Journal of International Financial Management & Accounting 24:2 2013

Implementation of IFRS for SMEs in Emerging Economies: Stakeholder Perceptions in the Czech Republic, Hungary, Romania and Turkey

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Abstract

This research investigates the perceptions of stakeholders involved in financial reporting in four emerging economies (the Czech Republic, Hungary, Romania, and Turkey) regarding the possible implementation of IFRS for SMEs, in terms of costs, benefits, and strategy of adoption. In-depth, semi-structured interviews were conducted with representatives of main stakeholders (preparers, auditors, regulators, professional bodies, and users). We find more support for IFRS for SMEs implementation in these four countries than suggested by the results of the European Commission's 2010 consultation for the European Union. Interviews reveal differences between stakeholder groups and between countries regarding the preferred implementation approach (mandatory adoption, voluntary adoption or convergence of national regulations with IFRS for SMEs). Interviews indicate the most support for the convergence approach. However, users oppose convergence and prefer the adoption of IFRS for SMEs. The convergence approach moves regulators' attention from users' needs to preparers' preferences and preparedness. This finding is relevant in the decision-making process of national

This study has been supported through the joint IAAER, ACCA, and KPMG Early Career Researcher Consortium held in conjunction with the International Conference on Accounting and Management Information Systems (AMIS) 2010. The authors appreciate the assistance of our seed grant mentor David Alexander for his guidance and support of Mary Barth, David Cairns and other participants at the ACCA IAAER seed grant deliverable held in conjunction with AMIS 2011 for their constructive feedback and suggestions. We also appreciate the feedback and support of JIFMA's Co-Editors Sidney Gray and Richard Levich, and of the co-editors of JIFMA's Institutional Perspectives Section—Elizabeth Gordon and Donna Street. This research has been presented at the IAAER International Conference "Accounting Renaissance" (Venice, 3-5 November 2011), the American Accounting Association Ohio Region Meeting (Cincinnati, Ohio, May 10–12, 2012), the Francophone Accounting Association 33rd congress (Grenoble, 21–23 May 2012), and the IAAER International Conference "Mastering change" (Amsterdam, 20–21 June 2012). The authors acknowledge the financial support for these conferences from CNCSIS-UEFISCSU, project number PN II-RU TE_341/2010. We thank all the reviewers and participants at these conferences for their constructive feedback and suggestions.

regulators, who should balance the needs of various stakeholders, but also the country's political and economic objectives.

1. Introduction

Small and medium-sized enterprises (SMEs) constitute the most dynamic sector of many economies. Consistent with the intent to address the need for international comparability in the financial reporting of SMEs, the International Accounting Standards Board (IASB) issued in July 2009 the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) (IASC Foundation, 2009a). IFRS for SMEs is viewed as a response to international demand in both developed and emerging economies for a simpler version of International Financial Reporting Standards (IFRSs) (Jermakowicz and Epstein, 2010).[1] Because country characteristics such as the stage of economic development, development of the accounting profession, size of the business and importance of public versus private companies differ, the need and potential usefulness of IFRS for SMEs can vary across countries (Zeghal and Mhedhbi, 2006; Madawaki, 2012; Quagli and Paoloni, 2012).

In this context, our research investigates the perceptions of various stakeholders in four emerging economies (three Central and Eastern European countries, that is, the Czech Republic, Hungary, Romania, and Turkey) regarding the possible implementation of IFRS for SMEs. As of the beginning of 2013, Central and Eastern European (CEE) countries have not made a decision regarding IFRS for SMEs. As European Union (EU) members, CEE countries' forthcoming decisions regarding adoption of IFRS for SMEs must be in line with EU Directives and the EU's position. Turkey initially decided to apply IFRS for SMEs tentatively starting in 2012, but modifications occurred and the application has been postponed to 2014.

We examine emerging markets because they seem more willing to embrace international standards (United Nations, 2011) and because implementing IFRS for SMEs in these countries potentially improves the country's flow of capital, allocation of resources, national financial reporting model and reputation as a modern, organized and well-regulated place to do business (Jermakowicz and Gornik-Tomaszewski, 2006; Irvine, 2008; Madawaki, 2012).

Research is needed to understand how different economic and cultural contexts react to IFRSs and IFRSs for SMEs (Fearnley and

Gray, 2011). The extant literature on IFRS for SMEs is scarce and mainly focuses on single-country cases, mostly representing developed countries (Eierle and Haller, 2009 in Germany; van Campenhout and van Caneghem, 2009 in Belgium; Litjens et al., 2012 in the Netherlands) or on the position of certain stakeholders (e.g., users and preparers in Quagli and Paoloni, 2012; preparers in Litjens et al., 2012). Conversely, we comparatively investigate the views of five stakeholder groups across four emerging countries. Our study also differs from most of the existing research in this area by being based on face-to-face, semi-structured interviews, thereby allowing us to address the complex implications of IFRS for SMEs implementation. Among stakeholders, two categories that we analyze (i.e., preparers and users) were not represented in previous comparative studies for any of our sample countries (European Commission, 2010; Quagli and Paoloni, 2012). Finally, our research is *ex ante*. While quantitative effects are known and can only be studied after the standards' implementation, *ex ante* research is useful for indicating the consequences of a possible accounting reform (Schipper, 1994).

We examine stakeholders' perceptions regarding: SMEs accounting context in our sample countries, including the relationship between accounting and taxation and the users of SMEs financial information; the difficulties, benefits, costs and implications of IFRS for SMEs application, and possible scope and strategy of IFRS for SMEs' application. We mobilize the institutional concepts of coercive, mimetic, and normative isomorphism to propose and evaluate three possible implementation scenarios and their potential consequences in emerging countries:

1 mandatory adoption of IFRS for SMEs by a subset of SMEs;
2 voluntary adoption of IFRS for SMEs;
3 convergence of national regulations with IFRS for SMEs.

While the strategy to be used in modernizing EU Directives and/or adopting IFRS for SMEs has emerged as a critical issue (European Commission, 2010; Quagli and Paoloni, 2012), little research addresses this subject. Our research contributes to the debate surrounding the possible implementation of IFRS for SMEs, a relevant topic in the EU and worldwide, especially in the case of emerging economies. Our results confirm the close historical link between accounting and taxation in the four countries (with the tax authority being the main user of SME accounting information). We furthermore analyze how this link may hinder the benefits of IFRS for SMEs application in emerging economies.

We provide evidence that implementation of IFRS for SMEs in emerging economies may yield other benefits (e.g., attraction of foreign investment, easier access to external capital, opportunities for the accounting profession to contribute to the development and enhancement of economic development) than those previously advocated for adoption in developed economies (e.g., increased comparability of financial reporting). In contrast to previous studies (Quagli and Paoloni, 2012), our results indicate stronger support across all stakeholder groups for IFRS for SMEs implementation.

Our interviews furthermore reveal differences between stakeholder groups and between countries regarding the IFRS for SMEs implementation approach. We find the most support for the convergence scenario especially among preparers, professional bodies and regulators as these stakeholder groups believe convergence would best contribute to the development of the accounting profession and the business environments of emerging countries. In contrast, users and auditors favor adoption of IFRS for SMEs. National regulators should decide whether user needs are the driver of the regulatory process, or the opinion of other stakeholders is equally important.

Our research is thus intended to inform the decisions of regulatory bodies concerning the suitability of IFRS for SMEs. Albeit that politics is important in accounting regulation, research can and should make a significant contribution in the debate on regulatory issues (Singleton-Green, 2010). Overall, our research contributes to an understanding of accounting environments in emerging economies as it reveals different features and needs in contrast to those of more developed countries.

The article is organized as follows. In Section 2, we review the literature on IFRS implementation and accounting for SMEs in the EU and in emerging economies. Section 3 sets forth our methodology, and Section 4 presents our research findings. Finally, our conclusions, research limitations and directions for future research are presented in Section 5.

2. Prior Research

2.1. SMEs and Accounting for SMEs in the EU

In the EU (European Commission, 2008a), the non-financial business economy includes over 20 million enterprises, over 99% being SMEs. In a globalizing economy, with large firms outsourcing and off-shoring production and jobs to low-cost locations, SMEs are an important source of job creation. Globalization has led to the expansion of local markets, wider competition and lower barriers to international exchanges, thus exposing SMEs to similar international problems as larger firms (Ricci et al., 2010).

Despite the economic importance of SMEs, there is a limited understanding of the accounting issues these entities face (Son et al., 2006; Francis et al., 2008). SMEs do not have the same incentives for high-quality reporting as larger public companies (Ricci et al., 2010), and the resulting lack of transparency may affect their contracts with outside parties (Francis et al., 2008). Roberts and Sian (2006) highlight the low level of literacy, lack of accounting education and the absence of computerized accounting systems in a SMEs environment.

While approximately 8,000 listed companies currently use IFRSs in the EU, most EU companies are unlisted SMEs and use regulations based on the 4th and 7th EU Directives, thereby yielding a lack of comparability. Thus, the EU has been referred to as having as many as 55 different sets of SME Generally Accepted Accounting Principles (Jermakowicz and Epstein, 2010). The EU's present strategy (European Commission, 2008b) for better regulation is crucial for SMEs as these entities can potentially benefit from the modernization and simplification of existing EU legislation. Implementation of IFRS for SMEs was considered as a possible solution in the EU to increase the comparability of financial reporting by entities not applying IFRSs.

In 2010, the EC carried out a consultation to enhance understanding of various countries' position regarding implementation of IFRS for SMEs. More than 200 comments were received, normally consisting of <10 per country (except for Germany, 56 responses) (European Commission, 2010). The results indicate divergent opinions between countries and between categories of respondents within the same country. Preparers generally oppose IFRS for SMEs, while users are favorable (European Commission, 2010; Quagli and Paoloni, 2012). However, the EC analysis is based on a reduced number of comments received, because only regulators and professional bodies responded from many EU countries (including our sample countries). Therefore, there is a limited understanding of various stakeholder groups' perception, particularly preparers and users, about the possible implementation of IFRS for SMEs, especially in less developed EU countries.

While the EC has recently decided not to require the adoption of IFRS for SMEs, it has proposed that individual member states may adopt IFRS for SMEs as their national reporting standards for some or all unlisted companies provided that conflicts with EU Directives are removed (World Bank).[2] The approach used by the EU and/or national regulators to adopt IFRS for SMEs (with modifications) has political implications and impacts both for the immediate and long-term level of compliance with the standard as issued by IASB.[3] The need for comparability referenced above can be satisfied only if, in the intermediate or long term, IFRS for SMEs is adopted as issued by IASB. The EU pronouncement and the decisions of EU countries are very important as IFRS for SMEs is considered to be

> "a significant development that may have a strong impact on accounting and auditing practice in the future, but the attitude of national regulators and standard-setters is crucial in establishing the limits of this possible impact".(Jermakowicz and Epstein, 2010)

2.2. IFRSs in Emerging Economies

As the financial reporting models of less developed countries have already undergone several accounting reforms, the decision to implement IFRS for SMEs may be even more critical than in developed countries. As Singleton-Green (2010: 140) underlines,

> If governments, regulators and standard setters take decisions that damage a country's financial reporting and disclosure systems, they are also damaging institutions that are critical to its economy.

Previous studies (Sellhorn and Gornik-Tomaszewski, 2006) argue that many less developed countries (e.g., new EU members) moved their financial reporting models toward IFRSs (as a benchmark or starting point for national standards) to increase the relevance and quality of financial statements issued. In emerging economies, IFRSs implementation is also regarded as a legitimization act, as it indicates the reforms made and the adherence to an international accounting language (Jermakowicz and Gornik-Tomaszewski, 2006; Irvine, 2008).

Benefits related to IFRSs application that are anticipated in emerging economies may differ from those expected in more developed countries. Emerging economies expect to benefit from increased transparency, economic opportunities and enhanced competitiveness, while developed countries expect a lower cost of capital and increases in market efficiency (see Brown, 2011 for a literature review). Some emerging economies have achieved a successful convergence toward IFRSs (e.g., Zimbabwe, in Chamisa, 2000; and China, in Peng and van der Laan Smith, 2010). In other cases, IFRSs implementation has at times been resisted (e.g., Bangladesh, in Mir and Rahaman, 2005; and Romania, in Albu et al., 2011). IFRSs application will not generate accounting information with the same quality across all countries (Chen et al., 2010). The difficulties and obstacles often associated with IFRSs implementation in emerging economies include: lack of local expertise, lack of resources allocated by entities, the close link between financial reporting and tax laws and lack of resources for regulation and for enforcement (Chamisa, 2000; Larson and Street, 2004; Jermakowicz and Gornik-Tomaszewski, 2006). Therefore, developing countries should not adopt standards before evaluating the associated costs and benefits (Chand, 2005; Rodrigues and Craig, 2007). However, prior research suggests that less powerful countries are more willing to adopt IFRSs, and countries are more prone to adopt IFRSs if countries in their geographical area are IFRSs adopters (Ramanna and Sletten, 2009).

Zeff and Nobes (2010) discuss ways that jurisdictions may implement IFRSs (i.e., adopting the process, endorsement and full or partial convergence) and the implications on the level of compliance with IFRSs as issued by IASB. Street (2012) discusses how the strategy used in IFRSs adoption may impact on the medium and long-term compliance with IFRSs as issued by IASB. This latter issue is crucial for achieving the main benefit expected from the implementation, that is, international comparability. The way that IFRS for SMEs is implemented is critical in emerging economies because, as previous experiences with full IFRSs suggest, the implementation approach can influence the success of the outcome (Mir and Rahaman, 2005; Peng and van der Laan Smith, 2010).

The main issues raised in previous studies or consultations related to IFRS for SMEs implementation include: who are the users, what entities should apply the standard and what are the associated costs and benefits (Di Pietra et al., 2008; Schiebel, 2008; IASC Foundation, 2009b; European Commission, 2010; Litjens et al., 2012; Quagli and Paoloni, 2012). Regarding the latter, extant empirical evidence about the costs and benefits of adopting IFRS for SMEs is inconsistent (Eierle and Haller, 2009; Litjens et al., 2012). Additionally, research addressing the different ways of implementing IFRS for SMEs is limited.

As of the beginning of 2013, no EU member state has adopted IFRS for SMEs to replace its existing national reporting standards. However, some CEE countries (such as Bosnia and Herzegovina and Macedonia) have implemented IFRS for SMEs. Initially, as of July 2012, Turkey determined that IFRS for SMEs (as translated and incorporated into national regulations) and IFRSs should become mandatory during 2012. However, application of IFRSs has been delayed until sometime in 2013, and the application of IFRS for SMEs has been postponed until 2014. Additional emerging economies in other parts of the world have implemented or are considering implementing IFRS for SMEs.[4] Proponents of IFRS for SMEs consider the standard to represent a solution for improving the economic model of less developed countries (United Nations, 2011). Consequently, a possible implementation in CEE economies deserves proper investigation.

3. Context and Research Methodology

3.1. National Economic and Accounting Settings

Four emerging countries are studied, the Czech Republic, Hungary, and Romania (all three EU members), and Turkey (EU candidate). Single-country studies are useful to understand the local context and possible reaction to a change in the accounting regulatory model. However, there is also a need for a global or regional picture. Our findings are policy-relevant at both the national and regional level (EU decisions concern more countries).

Factors such as a country's economic development, history and culture influence the process of IFRSs implementation. The three EU member states represented in our sample are ex-communist countries, thus sharing a communal background but with different institutional influences. To date, the three have not made a decision regarding IFRS for SMEs implementation. Turkey is included in our sample due to its EU candidacy, similar economic characteristics and because it has decided to adopt the SME standard. Table 1 characterizes the countries under investigation in terms of economic development (Eurostat, 2012). Table 2 reports descriptive statistics for SMEs across the countries analyzed (Eurostat, 2008).

The regulatory systems in the four countries in our sample display a preference for the public authority but with interesting individualizing features. After the fall of communism, reforms were based on models

Table 1. *Descriptive Data Regarding Economic Development of the Four Countries Under Study*

Item	*Czech Republic*	*Hungary*	*Romania*	*Turkey*
Date of EU membership	2004	2004	2007	NA
2011 Stock market capitalization (billions of euro)	29.20	14.63	10.82	152.34
2011 Stock market turnover[a] (billions of euro)	15.131	13.672	2.346	291.643
Stage of development[b]	Stage 3	Transition from Stage 2 to 3	Stage 2	Transition from Stage 2 to 3
GDP *per capita* in Purchasing Power Parities[c] (EU 27 = 100)	80	66	49	52

Notes: [a]Total value of shares traded.
[b]World Economic Forum's Global Competitiveness Report (World Economic Forum, 2011) ranks countries according to stages of development comprised of: Stage 1 – factor-driven (countries compete based on primarily unskilled labor and natural resources), Stage 2 – efficiency-driven (countries develop more efficient production processes) and Stage 3 – innovation-driven (companies compete by producing new and different goods).
[c]Purchasing power parities (PPPs) are indicators of price level differences across countries. PPPs specify how many currency units a given quantity of goods and services costs in different countries. PPPs can thus be used as currency conversion rates to convert expenditures expressed in national currencies into an artificial common currency (Purchasing Power Standard, PPS), eliminating the effect of price level differences across countries (Eurostat, 2012).

Table 2. *Descriptive Data of SMEs in Sample Countries*

	Czech Republic (2006)	*Hungary (2005)*	*Romania (2006)*	*Turkey (2008)*
Percentage of SMEs in total entities	99.8	99.8	99.6	99.9
Percentage of SMEs employment in total employment	61.5	70.9	63.6	81.0
Percentage of SMEs value added in total value added	54.6	50.2	49.6	59.0

Source: Eurostat (2008).

from continental European countries (the French model in Romania and the Czech Republic, and German influences in Hungary) (Delesalle and Delesalle, 2000; Strouhal, 2011). However, international standards also became influential. Especially, after 2000, IFRSs have been required at least for listed entities. The application of international standards in Romania was originally intended for a significant number of large entities, resulting in an influence on accounting regulation (*de jure*) more significant than in Hungary (focused on the national characteristics and on the coherence of regulations) and than in the Czech Republic (more oriented toward the users' needs). However, the *de facto* application of international standards was controversial across all three countries, because of the reduced competencies of the profession, strong relationship with taxation and reduced levels of enforcement (Fekete, 2009; Albu et al., 2011).

Turkish accounting was influenced by the French model during the Ottoman Empire. After the establishment of the Turkish Republic (1923), the German model became influential. Since the 1960s, Turkish accounting regulations have been established based on the United States model, with a more recent IFRSs influence (Simga and Akman, 2005). When Turkey became an official candidate for EU membership (1999), companies were required to prepare financial statements according to international accounting standards (Uslu, 1999). However, adoption of international standards has taken a long time and has not been completed.

In the countries studied, there is a close relationship between financial reporting in accordance with the national regulations/standards and taxation. This relationship is characterized by:

1 many tax rules are used for financial reporting purposes;
2 accounting profit represents the origin for calculating taxable profit; and
3 many SMEs pursue optimization of taxable profit (i.e., minimizing taxes).

Figure 1 depicts the main influences on financial reporting regulations/standards in these emerging economies.

A strong linkage of accounting and taxation creates incentives that may hamper the quality of financial reporting. In contrast, IFRSs have also influenced to various extents national regulations/standards in the sample countries, as previously discussed. These specific local settings, influenced by various foreign influences, provide the background for understanding the institutional context and reactions to a possible implementation of IFRSs for SMEs.

Figure 1. Main influences on financial reporting regulations/standards

3.2. Research Method

We utilize a qualitative methodology and a perceptual instrument (interviews). As of December 2012, in three of the four countries studied IFRS for SMEs had not been applied and accounting professionals having experience applying the standard are rare. The *ex-ante* nature of our study implies an emergent rather than prefigured context of research (Son et al., 2006) providing the rationale for a qualitative approach.

Primary data were gathered to obtain insights on the perception of various groups of stakeholders involved in SMEs financial reporting (i.e., preparers, auditors, regulators, professional bodies, and users) using in-depth, semi-structured interviews. Given the complexity of the issue, interviews represent an appropriate means to obtain differentiated answers and help understand various opinions (Glaum and Friedrich, 2006). Interview questions cover: SMEs accounting context in the sample countries, including the relationship between accounting and taxation and the users of SMEs financial information; the difficulties, benefits, costs, and implications of IFRS for SMEs application; and possible scope and strategy of IFRS for SMEs' application.

We conducted 23 interviews from January to March 2011, ranging from five to seven per country, comprising five with preparers, six with auditors, four with users, four with professional bodies' representatives and four with regulators by category of stakeholders (see Appendix A for details regarding the interviews). Most interviewees have an impressive and complex experience and hold sometimes more than one role (e.g., some regulators also work as academics or auditors, and six of our interviewees also hold academic positions. The average work experience is 18.74 years, with an average of 6.91 years of IFRSs experience. All interviewees have a deep understanding of IFRSs and SMEs context. The interviews were conducted in the interviewers' and interviewees' native language to ensure a better understanding of the subjects under discussion. Most interviews were recorded. When permission to record was not granted, detailed notes were taken.

While the small number of interviews limits generalizability, it exemplifies the position of various stakeholder groups. We interviewed top level representatives of the national regulatory and professional bodies, and we carefully chose representatives among the preparers, auditors and users known to have significant experience with SMEs and international standards. The number of interviews for each country exceeds the number of respondents for the EU's consultation.[5] Furthermore, only regulators and professional bodies responded to EU's consultation. We additionally investigate the opinions of users and preparers, which is crucial when discussing a possible implementation of IFRS for SMEs (Di Pietra et al., 2008; Quagli and Paoloni, 2012). The following discussion is based on our interviews. The main issues addressed in the interviews and selected responses are summarized in the Appendix B.

4. Research Findings

4.1. Stakeholders' Perceptions about Accounting for SMEs

The SMEs accounting context is relevant for the understanding of costs and benefits related to a possible implementation of IFRS for SMEs. Our interviewees generally confirm that a traditional link between accounting and taxation exists in these countries (see Figure 2). Regardless of their answer about the relationship between accounting and taxation, most interviewees agree that the State is the main user of financial accounting information (80% preparers, 67% auditors, 75% users, 75% professional bodies' representatives and 50% regulators).

SMEs managers and administrators are reluctant to allocate resources to the accounting system. Further complicating the situation, preparers in the sample countries are more interested in tax accounting than financial reporting and are viewed as working in the interest of the State. Some regulators interviewed admit that the resulting limited

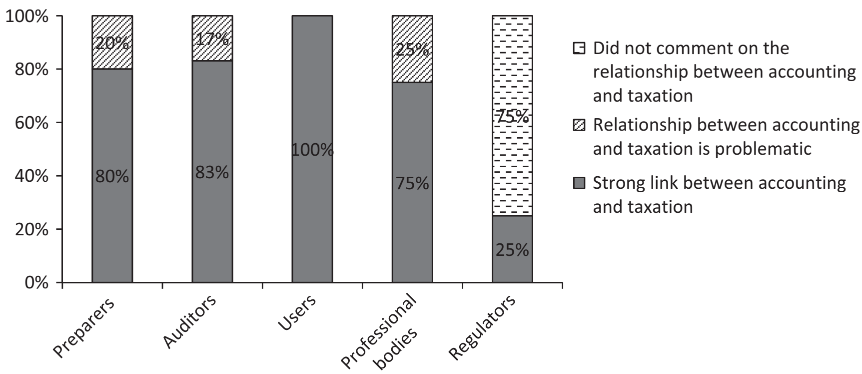

Figure 2. Stakeholders' perception regarding the relationship between accounting and taxation in the Czech Republic, Hungary, Romania, and Turkey

credibility of reporting of SMEs is an issue because of the relationship with taxation.

SMEs are generally financed by banks, making bankers potential important users of accounting information. However, bankers we interviewed are not satisfied with the quality of SMEs accounting information. Most users interviewed note the use of other types of information (i.e., visits to the entities or discussions with the managers and accountants).

Additionally, interviewees ascertain low levels of education of the accounting profession and of the business environment across the countries studied. They provide examples on how accountants are not prepared to use professional judgments and on how managers' and users' awareness of accounting issues is limited.

4.2. Stakeholders' Perceptions about IFRS for SMEs Implementation

The most important implementation costs perceived by the interviewees are related to training accountants and the possible emergence of separate reporting systems for financial accounting and taxation. Other perceived costs are related to upgrading information technology (IT) systems and paying external experts and auditors. Some preparers are also aware of the need to change the mindset of accountants to properly apply IFRS for SMEs.

All interviewees with the exception of regulators believe that potential benefits would result from increased transparency and quality of accounting information (i.e., related to the micro level of businesses). The only benefits recognized by regulators are related to comparability and foreign investments (i.e., observable at a macroeconomic level). The benefits noted by interviewees are summarized in Figure 3.

According to the interviewees, other benefits of implementing IFRS for SMEs include increased financing opportunities, decreased cost of capital and opportunities to develop business at a regional or international level. Users and professional bodies are more likely to appreciate the potential benefits of implementing IFRS for SMEs. For example, Turkish interviewees explain that IFRS for SMEs implementation will entail a significant shift of accounting from a tax-based orientation toward support for decision-making. Regulators are the most skeptical. Our findings thus provide evidence that differences exist between the perceived benefits by various stakeholders and clearly

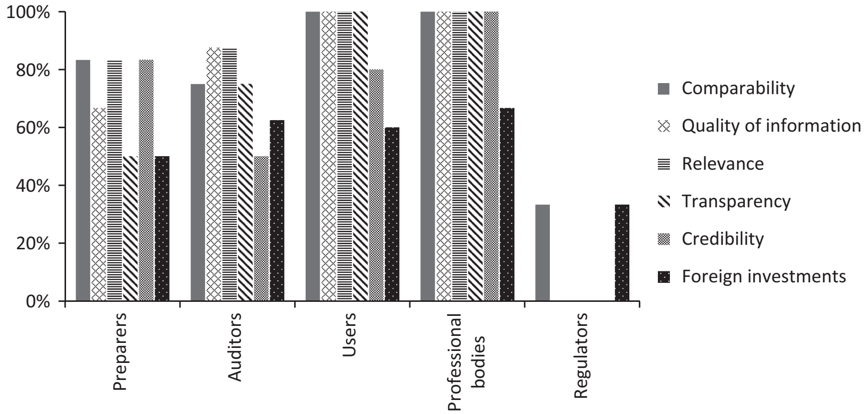

Figure 3. Benefits of IFRS for SMEs implementation in emerging economies

indicate the limited benefits expected by regulators. The latter of course will make the decision of whether or not to adopt the IFRS for SMEs standard.

Some of the benefits articulated by the interviewees are generally associated with IFRSs/IFRS for SMEs application worldwide (such as comparability, transparency, and relevance, see Brown, 2011). However, our interviews also suggest a benefit (or effect) specific to emerging economies, that is, change in the accounting culture or mindset of accountants and business environment. This effect of adopting IFRS for SMEs is expected to materialize following implementation especially by preparers, users, and professional bodies.

4.3. Accounting, Taxation, and Attitudes Toward IFRS for SMEs Implementation

Presently, entities in the countries studied have to fulfill both accounting and tax requirements. The cost of satisfying two sets of reporting requirements is an important force bringing the two systems closer in practice. In this context, IFRS for SMEs implementation raises questions, *inter alia*:

1 Should IFRS for SMEs be used as a third reporting framework?
2 Should IFRS for SMEs replace national regulations?
3 Would, in the case of the latter, tax authorities accept accounting profit as a starting point in determining taxable profit?

The stakeholders' position vis-à-vis implementation of IFRS for SMEs and the answer to the above questions should be interpreted in light of the stakeholders' interest in the accounting process. Representatives of the Ministries of Finances (accounting and tax regulators) generally support the tight relationship between national accounting regulations and taxation rules. Thus, they do not favor IFRS for SMEs application to the extent that it would imply a looser relationship with taxation. The Czech regulator however adds that, while not supporting the implementation of IFRS for SMEs, the Ministry is not against voluntary adoption.

The EC's consultation indicated that the majority of, but not all, users (13 "yes" vs. nine "no") supported implementation of IFRS for SMEs. None of the bankers participating in the consultation supported IFRS for SMEs (Quagli and Paoloni, 2012). In contrast, while expressing an awareness of the significant application costs, our interviews indicate that all users support IFRS for SMEs implementation. Users, however, vary in their preference for the type of implementation.

For preparers, the most important issues are the cost of fulfilling reporting obligations and their complexity. Although some preparers are aware of the need to provide better quality financial information, the administrative burden is crucial and may lead to reluctance in applying accounting policies differing from tax policies. Accordingly, preparers are more interested in the costs associated with the implementation than in the potential benefits.

Figure 4 synthesizes the complex relationship between financial reporting, taxation and IFRSs in the emerging countries under analysis by incorporating the general characteristics of the environment of emerging countries and the insights gained from our interviews.

These arguments and interests justify the difficulty in obtaining a shared position vis-à-vis IFRS for SMEs within a country or even within the same group of stakeholders. We now turn to a more in-depth analysis concerning possible implementation strategies.

4.4. Possible Scenarios for the Implementation of IFRS for SMEs

We analyze several scenarios for the possible implementation of IFRS for SMEs and discuss their implications. For all implementation approaches, the following dimensions are considered:

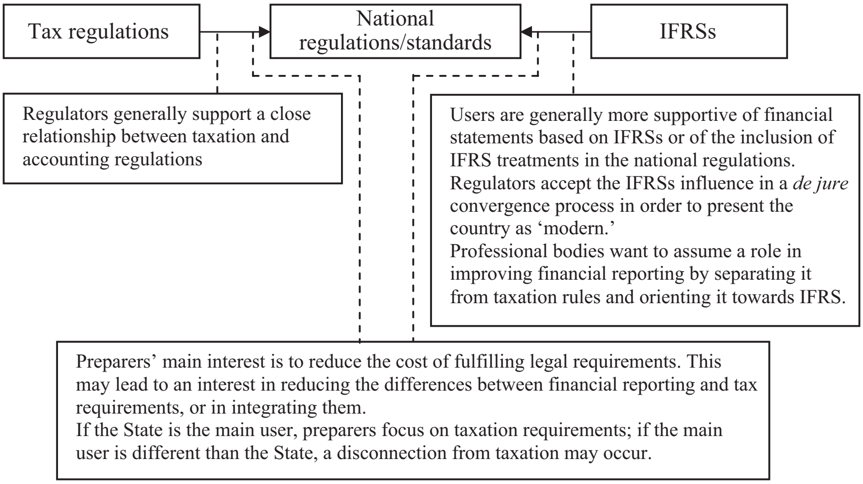

Figure 4. Stakeholders' positions vis-à-vis the relationship between financial reporting, taxation and IFRSs in emerging countries

1 Scope—full (all SMEs) or partial (some SMEs) application. Application by all SMEs will enhance comparability. Conversely, SMEs are not a homogeneous group and the application of the standard is probably not desirable (by national regulators) or appropriate (considering the cost-benefit ratio) for all SMEs.
2 degree of coerciveness—mandatory or voluntary.
3 tax-base character—the advantage of recognizing the standard as a tax base would imply reducing the cost of fulfilling different reporting requirements by SMEs. Prior research discusses the opportunity and the implications of accepting IFRSs as a tax base (see for example Eberhartinger and Klostermann, 2007).
4 adoption of the standard or adaption to the local context. Adoption refers to application as promulgated by IASB, without amendments (Zeff and Nobes, 2010).[6] Alternatively, adaption or convergence implies modifying the standard.

Various combinations of these dimensions lead to a significant number of scenarios, some more likely to materialize than others. The application of IFRS for SMEs, regardless of the adoption approach, will entail a process of change in accounting. Therefore, we anchor consideration of the scenarios in institutional theory. This theory has been widely used in studies analyzing IFRSs implementation and/or accounting change (Dillard et al., 2004; Rodrigues and Craig, 2007;

Irvine, 2008) because it emphasizes the importance of institutions, beliefs, rules, routines, and culture. The key concept is institutionalization, meaning the process whereby practices are developed and learned (Dillard et al., 2004: 508).

The institutionalization of accounting is characterized by isomorphism, that is, the process an organization follows when adopting an institutional practice. DiMaggio and Powell (1983) identify three mechanisms through which institutional change occurs: coercive, mimetic, and normative. Coercive isomorphism results from external pressure, and certain practices are adopted as a result of governments' or capital markets' demands, or the expectations of the larger society. Mimetic isomorphism implies adopting best practices to become more legitimate or successful. Normative isomorphism is linked with professionalization, in that members of a profession define methods of work. Also, sometimes a gap or decoupling occurs between formal and informal practices, that is, between the image presented (claims for compliance) and reality (Rodrigues and Craig, 2007; Irvine, 2008).

We focus our analysis on three scenarios, each based mainly on one of the institutionalization approaches described previously. We use the pros and cons articulated by the stakeholders we interviewed (as detailed in the Appendix B) to gain insights into the implications of each scenario.

4.4.1. Scenario #1— mandatory adoption of IFRS for SMEs by some SMEs. Under this approach, some entities would use IFRS for SMEs, while others would continue to apply national regulations, in a multitier system. This scenario might be supported by the need of some entities to have a better reporting framework. It would be in line with the literature showing that SMEs are not a homogeneous group (i.e., only some SMEs will benefit from the standard's application) (Sellhorn and Gornik-Tomaszewski, 2006; Kirsch and Meth, 2007 cited by Di Pietra et al., 2008; Schiebel, 2008) and that regulators should consider the implications of size variations within the SMEs class (Quagli and Paoloni, 2012).

Half of our interviewees support mandatory adoption for some entities, 39% oppose mandatory adoption and 11% are undecided. However, there are variations between the stakeholder groups interviewed concerning the specific entities that should apply IFRS for SMEs. Regulators agree that the appropriate avenue for the mandatory application is consolidated financial statements; they oppose mandatory implementation in individual accounts. For regulators, this scope of application would solve the issue of the relationship with taxation because national regulations would continue to be used for statutory accounts.

Users and auditors manifest the greatest support for mandatory application, at least for larger SMEs. Preparers and professional bodies are, however, reluctant to support mandatory application especially given the challenges in establishing the scope of application. Some interviewees believe that financial statements based on accounting standards are only needed when an entity has external users (IASB's view). Preparers agree that only some SMEs have external users and hence need to prepare financial statements. Therefore, there is a general agreement among interviewees that IFRS for SMEs is too complex and costly for many SMEs to implement. Accordingly, most interviewees agree that qualitative criteria (similar to IASB's view of SMEs) are more appropriate to define the scope of IFRS for SMEs application. However, interviewees underline that a quantitative approach is more common in EU and it could be easier to implement. [7]

The expected relation with taxation is also controversial. Half of our interviewees believe that IFRS for SMEs should be accepted as a tax base. Alternatively, in line with IASB's position (IASC Foundation, 2009b), users support having separate accounting and tax books for some entities, as well as the use of IFRS for SMEs for accounting purposes instead of national regulations. While some auditors believe a separation of accounting from taxation is necessary, others argue that the close relationship between accounting and taxation exists and would be difficult to remove, as previous failed attempts indicate.[8] However, preparers speak to the associated cost and administrative burden.

We posit that mandatory adoption implies a form of coercive isomorphism. Prior literature (Mir and Rahaman, 2005; Irvine, 2008; Albu et al., 2011) indicates differences between the institutional environment of emerging countries and the Western principles influencing the international standards. These differences are likely to generate variances in the application of the standard, especially if other types of isomorphism are looser. Consequently, in line with institutional theory, the existence of only coercive factors might lead to resistance and decoupling. This previously happened in Romania when application of international accounting standards was mandatory for all large entities irrespective of the (in)existence of users; a large level of decoupling followed (Albu et al., 2011). However, mandatory adoption by SMEs could lead to a higher level of *de jure* comparability across EU.

4.4.2. Scenario #2—voluntary adoption of IFRS for SMEs. Another probable outcome (at least from the political standpoint) is to *permit* the use of IFRS for SMEs. A slight majority (56%) of the interviewees support voluntary adoption, 33% oppose voluntary adoption and 11% are undecided. Regulators, professional bodies, and users tend to be more supportive than other groups to voluntary adoption. Many of the interviewees representing these three stakeholder groups contend that voluntary adoption represents a better solution than rejection of the standard (i.e., prohibiting IFRS for SMEs). Conversely, some preparers and auditors believe allowing voluntary adoption would lead to a low implementation level and therefore reduced benefits. Others argue that only SMEs having interested users would apply IFRS for SMEs, based on a cost-benefit analysis at the entity level. The voluntary approach is consequently in line with IASB's view to base the requirement to publish general purpose financial statements on the existence of external users, not entity size (Litjens et al., 2012).

Prior research reveals a reduced degree of voluntary adoption of accounting standards by European SMEs (Nobes, 2010) and indicates that voluntary adoption is usually the result of pressure from users. But users are not always perceived as influential in financial reporting in emerging economies. In this respect, interviewed users (banks) believe that they cannot exert sufficient pressure for an increased quality of financial reporting because other banks are willing to extend credit without carefully analyzing the financial statements.

Voluntary adoption may be implemented in different ways: the standard is accepted as tax base (national regulations are not required) or dual reporting is applied (two sets of financial statements are required). Under the former, it is unlikely that different tax bases would be allowed in the same country, and there is reticence toward recognizing IFRS for SMEs as a tax base. Under the latter, entities also have to comply with national regulations, for tax purposes, thereby yielding a costly system that few entities would select. [9]

Entities wishing to demonstrate a level of reputation, modernity, transparency, and adherence to good practices (Dillard et al., 2004; Rodrigues and Craig, 2007; Irvine, 2008) or those perceiving some other form of benefits (i.e., banks would agree to a lower cost of lending) would be most prone to voluntarily adopt IFRS for SMEs. This is reflective of the mimetic form of isomorphism. However, without coercive and/or normative isomorphism, the voluntary approach might stand a low chance of generating application of the standard.

4.4.3. Scenario #3—convergence with IFRS for SMEs. A dual system (national and international standards) creates barriers to global accounting convergence (Larson and Street, 2004). Thus, the development of *convergence plans* seems to be a possible solution. Convergence involves the development of national standards based on IFRS for SMEs, in which some IFRS for SMEs treatments are modified and additional rules added. While this approach yields only partial convergence (Zeff and Nobes, 2010), national standard setters would be able to better ensure full compliance with EU Directives where applicable.

Slightly over half (56%) of our interviewees support convergence, 17% oppose convergence and 28% are undecided. Regulators and professional bodies support convergence because they each have a role to play in developing the national standards. Regulators generally prefer that national standards based on IFRS for SMEs would also be recognized as a tax base.

Preparers support convergence or are not decided; no preparer opposes convergence. They tend to support the simplification and "customization" approach, which would include additional application guidance. Preparers and professional bodies express concern that IFRS for SMEs is too principle-based and difficult to apply as the current national regulations are more detailed.

Less support for convergence comes from auditors and especially from users. Users clearly oppose convergence or are undecided and prefer financial statements based on IFRS for SMEs, even if initially it would be difficult for preparers.

Some advocate that convergence of many countries' accounting models toward IFRSs is an example of normative isomorphism (Rodrigues and Craig, 2007: 753). This is characterized by professionalization, that is, development of the accounting profession. In emerging economies, we expect to find lower-skilled accounting professionals; therefore, the educational implications of the convergence scenario are significant.

4.4.4. The case of Turkey. Since the 1990s, considering the EU integration process and the desire to attract foreign investors, Turkey has oriented toward international accounting standards to increase the quality of accounting information (Yalkın et al., 2008). Initially, in 2010, application of the Turkish IFRS for SMEs (via full translation into Turkish) was intended starting in 2012. However, discussions emerged about several amendments such as exclusion of some entities based on quantitative criteria (micro-entities) from the scope of the standard and issuance of additional guidance (e.g., a chart of accounts). The Turkish Public Oversight, Accounting and Auditing Authority Announcement no. 28.470 requires entities with public accountability and entities that comply with two of the three criteria established[10] to use IFRSs starting in 2013. Other entities will continue to use existing Turkish regulations. An announcement by the same Authority is expected to decide the scope of IFRSs and IFRS for SMEs application among Turkish SMEs starting in 2014.

The orientation toward IFRSs in general is generated by the desire to improve the economic environment, and other regulatory decisions also support this aim. For example, the new Turkish Commercial Code insists on the transparency and quality of accounting information and requires the application of corporate governance principles by all entities. Lauer (2012) suggests that the changes included in the new Commercial Code already have a broad impact on Turkey's economy, and the effects will be more important in the future.

Also, the application of the new Commercial Code is a change of mindset understanding and approach (Lauer, 2012). The role of accountants and auditors significantly increased under the new regulations. To parallel these significant regulatory changes, Turkey has begun an intensive program for training the accounting profession. However, some of the Turkish interviewees indicate that accountants are still not fully prepared to cope with the major changes generated by IFRSs. Also, the new decisions might suggest that more difficulties related to implementation were noticed, and therefore, implementation was postponed.

The case of Turkey illustrates how accounting standards can be used in an emerging economy to strengthen the profession and increase the competitiveness of the business environment, but also the difficulties associated with the change process. Additionally, the Turkish experience indicates the need for a balance between coercive and normative isomorphism, given the emphasis on improving the education of the accounting profession and the issuance of additional regulations to support the implementation of IFRS for SMEs.

5. Discussion and Conclusions

SMEs play an important role in the global economy, and the associated accounting issues are under considerable debate, especially following issuance of IFRS for SMEs in 2009. Our research investigates the case of emerging economies and stakeholders' positions vis-à-vis IFRS for SMEs and its possible implementation in four countries, that is, the Czech Republic, Hungary, Romania, and Turkey. The first three, as EU members, have not to date made a decision regarding IFRS for SMEs. Turkey initially decided to apply IFRS for SMEs starting in 2012, but recently postponed application to 2014, and further evolution is expected.

We provide evidence that in emerging economies the strong link between accounting and taxation and the preeminence of the State as the main user of SMEs financial reporting, superimposed over its capacity as accounting and tax regulator, may hamper the benefits of IFRS for SMEs application. The main costs of IFRS for SMEs application as perceived by interviewees are related to personnel training and the possible multiplication of reporting systems. The main perceived benefits include increased comparability (at the international level), better financial reporting and, ultimately, an improvement of the business environment (at the national level).

The extant IFRS for SMEs literature mainly focuses on criteria to be used in determining the scope of IFRS for SMEs (Di Pietra et al., 2008; Eierle and Haller, 2009). We contribute to this literature by focusing on various possible approaches to implementation, that is, mandatory adoption by some SMEs, voluntary adoption, and convergence.

Our analysis of the interviews reveals variation not only by type of stakeholder but also by country. The Czech Republic and Hungary manifest stronger support for voluntary adoption than Romania, where there is less support for this approach. Across the three countries convergence is the preferred approach. The case of Turkey is also based on convergence. Interviews indicate a uniform medium support from all the stakeholders for voluntary adoption, and a strong support from preparers, professional bodies, and regulators for the convergence approach. Users however do not support convergence but mandatory adoption for some SMEs.

We conclude that the business and the accounting environment of emerging economies, as well as the accounting profession at large, would benefit the most from convergence. Many interviewees do not perceive the change of the accounting model (i.e., the implementation of IFRS for SMEs) as a cost or burden, but as a driver of improvements in the accounting profession. This is seen as an opportunity to train accountants, to implement better accounting systems in SMEs, to disclose a higher quality accounting information, and to better the business environment. This finding is particular to emerging economies, needing reforms, but also powerful drivers for change.

However, convergence raises some issues. First, convergence may hamper the medium and long-term compliance with IFRS for SMEs as issued by IASB and may affect international comparability, which is the main advocated benefit of the standard's application worldwide. While convergence seems the less resisted scenario for emerging economies, the convergence plan (e.g., training, enforcement mechanisms, and regulators' intentions) should be oriented toward the standard's full implementation, in accordance with the IFRS Foundation's constitution. Specifically, convergence is not an objective in itself but a means to achieve the adoption of IFRSs (IASC Foundation, 2010).

Second, convergence seems to be the most appropriate scenario for those emerging countries intending to improve their accounting system, but also required to comply with EU Directives. The EU's political decision not to endorse IFRS for SMEs can impede on the competitiveness of some of its member states, especially emerging economies, because many other emerging countries have adopted or plan to adopt the standard. Also, the requirement to comply with EU Directives in the national standards may hamper the long-term compliance with IFRS for SMEs as issued by IASB.

Third, our analysis reveals that convergence has the support of many groups of stakeholders, but users oppose this approach. This result implies that convergence moves regulators' attention from users' needs (i.e., the IASB's focus in developing accounting standards) to preparers' preferences (e.g., the desire to reduce administrative burden, the need for education, etc.). This finding from our *ex-ante* research is relevant for the decisions of regulators, which should balance the needs of various stakeholders, but also the country's political and economic objectives.

Our research is subject to limitations. The small sample of stakeholders interviewed restricts generalizability of findings. However, access to data is problematic both in emerging economies in general and considering the *ex-ante* nature of this research. The interviewees were carefully selected so as to ensure data validity and relevance of the findings. Also, such a sample size is regarded as sufficient for a qualitative study (Son et al., 2006).

Further empirical research should provide evidence about the costs, benefits, and effects of changing national accounting regulations/standards. The political issues, such as the position of national regulators, the relationship with taxation, lobbying issues and the strategies of professional bodies in the context of implementing international standards, also deserve further academic attention.

Notes

1. IFRS for SMEs defines SMEs as entities that do not have public accountability and publish general purpose financial statements for external users (IASC Foundation, 2009a, para. 1.2). IFRS for SMEs is designed for these companies.
2. http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:22685794~menuPK:7518274~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html
3. See Street (2012) for a discussion of possible scenarios of IFRSs adoption in the United States, signaling the political aspects involved.
4. See www.iasplus.com for the intentions or plans of different countries.
5. For the EU's consultation, there were three respondents from the Czech Republic, two from Hungary and two from Romania (European Commission, 2010: 4). The respondents were regulators and professional bodies.
6. This would imply finding a method to insert into the local law quickly and without changing any output of the IASB on this standard (Zeff and Nobes, 2010: 180).
7. Such a quantitative approach would mean establishing certain thresholds for turnover, total assets or number of staff to define SMEs. For example, in EU "The category of micro-, small-, and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million" (European Commission, 2003).
8. For example, Istrate (2012) finds that although the Romanian Tax Code explicitly states since 2004 that accounting depreciation is separate from tax depreciation, some Romanian entities listed on the Bucharest Stock Exchange still use the accelerated method of depreciation (a tax method). Also, he finds that more than 80% of the listed entities revalue buildings and suggests this is for tax reasons. In Europe, there is strong support from researchers and professional bodies for a disconnection between accounting and taxation treatments and that entities should stop depreciating for accounting purposes based on tax regulations, as this would impair the reliability of general-purpose financial statements.
9. To support this idea, one Romanian preparer offered the experience of the group he works for, advancing the hypothesis of delisting an entity because it is too costly to maintain dual reporting (in accordance with IFRS and in accordance with the national regulations).
10. Total assets exceeding 150 million Turkish Lira (app. 65 million EUR), net sales exceeding 200 million Turkish Lira (app. 87 million EUR) and more than 500 employees.

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Appendix A. Details of interviews

Interviewee	*Position, experience*	*Date and duration*
The Czech Republic		
Preparer	CFO 26 years of accounting experience 1 year of experience in working with full IFRSs	25 February 2011 60 min
Auditor	Local accounting firm – partner and IFRS lecturer 17 years of auditing experience 7 years of experience in working with full IFRSs	03 February 2011 80 min
User	Director of a bank's branch 10 years of experience Some previous experience in working with full IFRSs	28 February 2011 45 min
Professional body	President of the Czech Republic Chamber of Certified Accountants head of the shared-service central of an international bank 24 years of working experience 17 years of experience in working with full IFRSs	25 January 2011 90 min
Accounting regulator, academic	Member of the Czech Republic National Accounting Board, academic and auditor 40 years of working experience 8 years of experience in working with full IFRSs	21 February 2011 65 min
Hungary		
Auditor, academic	30 years of academic and 20 years of professional experience (auditor) Member of several professional bodies (auditors' chamber, countrywide accounting advisory body) Experience with full IFRSs	03 February 2011 55 min
Regulator	Works in the regulation field since 1998 (Ministry of Finance); currently head of the accounting section of the department 3 years of professional experience (business advisory) Has been in charge of international affairs earlier (including matters related to IFRSs)	04 February 2011 55 min

Appendix A. Details of interviews *(Continued)*

Interviewee	*Position, experience*	*Date and duration*
Preparer, academic	12 years of academic experience 8 years of experience with compilation of financial statements based on full IFRSs (more than 15 complete sets so far) Works also as auditor of FSs based on full IFRSs	03 February 2011 52 min
Auditor	In the profession for more than 20 years, earlier mostly dealt with Austrian and German clients, operates an one-stop shop service provider company Experience with full IFRSs, US, Austrian and German GAAPs	04 February 2011 1 h 2 min
Professional body	Director of the Budapest Enterprise Development Centre The organization under the interviewee's direction supports micro, small and medium enterprises No special experience with IFRSs	11 February 2011 50 min
User (Bank)	Currently head of accounting at a large international bank 20 years of professional experience User of the full IFRSs	04 February 2011 55 min
Romania		
Auditor	Director – consultancy department – Big 4 9 years of experience, of which 5 in auditing A lot of experience in working with full IFRSs	15 March 2011 65 min
User	User, business analyst and consultant Prior experience in audit (including IFRS)	16 March 2011 90 min
Auditor	Audit manager 6 years of experience 3 years of experience in working with full IFRSs	14 February 2011 40 min
Preparer	CFO 11 years of experience prepares financial statements in compliance with full IFRSs	14 March 2011 55 min

Appendix A. Details of interviews *(Continued)*

Interviewee	*Position, experience*	*Date and duration*
Preparer, academic	Chief accountant and academic 11 years of experience, of which 5 years of experience in working with SMEs on national regulations Exposure to IFRSs by teaching them in higher education	10 February 2011 60 min
Professional body, academic	Representative of the National Institute of Continuous Professional Development of the Body of Expert and Licensed Accountants of Romania (CECCAR) Experience in teaching full IFRS and IFRS for SMEs to different audiences	11 February 2011 65 min
Regulator, academic,	Member of the Council of Accounting and Financial Reporting (frequent interactions with the Ministry of Finance) and academic Observer of the accounting regulation process in Romania across all the steps of the accounting reform Teaches IFRSs to different types of audience	17 March 2011 60 min
Turkey		
Preparer	CFO – also certified public accountant 4,5 years of working experience experience in working with full IFRSs	16 February 2011 50 min
Auditor	International accounting firm, working as auditor 19 years auditing experience 5 years of experience in working with full IFRSs	15 February 2011 45 min
User	Bank agent 9 years of working experience any previous experience in working with full IFRSs	17 February 2011 50 min
Professional body	President of TURMOB-The Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey 29 years working experience 6 years of experience in working with full IFRSs	17 March 2011 60 min

Appendix A. Details of interviews *(Continued)*

Interviewee	*Position, experience*	*Date and duration*
Accounting regulator	Vice President of TASB-Turkish Accounting Standards Board university professor, auditor 40 years working experience 20 years of experience in working with full IFRSs	4 March 2011 60 min

Appendix B. Excerpts from Interviews

Current Accounting For SMEs

Hungary, professional body representative: "SMEs lack funding and adequate market operations, but they also lack up-to date knowhow and strategy."

Romania, regulator and academic: "[There is a] lack of interest by companies for the quality of accounting information. A lot of them limit accounting to formalism. Entities see accounting as a burden. Accounting is understood as a record keeping activity not as financial reporting."

Romania, professional body representative and academic: "In a lot of cases, administrators do not understand the merits of a reporting system, do not exploit accounting information and do not require the skills of the accountant to produce information that could be useful for them. […] Entities do not understand their responsibility related to financial reporting."

Czech Republic, auditor: "As auditor I care about the financial position without the tax distortion. However the tax approach is dominant and in certain cases could not be eliminated (e.g., financial leases)."

Romania, professional body representative and academic: "The privileged user of SMEs financial information is the tax authority because even if, in time, tax procedures will become less dependent on accounting, it will take time for the change to happen at the perceptions level."

Hungary, preparer: "Banks do not make decisions based on financial statements, but rather on their own evaluation systems. The current SMEs practice is a kind of revenue reporting optimized for tax purposes, and therefore completely useless for credit decisions."

Romania, user: "Based on my experience, I might say that the bank cannot base its decision only upon the financial statements, because they are highly influenced by the tax rules."

Turkey, user: "Accountants that work for SMEs are not sufficiently qualified. Also, the accounting background of SMEs is not healthy. On the other hand, the owners of SMEs are not so willing to provide full information to their accountants."

Romania, user: "Accountants developed their competencies within the law's interpretation and the tax code's application. This is their competitive advantage. I saw some of them trying to do financial analysis. It was so hard because they were not seeing behind the debit–credit rules."

Turkey, preparer: "Right now, Turkish SMEs produce tax-based accounting information that cannot be used."

IFRS for SMEs Implementation—Costs, Benefits and Implications

Czech Republic, preparer: "The major costs will be related to high-quality training and training materials in the Czech language […] accounting under IFRSs is not about bookkeeping, which is the traditional view now, but about reporting and presentation. It is not a job for just one person in company, but it will be about the collaboration of many more people. I consider this as problematic, since many managers do not have a good financial background and it is sometimes hard to explain them the accounting issues and effects of their decision on the accounting profit. Quality software adapted for the reporting under several reporting frameworks is also necessary to the State, if the Czech tax system will remain the same. And I still do hope that cost won't exceed the benefit."

Czech Republic, user: "IFRS for SMEs could represent an incredible administrative burden for small companies."

Hungary, preparer: "The main costs are related to training […] and tax reporting. The transition period might be of four-five years… it would need a change of generations. The main benefits will be comparability, the change in accountants' mindset and increased credibility of accounting."

Czech Republic, preparer: "In my opinion, it is necessary to harmonize tax and accounting issues. Otherwise, it would not make sense for companies, as the burden will exceed the benefits."

Romania, preparer and academic: “The main cost will be related to the training of employees. People in SMEs practice are used with routines, they apply solutions mechanically. Many rules are applied because they heard that they should do that. Some of them do not read too much, they hear from others or read on a forum something and apply it. Developing professional judgment is also important because some of them are not used to adapt to new situations. The benefits include… more credible financial reporting than now, increased reliance in financial statements, more information in financial statements than now (now they are useful only for the tax authority), assuming of course that they are prepared with responsibility, more detailed information for banks.”

Czech Republic, user: “When I compare IFRS for SMEs to our current rules, it is obvious that the international standard increases transparency. Financial statements based on IFRS for SMEs would be much more useful. If IFRS for SMEs will be mandatory in the entire EU, the benefit will be considerably higher.”

Hungary, user: “In order to obtain benefits, an entity should have users for its financial statements. The benefits include increased comparability, quality and transparency, and also assurance in business relations, given the quality of accounting information.”

Turkey, preparer: “SMEs generally present their financial reports according to tax regulations. A more transparent, understandable and reliable financial reporting system will be established by the application of IFRS for SMEs. By the accurate application of the standard, SMEs will get a competitive advantage and access other markets. Through transparent financial reporting SMEs will be able to reliably measure their own activities. We will be more credible in our relationships with banks. A more reliable environment for local and foreign investors will be provided.”

Romania, professional body representative and academic: “For the profession, the application of IFRS for SMEs will lead to a change in the role of accountants in organizations.”

Czech Republic, preparer: “Generally the application of IFRS for SMEs will bring a change of accounting thinking. I believe that Czech accountants are adaptable; and if adoption of IFRS for SMEs will be required, they will be able to treat accounting data correctly.”

Hungary, auditor: “Six or seven years of reformed education are needed to reach a Western reporting level, and this would result in real improvements for the country.”

IFRS for SMEs implementation—scenarios

Mandatory adoption

Czech Republic, user: "From the comparability point of view, it would be vital to require IFRS for SMEs [instead of a voluntary adoption] [...] But IFRS for SMEs could represent an incredible administrative burden for small companies."

Hungary, auditor and academic: "A three-tier reporting system is needed: full IFRSs for public entities, IFRS for SMEs or national standards for larger SMEs and cash-based tax record for smaller SMEs."

Romania, professional body representative and academic: "I'm afraid that qualitative criteria could be difficult to enforce, with entities acting in an unpredictable environment and having such atypical behavior."

Hungary, user: "IFRS for SMEs should be adopted instead of national regulations [...] at least for larger SMEs. This would trigger the need for separate tax records."

Voluntary application

Hungary, regulator: "IFRS for SMEs might be considered relevant for some companies but not to replace Hungarian regulations, rather parallel to those."

Czech Republic, regulator: "The Ministry [of Public Finances, N.A] is really not very supportive for the possible implementation, but it will be not against it in the case of a voluntary adoption."

Czech Republic, preparer: "Calculations of taxes in such a case have to be based on IFRS for SMEs. Otherwise, it wouldn't make any sense for companies, as the burden will be higher than the benefits."

Romania, user: "IFRS for SMEs can be permitted and encouraged [...] for example with European funds or by the State, to support the business environment."

Professional body: "There is a lack of motivation for introducing IFRS for SMEs, as SMEs, especially managers, prefer the best solution from the tax point of view."

Hungary, auditor: "[...] no optional application. The parallel functioning of the two systems is useless."

Romania, preparer: "I don't give many chances to this standard in Romania unless it is required. [...] I don't think a second set of financial statements would be appropriate, it is too costly."

Romania, professional body: "The solution of applying IFRS for SMEs for the second set of financial statements would involve high costs that SMEs can't afford."

Convergence

Czech Republic, professional body: "The standard should be required [instead of permitted, N.A] [...] and accounting legislation has to be changed. Absence of details in the standard makes it very difficult, and this has to be solved."

Hungary, auditor: "The idea of national standards [based on IFRS for SMEs] is senseless."

Romania, preparer: "IFRS for SMEs should be required. I don't think it is feasible to be permitted, but I think it should be adapted to national characteristics. I doubt it is comprehensible for a lot of people working in practice in its current form."

Hungary, professional body: "IFRS for SMEs is far too complex for most SMEs."

Romania, professional body: "Maybe the most appropriate strategy could be to elaborate a national standard or regulation convergent with IFRS for SMEs, containing not only the reporting requirements, as it happens in IFRS for SMEs, but also regulations related to records keeping and regulations that would facilitate an easier reconciliation with the tax rules. Applying the standard as it is would be difficult because professionals here feel the need of detailed rules."

Romania, regulator and academic: "IFRS for SMEs should be implemented if justified by the need of globalization and internationalization at the national level. I think we should have one set of principles convergent with IFRSs and simplifications for smaller entities."