, timing, and sensitivity of the research aim, locating the right interviewees could have presented a challenge. Nevertheless, insights from key personnel with insider knowledge and decision-making power would have been helpful. The limitation that comes from using document data is mainly because the documents were not constructed solely to answer the research questions. Some documents provide a great deal of relevant information, while others may provide quite limited information. Often, useful information is buried among irrelevant information. In addition, depending on the sources, some documents may be incomplete, inaccurate, or inconsistent, leaving gaps and contradictions (Bowen, 2009). Furthermore, some documents that could be potentially useful were not made available to me. Given the nature of secondary data, I had to utilize my judgment to eventually determine the coding. Although triangulation among different sources and due diligence were performed, potential bias may still be present, both in the documents used and from the researcher.

6.4.2. Future research

International accounting harmonization has recently grown to be a popular topic among academics and practitioners alike. IFRS diffusion remains theoretically and practically important (Ball, 2016). Building upon this thesis, several future research possibilities can be derived, as described below.

6.4.2.1. Comparative studies in multinational contexts

This research focused on a specific national context, that of China, and on the strategies chosen by Chinese accounting standard-setters in response to pressure to conform to IFRS. One question that remains to be answered is how many of the findings from this thesis are applicable in other national contexts. Would these findings hold true for other countries with different or similar statuses in the institutional environment, such as the United States or Sweden? Thus, future studies can test whether the framework in this research can be extended to multiple environments with similar and/or dissimilar natures in order to better understand the scope of the institutional variables identified in this thesis. With the understanding provided herein of the institutional characteristics that influence Chinese IFRS convergence, further research can be conducted in conjunction with other national settings, involving the inherited characteristics embedded in their accounting environments. It is important to consider national differences when conducing such an analysis, especially the role of accounting standard-setters in the institutional setting. Generalizing findings from one country to another without taking country-specific characteristics into consideration may yield premature or even false conclusions.

6.4.2.2. Effects of national IFRS adoption

This thesis examined how IFRS have been adopted into the legislature at the national level, not at the level of enforcing and monitoring IFRS compliance. Thus, the question remains: Even if IFRS adoption initially improves the accounting in a nation, will these improvements last, or will they wane over time? There is no guarantee that good standards can induce good practices without strong commitment from the national accounting standard-setters that choose to adopt IFRS. The success of IFRS diffusion cannot be judged based only on the sheer number of adopting countries; it should also be judged based on whether countries have planned their adoption well, carefully fit it into their specific environment, or tried to change their environment to accommodate IFRS (Ball, 2006, Mir and Rahaman, 2005). In order to facilitate convergence, a well-designed implementation and an effective enforcement mechanism are also necessary. It is important to acknowledge that country-level mandates that require or permit certain standards do not guarantee proper implementation and enforcement (Alon and Dwyer, 2014). Therefore, the implementation of and compliance with adopted standards can be studied in connection with the reasons for adoption. The effects of national IFRS adoption have been examined extensively but not yet in direct tandem with the factors underlying adoption. Thus, future research in this area is possible.

6.4.2.3. Extending to firm-level investigation

Another direction for future research could be to advance the depth of the study to the firm level. As stated in the introduction, this research seeks to study national IFRS adoption at the country level. As has been established, firms tend to exhibit different patterns in IFRS practices across national borders (Nobes, 2011). In order to determine the causes of the continued national differences in firms' reporting patterns, it is necessary to first separate the factors that are out of the firms' control from those that are chosen by the firms themselves (Judge et al., 2010). After research findings at the national level are identified, it would be natural and interesting to continue to test the research results at the firm level to see how much of the findings is applicable to firms and how much is due to national-level issues. Firms' adoption decisions are conditional upon countries' decisions to harmonize with IFRS. By the same token, national accounting standard-setters are likely to consider the expected firm-level consequences when choosing to allow or require IFRS (Ramanna and Sletten, 2009). Thus, extending this research to the firm level can provide further important findings on IFRS diffusion. A suitable method for such research might be to engage in quantitative analysis to test the impact of institutional factors on the quality of firms' financial reporting. Such evidence would be useful to policymakers in their efforts to implement financial reporting standards. However, separately identifying firm-related-only mechanisms could present a major challenge to this research design.

6.5. Potential evolution of future IFRS convergence in China

As the concluding remark, I outline three possible scenarios for future IFRS convergence in China, depending on the development of influencing factors. These factors may come from the domestic or international environments. In addition, whether jointly or in combination, these factors will not necessarily push accounting changes in China in only one direction or the other. Even so, the dynamics may change with the evolution of other institutional factors. Chinese accounting standard-setters' choices depend on the degree to which they perceive and value the intentions or objectives that institutional constituents are attempting to achieve when pressuring them to conform. The following discussions are solely based on the research results of this thesis and are not meant to be definite predictions.

6.5.1. Scenario 1: Continue to converge and eventually fully adopt

In this scenario, the gap between the Chinese ASBE and the IFRS as issued by the IASB may continue to narrow, eventually resulting in full convergence. However, the road to full IFRS adoption in China will likely be a long one, if it ever happens. In this scenario, the international pressure from investors and from international organizations, such as the IASB, World Bank and IMF, is expected to increase. If international (especially large institutional) investors begin to demand full IFRS adoption in order to allow Chinese firms to list in large international stock markets, including Hong Kong, then the MOF is likely to consider full adoption. The current gap between the ASBE and the IFRS is relatively small, so it is not impossible for this gap to disappear with additional efforts. Although Chinese firms will incur costs due to switching standards and training, these costs are likely to be considered worthwhile compared with the potential losses from losing international investment. Another condition that could facilitate a full adoption scenario would be if the continued growth of the Chinese economy eventually eliminated the institutional and economic constraints that are holding China back from full adoption. These constraints, as identified in this thesis, include accounting education level, immature domestic market infrastructure, and government control over large listed companies.

6.5.2. Scenario 2: Maintain convergence status but do not fully adopt

Under this scenario, the economic and institutional differences between international conditions and the Chinese domestic conditions are expected to continue. This scenario is also possible if the changes in the international pressure from investors remain small. Current Chinese financial reporting is already accepted by most large stock markets; therefore, it is unlikely that Chinese accounting standard-setters will voluntarily choose to make major efforts to change. In this scenario, Chinese accounting standard-setters will maintain their convergence status and not fully adopt the IFRS. To preserve Chinese control over accounting standards, a word-by-word adoption will not occur. Instead, China is likely to continue to make additional changes in a manner suitable to the Chinese economy and business environment. Under this outcome, Chinese listed companies will continue to follow the Chinese GAAP without consolidation when listing in Hong Kong and Europe, as well as, potentially, the United States in the future. In this scenario, the residual and potential new differences between the two sets of standards will remain, and comparability issues will continue. Unless there is pressure from investors for both international and domestic change, the current major convergence status is likely to remain. With this major convergence status, the fact that the majority of countries have adopted IFRS does not have as profound a pressure on Chinese accounting standards as it does on the other top two economies, the United States and Japan (which are considered to be peers of the Chinese economy), which have not yet adopted IFRS.

6.5.3. Scenario 3: Differences between the IFRS and the Chinese GAAP widen, leading to eventual reconciliation

Given the ever-changing economic and institutional surroundings, both international and domestic, the Chinese GAAP and the IFRS are likely to continue to evolve, resulting in either a narrowing or widening among the differences between these two sets of standards. The latter case might result in reconciliation costs being imposed on Chinese companies hoping to list on other stock markets, such as those in Hong Kong and Europe. Costs may also arise for Chinese firms when seeking debt financing. However, given the sheer size of the current Chinese market, many companies would not need to go to foreign markets to raise equity or debt financing, so the cost of reconciliation would not apply to them. Training fees to apply IFRS could also be reduced in this scenario, although reconciliation costs would rise. This scenario is more likely to happen if the accounting in China continues to be under the influence of the national ideology and further decouples from its technology and science label. As shown in the research results of this thesis, incentives play a big part in accounting standard-setters' strategy. If Chinese accounting standard-setters do not see the net benefits of maintaining—or continuing to narrow down—the differences between the two sets of accounting standards, a reverse back to a more Chinese and less-IFRS-converged version of the Chinese GAAP could occur.

Time will tell; hopefully, this thesis will be of assistance in determining the final outcome.

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