Three Studies Related To The Institutionalization Of International Financial Reporting Standards.

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THREE STUDIES RELATED TO THE INSTITUTIONALIZATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS.

by

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ABSTRACT

This dissertation consists of three separate, but related, studies on the institutionalization of International Financial Reporting Standards (IFRS). The first study examines the relationship between the national variables and the level of IFRS adoption. Theoretical insights regarding the level of national IFRS adoption come from the world-level institutional theory (Meyer et. al., 1997). Archival data are utilized for the study. The findings indicate that countries with weaker national governance structures and lower economic development demonstrate the highest level of commitment to IFRS. Nationalism was found to influence the extent of adoption. The study contributes to IFRS adoption literature by recognizing the multi-level possibilities of IFRS adoption and discovering the factors that drive the degree of IFRS adoption on a national level.

The second study examines the ongoing change in the U.S. accounting regulation related to IFRS. The specific event investigated is an historic ruling by the Securities and Exchange Commission (SEC) made in 2007 to accept IFRS filings from foreign issuers. This move toward acceptance of IFRS by the primary U.S. regulator is of academic interest because it represents an opportunity to study regulatory institutional change. The event is analyzed using a qualitative study of the rhetoric found in the comment letters submitted to the SEC. The following theoretical frameworks were used to interpret the qualitative findings: a model of institutional change (Greenwood et. al., 2002), the role of rhetoric in legitimating institutional change (Suddaby & Greenwood, 2005), and the agents of change model (Djelic & Quack, 2003b). The conversation of opponents and proponents through the comment letters revealed the struggle of the participants to

legitimize their positions. As expected, rhetorical themes associated with the moral and pragmatic legitimacy of their positions were utilized. Unexpectedly, the shifting site of regulation and the related power of SEC were troubling for proponents and opponents of the change. The study contributes to transnational accounting regulation literature in a number of ways. It presents a synthesis of different theoretical perspectives to investigate institutional change in accounting regulation. It also deepens the understanding of how institutional change is theorized by evaluating the rhetoric of domestic, foreign, and transnational participants.

The third study evaluates the diffusion of IFRS in developing countries, using the specific case of Russia. The study investigates whether individual perceptions of various aspects of financial reporting and reforms are associated with IFRS adoption. Particularly of interest is whether there are differences between voluntary adopters and those for which adoption was mandated. The data were obtained from a 2007 survey exploring Russia's transition to IFRS. In general, adopters had a more positive view of transition toward IFRS and financial reforms in Russia. Further, the perceptions of reforms by adopters did not vary based on whether the adoption was required by a national or a foreign mandate. The study contributes both theoretically and empirically to the literature on IFRS in developing countries. Taken together, these three studies focus on issues that have not been addressed previously in the accounting literature. They will advance the international accounting literature on factors related to IFRS adoption, regulations, and influences.

I dedicate this dissertation to my family, especially…

to Dad and Mom for endless love and support

to Ilan for believing

to Kareen and Maya – may you also be motivated and encouraged to reach your dreams

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GENERAL INTRODUCTION

Over the past decade, International Financial Reporting Standards (IFRS) have become a topic of widespread practical and academic interest. This dissertation is comprised of three separate but related studies that evaluate the adoption, regulation, and impact of IFRS. The primary theoretical perspective in all studies is institutional theory.

The first study utilizes the world-system institutional perspective and explores the connection between country-level variables and the *level* of IFRS adoption (Meyer et. al., 1997). Often when the term *IFRS adoption* is used in the literature, it deals with whether standards are adopted or not. However, adoption is not a dichotomous choice. Some countries require all public firms to adopt IFRS while others only require some industries to utilize the standards. Alternatively, countries can choose to permit the use of IFRS or not allow it at all. Thus in the first study I examine the level of IFRS adoption. The factors that are theorized to influence the level of adoption are quality of national governance structures, level of economic development, and degree of nationalism. The findings indicate that countries with weaker national governance structures and lower economic development demonstrate the highest level of commitment to IFRS by *requiring* the use of the standards. Nationalism was found to influence the extent of adoption in high quality governance countries. Interaction results indicate that nationalism is trumped by the need for legitimacy in environments with weak governance.

The second study examines the ongoing change in the U.S. accounting regulation related to IFRS. In 2007, the Securities and Exchange Commission (SEC) made an historic ruling related to the acceptability of accounting standards other than U.S. GAAP from foreign issuers. Conceptually, this event simultaneously captures the process of deinstitutionalization of U. S. GAAP and institutionalization of IFRS. The study is informed by theoretical insights from a number of models: institutional change (Greenwood et. al., 2002), the role of rhetoric in legitimating institutional change (Suddaby & Greenwood, 2005), and the agents of change model (Djelic & Quack, 2003b). The input and rhetoric of different interest groups, including regulators, transnational firms, and investors, are examined to evaluate their participation in the change process. As anticipated, transnational and foreign players supported the proposed change. Most domestic individuals opposed the proposal. The rhetorical themes associated with the moral and pragmatic legitimacy of their positions were utilized. Unexpectedly, the shifting site of regulation and the related power of SEC were troubling for proponents and opponents of the change. The study contributes to transnational accounting regulation literature and deepens the understanding of how institutional change is theorized by evaluating the rhetoric of domestic, foreign, and transnational participants.

The third study evaluates the diffusion of IFRS in developing countries. The study utilizes the explanatory power of the model of institutional change (Greenwood et. al., 2002), the diffusion of innovations theory (Rogers, 1995), and spillover effect (Janakiraman et. al., 2009) in theorizing the importance of perceptions in further diffusion of institutional change. The study focuses on how IFRS diffusion is perceived by individuals from firms that adopted the standards and firms that did not. Perceptions matter theoretically because perceptions about the innovation (IFRS, in this case) by early adopters influence whether the standards will experience a broader diffusion

(Rogers, 1995). Using the specific case of Russia, the study investigates whether individual perceptions of various aspects of financial reporting and reforms are associated with IFRS adoption. Particularly of interest is whether there are differences in evaluation by individuals from firms that initiated IFRS adoption voluntarily or adopted the standards to comply with a national mandate. Also, the study examines whether there are spillover effects associated with IFRS adoption and the evaluation of broader financial reforms. In general, adopters had a more positive view of transition toward IFRS. Adopters also had a more positive perception of broader financial reforms taking place in Russia. Further, the perceptions of reforms by adopters did not vary based on whether the adoption was required by a national or a foreign mandate.

Taken together, these three studies focus on issues that have not been addressed previously in the accounting literature. They will advance the international accounting literature on factors related to IFRS adoption, regulations, and influences. Specifically, these studies contribute to the literature that examines IFRS adoption at a national level, transnational regulatory change, and IFRS in developing countries.

STUDY ONE: INSTITUTIONAL FACTORS AND THE LEVEL OF NATIONAL IFRS ADOPTION

Introduction

Over the last decade, International Financial Reporting Standards (IFRS)[1] have become the standards of choice for many jurisdictions (Cox, 2008). IFRS are perceived to be more flexible and neutral than standards of any individual country (Rodrigues & Craig, 2007). They are expected to benefit investors through the improved comparability of financial statements (Daske et. al., 2008). One of the ultimate goals of IFRS adoption is increased transparency that "could increase the efficiency of contracting between firms and their managers, reduce agency costs between managers and shareholders, and enhance corporate governance" (Ball, 2006, p. 23). The global push for countries to adopt IFRS is driven by economic and political interdependence, the desire to attract foreign capital, the international expansion of multinational companies, and the influence of international organizations (Radebaugh et. al., 2006).

In prior research, IFRS adoption has been examined as a dichotomous, yes-or-no choice. In practice, adoption at the national level is not dichotomous. Some countries require *all* listed companies to report in accordance with IFRS. Others *require* only *certain industries* to file using IFRS (Deloitte & Touche, 2008). Yet other countries may *permit* IFRS filing but do not require it for all companies. Finally, in some countries, companies may use IFRS for foreign filings and national accounting standards for statutory reporting (Deloitte & Touche, 2008). While studies have begun to explore the

[1] The standards issued by the former International Accounting Standards Committee are labeled "IAS" while more recent pronouncements are called "IFRS". I use "IFRS" throughout the paper to refer to the entire set of standards.

importance of country-specific factors on the adoption of IFRS, prior works have not examined how institutional factors in particular influence the *level* and extent of nationally dictated adoption.

The international accounting literature has recognized the importance of institutional factors in shaping financial reporting choices, including choices like IFRS adoption (Adhikari & Tonkar, 1992; Gernon & Wallace, 1995). Prior studies have investigated whether accounting and disclosure practices evolve as a complementary component of a country's political, legal, economic, and cultural factors. These factors have been found to influence differences in accounting standards (Ding et. al., 2005; Ding et. al., 2007). They have also been observed to impact financial reporting practices, including conservatism, earnings informativeness, earnings management and timeliness of reporting (Pope & Walker, 1999; Ball et. al., 2000; Ali & Hwang, 2000; Ball, 2001; Ball et. al., 2003; Leuz et. al., 2003; Ball et. al., 2006; Burgstahler et. al., 2006). However, there is still a limited understanding of the relationship between underlying institutional factors and the adoption of IFRS requirements at the national level (Holzinger & Knill, 2005; Leuz & Wysocki, 2008).

World-level institutional theory offers a conceptual basis for investigation of these relationships. Institutional scholars (Meyer et. al., 1997; Boli & Thomas, 1997) propose that nation-states follow a world-level blueprint. In this blueprint, rational nations are believed to have similar goals of collective progress and development. Also according to this view, nation-states construct and formulate policy according to a script for legitimacy. Consequently, nations demonstrate an observable similarity in their structure and policies in an attempt to be considered legitimate players (Meyer et. al., 1997).

Empirically, a country's selection of a particular set of accounting standards results from influence of various institutional factors (Zeghal & Mhedhbi, 2006). Hope et. al. (2006) and Zeghal and Mhedhbi (2006) provide some insight on those factors that influence the adoption of IFRS. Hope et. al. (2006) found that countries with weaker investor protection and jurisdictions that provide better access to their capital markets are more likely to adopt IFRS. Zeghal and Mhedhbi's (2006) study of developing countries found that those with highest literacy rates, extant capital markets, and an Anglo-American culture were more likely to adopt international accounting standards.

The purpose of this study is to examine the relationship between a selected set of institutional variables and the *level* of IFRS adoption at the national unit of analysis. As previously noted, the national choice with respect to IFRS is *not* dichotomous. Using institutional theory as a framework, the study investigates the relationships between national governance quality, level of economic development, nationalism and the level to which countries commit to IFRS. Consistent with world-level institutional theory, countries with weaker national governance structures and lower economic development are expected to be in a greater need to legitimize their financial reporting. In turn, such countries are more likely to adopt IFRS and *require* all or some industries to use the standards in order to attain legitimacy. On the other hand, countries with more established governance infrastructure may already command greater world legitimacy. Their need to require IFRS is lower. Also, more nationalistic countries may resist adoption of IFRS and may prefer reporting using their national accounting standards.

The study contributes to the international accounting literature as it relates to IFRS adoption in several ways. First, the paper recognizes the multi-level possibilities of

IFRS adoption and uses a dependent measure that reflects that empirical reality. Prior studies have examined whether countries adopted the standards, but have not differentiated between countries that require it at a national level or just permit the use of the standards for companies that choose to use it.

Theoretically, world-level institutional theory predicts that countries seek legitimacy and act based on the need to legitimize their systems. Investigating factors contributing to the adoption of transnational standards provides an insight on how institutional structures influence decisions related to a country's financial reporting and accounting policies. Further, the study focuses on the early adopters of IFRS in order to identify factors that influence national adoption decisions when the standards are in their infancy. Recognition of such factors is informative for anticipating the pattern of adoption of future transnational accounting regulation.

Prior research has investigated investor protection as a factor influencing IFRS adoption (Hope et. al., 2006; Renders & Gaeremynck, 2007). In contrast, this study is using a comprehensive and more encompassing governance measure that incorporates the political and legal characteristics of a country. The national governance indices developed by Kaufmann et al. (2007) are used to measure national governance.

Finally, I evaluate a larger and more diverse sample of countries than in prior studies. The proposed relationships were tested using data for 71 countries. As noted in Doidge et. al. (2007), less-developed countries are typically not included. In this study, by concentrating on the country-level variables, a greater sample of countries can be utilized to obtain a more comprehensive understanding of the role of institutionalizing and legitimizing forces.

The study proceeds as follows. The following background section discusses IFRS and the adoption of the IFRS standards. The next section provides the theoretical framework and develops hypotheses relating to the governance infrastructure, economic development, and nationalism concepts. The research method and results are followed by discussion. The final section provides summary and conclusions.

Background

International Financial Reporting Standards

With business becoming more global, there is a push for a worldwide adoption of a single set of accounting standards (Churchwell, 2006). Many countries have shifted toward IFRS or IFRS-based standards. In 2005, IFRS was adopted by the listed companies throughout the European Union. The number of countries that require or accept IFRS is expected to grow to 150 in the next few years (Illiano, 2007).

IFRS are a set of uniform, principle-based standards that, in theory, will be applied consistently by companies in countries that adopt these standards (Leuz & Wysocki, 2008). They are believed to improve international financial reporting and transparency, increase international comparability, and contribute to a more efficient global financial market (Jermakowicz & Gornik-Tomaszewski, 2005).

Studies evaluating the impact of IFRS at the *firm-level* suggest that IFRS adoption is related to higher quality disclosures. IFRS-based announcements were found to convey higher information content than Swiss GAAP (Auer, 1996). European markets responded positively to actions that increased the probability of IFRS adoption (Armstrong et al., 2008). Analysts' forecasts improved after firms adopted IFRS

(Ashbaugh & Pincus, 2001). In a 30-country study, Ding et al. (2007) found IFRS to provide more specific rules on recognition, measurement and disclosure than domestic standards. Standard-setters argue that the use of IFRS will contribute to the flow of cross-national investment and integration of local firms into global financial markets (IASB, 2008).

Accounting and the Local Environment

The expectations of ultimate global uniformity in financial reporting are juxtaposed against the substantial body of research which conceptualizes accounting as a product of its local environment. This environment includes the legal and political systems, economic forces, and local cultures (Alhashim & Arpan, 1992). Based on the analysis of firms from seven countries, Ball et. al. (2000) found that the timing of loss recognition depended on the country's legal system. Specifically, firms from common law countries recognized losses on a more timely bases. In a study of firms from 31 countries, the companies in countries with stronger investors' rights and legal enforcement were found to engage in less earnings management (Leuz et. al., 2003). Bushman and Piotroski (2006) noted that firms from countries with strong judicial systems and strong investor protection incorporated bad news into earnings in a more timely fashion than firms from countries with weak systems. Greater financial transparency was observed in countries where state ownership was low and where the risk of state expropriation of firms' assets was low (Bushman et. al., 2004). These papers reinforce the notion that accounting rules and regulations cannot be considered in isolation of nation's institutional factors (Leuz & Wysocki, 2008).

While countries appear to be adopting uniform standards, there are differences in their institutional environment that may lead to differences in the actual levels of standard adoption. Prior studies examined certain factors that contribute to IFRS adoption, but the literature lacks a comprehensive theoretical explanation of the phenomenon. Particularly, the *level* of IFRS adoption has not been examined. The issue of interest in this study is why countries adopt at a certain level. For instance, some countries require all listed companies to report in accordance with IFRS. Such adoption allows regulators, auditors, management, and analysts to work under a single set of standards and invest in the proper implementation and enforcement (Churchwell, 2006). Others require only certain industries to file using IFRS (Deloitte & Touche, 2008). Alternatively, other countries permit IFRS filing but do not require it for all companies. In yet other countries, companies use IFRS for foreign filings and national GAAP for statutory reporting (Deloitte & Touche, 2008). Therefore, adoption of accounting standards must be considered in the context of nation's institutional factors (Leuz & Wysocki, 2008). The roles of these factors are conceptualized in institutional theory.

Theoretical Framework and Hypothesis Development

Institutional Theory

Institutional theory recognizes the influence of institutions on many levels of social life, including organizations, organizational fields, and countries (for a comprehensive review see Scott, 2001)[2]. Institutions are social structures and practices

[2] The importance of social forces and their influence in the "new" sociological institutional perspective is similar to the "old" institutionalism in economics which is rooted in the tradition of the early 20th century scholars, including Thorstein Veblen, Wesley Mitchell, John R. Commons and Clarence Ayres (Hodgson, 1998; Rutherford, 1994). Institutions are thought to influence the behavior by providing scripts for action

that have become widely accepted (Scott, 1987; Oliver, 1991). Money, a common language, a unified legal system are all examples of institutions which influence behavior routinely and almost universally by providing organizations with scripts for acceptable action in a given context (Meyer et. al., 1997; DiMaggio & Powell, 1991).

Institutions establish scripts for what is socially acceptable and credible and influence organizations to act in a manner that demonstrates legitimacy to external constituents (Berger & Luckmann, 1966; Meyer & Rowan, 1977; Zucker, 1977). Weber (1968) was one of first social theorists to highlight the existence of a legitimate order and the importance of legitimacy in social life. Suchman (1995) defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, and definitions" (Suchman, 1995, p. 574). Organizations are theorized to seek legitimacy "particularly from those constituents on whom the actors depend for physical, human, financial, or reputational capital" (Dacin et. al., 2007, p. 171). In order to achieve legitimacy, organizations chose structures and policies that are socially acceptable (Meyer & Rowan, 1977).

DiMaggio and Powell (1983), building on Meyer and Rowan (1977), pointed out that structural similarities of modern organizations are the results of their responses to similar environmental expectations. The term isomorphism is used to capture both the process and the outcome of organizational similarity that results when organizations are faced with similar environmental demands (DiMaggio & Powell, 1983). Isomorphism

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in a given context (DiMaggio and Powell, 1991). The "old" institutionalism typically takes a holistic perspective on *human actions* which are viewed within the context of surrounding institutions. The sociology-based perspective of interest to this study evaluates the isomorphism occurring at *organizational* and *national level* (Scott, 2001).

occurs due to the pressures imposed on organizations by the institutional environment (e.g., society, government, community groups) to justify their actions (DiMaggio & Powell, 1983; Scott, 2001; Dacin et. al., 2007). "These pressures, in turn, motivate organizations to increase their legitimacy with respect to institutional constituents and to conform with institutional rules, regulations, norms, and expectations" (Dacin, 1997; Scott, 2001). Similar processes occur among nation-states.

World-level Institutional Theory

According to institutional theorists, nation-states are constructed by and in turn construct the worldwide institutional environment (Meyer et. al., 1997)[3]. The environment is shaped by certain universally-accepted models, including citizenship, human rights, socioeconomic development, and rationalized justice (Meyer et. al., 1997). These worldwide models have legitimacy and are the basis for "world culture".

The presumption of universal applicability of the world models explains the observed structural isomorphism even in countries with seemingly different traditions and resources (Meyer et. al., 1997). Nations are theorized to have similar goals of collective progress and development. The nation's drive to legitimize national structures and practices creates a need to adopt world-accepted models (Meyer et. al., 1997). The worldwide models define the agenda for nation-states and legitimize actions taken by the local actors. According to this view, nation-states are exogenously constructed and formulate policy according to a script that has legitimacy. Isomorphic changes at the nation-state level have been shown in numerous areas (see Meyer et. al., 1997 for

[3] There are a number of theoretical perspectives that examine globalization. This particular view focuses on how nation states are constructed. Specifically, how global factors impact that construction.

overview), including the adoption of mass schooling systems (Meyer et. al., 1992) and development-oriented economic policy (Finnemore, 1996).

Only a limited number of structures and practices are accepted as legitimate by the world actors (Meyer et. al., 1997). In institutional theory, the term “pillar” is used to describe the vital ingredient that supports such institutions (Scott, 2001). The pillars encourage conformity to institutionalized practices by “repetitively activated, socially constructed controls” that punish deviations from excepted practices (Jepperson, 1991, p. 145). The institutional literature typically identifies three classes of pillars. These are regulative pillars, normative pillars, and cultural-cognitive pillars (Scott, 1987; Oliver, 1991).

The regulative pillar of institutions involves “the capacity to establish rules, inspect others’ conformity to them, and, as necessary, manipulate sanctions-rewards or punishments in an attempt to influence future behavior” (Scott, 2001, p. 52). The regulative pillar is supported by coercive mechanisms. For example, compliance with legal rules is reinforced by potential penalties which are associated with noncompliance (Maguire & Hardy, 2009).

The normative pillar of institutions is represented by shared values and norms. Organizational accreditation and professional licensing are examples of normative mechanisms. These mechanisms are viewed as imposing constraints on social behavior but also enabling social action (Scott, 2001). “They confer rights as well as responsibilities, privileges as well as duties, licenses as well as mandates” (Scott, 2001, p. 55).

The cultural-cognitive pillar shapes internal interpretative processes which make noncompliance inconceivable (Scott, 2001, p. 57). At the world-level, the cultural-cognitive pillar is associated with countries mimicking each other. Nations face pressure to model their practices based on the ones considered more legitimate. For example, Japan in the nineteenth century modernized schools, courts, universities, hospitals and other institutions based on what was perceived as a more “advanced” Western model (Westney, 1982).

Isomorphism in Accounting Standards

In the area of financial reporting, U. S. GAAP has been accepted as a legitimate benchmark for high quality accounting standards (Levitt, 1998). More recently, IFRS has been gaining ground as a quality, principles-based alternative (Cox, 2008). The pressure to accept IFRS for financial reporting comes from the regulative, normative, and cultural-cognitive pillars that support the standards. For example, the coercive pressure to adopt a certain set of accounting standards can stem from a country’s dependence on transnational organizations such as the United Nations, the International Monetary Fund, or the World Bank. Such organizations are theorized to represent a diffusion and legitimization framework for the world culture (Meyer et. al., 1997; Henisz et. al., 2005). These organizations are having a growing influence on the national accounting standard setting process which previously was dominated by domestic regulatory agencies (Djelic & Quack, 2003; Suddaby et. al., 2007). While the adoption of standards, such as IFRS, is superficially voluntary, transnational organizations express influence by recognizing only certain standards as compatible with the worldwide models. The countries who do not adopt such models are left out from the network of members connected by mutual economic dependence (Suddaby et. al., 2007).

Professions are also involved in the normative diffusion of the world culture (Meyer et. al., 1997). Professional associations, educational requirements, and transnational accounting firms are the examples of the normative mechanisms that contribute to isomorphism. IFRS was originally developed by a private-sector organization sponsored by the professional bodies because of capital market demands rather than from specific government initiatives (Whittington, 2005). Currently accounting professional association, American Institute of Certified Public Accountants (AICPA), advocates a faster transition to IFRS for U. S. companies (AICPA, 2009).

Finally, cultural-cognitive beliefs in superiority of a practice also contribute to structural isomorphism on a national level (Meyer et. al., 1997). Thus, isomorphism toward IFRS can be attributed to nation-states mimicking each other to demonstrate that they at least are trying to improve financial reporting by adopting standards that are accepted as legitimate (DiMaggio & Powell, 1983; Meyer et. al., 1997). Thus, countries may adopt practices that are considered legitimate regardless of their usefulness to the specific country (Rodriques & Craig, 2007).

Impact of Institutional Factors on Adoption of Standards

A country's selection of a particular set of accounting standards is a result of interaction of environmental factors (Zeghal & Mhedhbi, 2006). The adoption of IFRS by nations is expected to the extent they are rational world-stage actors and are seeking to establish legitimacy. Hope et. al. (2006) examined jurisdictions that voluntary adopt IFRS. Based on a sample of 38 countries, they found that countries with weaker investor protection and countries that provide better access to their capital markets are more likely to adopt IFRS. Zeghal and Mhedhbi (2006) evaluated IFRS adoption in 64 developing countries. Adoption of IFRS was associated with higher literacy rates, stronger capital markets, and a more Anglo-American culture.

While the mechanisms that influence whether IFRS is adopted may be similar, the extent of isomorphism will differ among nations. IFRS is only one of many possible avenues to legitimacy. Thus, the adoption of IFRS, particularly the level of adoption, is expected to depend on whether the country needs to legitimize their system of financial reporting. The nature and quality of existing national institutions will influence that regulatory decision (Meyer et. al., 1997). The need for legitimacy and the extent of IFRS adoption depend on existing national political/legal, economic, and cultural attributes. Three such institutions investigated here are national governance quality, economic development, and nationalism.

Institutional Pressure and National Governance Quality

Political and legal institutions make up the *governance infrastructure* of a country (Globerman & Shapiro, 2003). Governance infrastructure is comprised of institutions and policies that provide a framework for economic, legal, and social relations (Globerman & Shapiro, 2003). A strong governance infrastructure includes an effective and transparent legal system, credible and stable public institutions, and free and open government policies (Globerman & Shapiro, 2003). Theoretically, the necessity for legitimate domestic governance structure is driven by the world-cultural principles of transparency, accountability and the rule of law (Meyer et. al., 1997).

The quality of national governance infrastructure influences firm-level governance (Doidge et. al., 2007) and the outside investment in the country (Globerman & Shapiro, 2003). Countries with well-developed governance are expected to attract and benefit from additional investments (Globerman & Shapiro, 2003). However, countries with less favorable infrastructures are also looking to improve their position (Hope et. al., 2006).

Concerns for the investment climate in countries with inferior political and legal infrastructure have spanned a web of transnational organizations and national agencies. One way these organizations attempt to improve investment climate is by promoting the advancement of transparency and accountability (Drori, 2006, p. 91). This is because accounting has been recognized as a symbol of legitimacy (Gambling, 1977). The adoption of IFRS occurs due to the pressures to legitimize the financial reporting at a *country-level*. It indicates to investors that the country is operating under a "familiar form of accounting" (Churchwell, 2006) and a normative standard consistent with world system.

With regard to transparency in financial reporting, a study of *firm* adoption of non-local GAAP found that firms located in countries with lower quality local accounting standards can use IFRS or U.S. GAAP to signal a commitment to higher quality reporting (Cuijpers & Buijink, 2005). At the national level, Hope el. al. (2006) found that jurisdictions with weaker investor protection mechanisms are more likely to adopt IFRS. Nations can also fully or partially require IFRS to convey the commitment to higher quality reporting. Thus, countries with a weaker governance structure are more likely to *require* IFRS.

In contrast, countries with a more established governance framework are more likely to have a lower level of commitment to IFRS. Thus they may merely *permit* (but *not require*) IFRS or decide to report using national GAAP. This is because their investment climate does not require as much legitimization. The following hypothesis predicts the association between national governance quality and the level of commitment to IFRS as follows:

> H_1: Countries with weaker governance are more likely to *require* IFRS as compared to countries with stronger governance which are more likely to *permit* or *not allow* IFRS for domestic issuers.

Institutional Pressure and Economic Development

Economic development is important to the development of accounting reporting and disclosure (Belkaoui, 1983; Nobes, 1988) and is a factor that is expected to influence the adoption of IFRS. Countries with higher economic development are characterized by higher levels of economic activity, including gross domestic product (GDP) per capita and gross national income (GNI) per capita. Developing countries are associated with lower economic development. These countries are not only working to create a sovereign identity, but also to obtain formal recognition from dominant powers. According to the world-level institutional perspective, they are trying to improve their economic conditions and adjust their structures and policies in an attempt to be considered legitimate.

Establishing and maintaining a reputable financial disclosure regime is expensive and involved. Some developing countries are alleged to superficially adopt IFRS as a "quick fix" to address the underdeveloped national accounting standards (Belkaoui, 2004). According to world-level institutional theory, countries with lower economic development are expected to be more likely to *require* IFRS in order to show their willingness to accept "prescribed institutions of modernity" (Meyer et. al., 1997, p. 159). Countries with higher economic development have already established some legitimacy, and are *less likely* to *require* the standards. The following hypothesis predicts the association between economic development and the level of commitment to IFRS as follows:

> H_2: Countries with lower economic development are more likely to *require* IFRS as compared to countries with higher economic development which are more likely to *permit* or *not allow* IFRS for domestic issuers.

Institutional Pressure and Nationalism

In world-level institutional theory, it is theorized that in order to accomplish the goals of progress and development, nations demonstrate isomorphism in their structures and policies in an attempt to be considered legitimate in a world-society (Meyer et. al., 1997). Increasing globalization is anticipated to produce economic, political and even cultural similarity across societies (Guillen, 2001). However, there are internal pressures that can slow down the convergence process. National culture is one of the internal factors deemed responsible for differences in national financial reporting (Nobes, 1988, 1998).

Culture is a social institution that provides models, schemas, and scripts to orient and guide decision making (Scott, 2001). According to one definition, culture is the widely shared way of thinking that is reflected in values, rituals, and symbols (Hofstede, 1980, 1991, 2001). In this study nationalism is the cultural value examined as a factor influencing the level of IFRS adoption.

Nationalism has been described as a cultural phenomenon which impacts the way people see and construct the world around them (Greenfeld, 1996, 2005). Nationalism is defined by Smith and Jarkko (1998) as a feeling of superiority of one's own country. It binds people together on a basis of shared identity (McCrone & Kiely, 2000). A strong nationalistic attitude can signal that the population is cohesive and takes pride in their country and its local institutions (Ahlerup & Hansson, 2008). Highly nationalistic countries may embrace globalization and be part of it or choose to reject it.

Theoretically, nationalism is a cultural factor that may act as an antidote to isomorphic convergence driven by the desire for development. According to the world-level institutional perspective, nations are the primary actors that identify and manage the issues of concern on behalf of their societies (Meyer et. al., 1997). Thus, despite isomorphic pressure, nationalism may contribute to protectionism and diminish acceptance of other structures and cultures.

Empirically, Mayda and Rodrik (2005) found that a high degree of nationalism is associated with a protectionist view on trade. More nationalistic countries may prefer internal practices over world systems, even if these systems provide superior frameworks for development and legitimacy. Such xenophobic perspective limits which ideas and techniques are considered as acceptable and which are, therefore, adopted (Ahlerup & Hansson, 2008).

More nationalistic countries may resist adoption of IFRS and prefer reporting using their national GAAP. According to Rodrigues and Craig (2007), "the adoption of accounting standards promulgated by an authority located outside a country's national boundaries is regarded by some to be politically unpalatable, conducive to a loss of national pride, and tantamount to interference in the affairs of a sovereign nation” (p. 749). On the other hand, less nationalistic countries are expected to be more accepting of practices developed somewhere else. The following hypothesis predicts the association between nationalism and the level of commitment to IFRS as follows:

> H_3: More nationalistic countries are more likely *not to permit* IFRS than their less nationalistic counterparts who are more likely to *permit* or *require* the standards.

Research Method

The study investigates the relationships between selected institutional variables and the level of a country's adoption of IFRS. The hypotheses were formulated as theoretically-based planned comparisons. Specifically, countries with weaker governance and lower economic development are expected to be more likely to require IFRS than countries classified in two other groups. More nationalistic countries are more likely *not to permit* IFRS than countries classified in two other groups. Due to the categorical nature of the dependent variable, Chi-square tests of independence and multinomial logistic regression are used to analyze the data and test the hypotheses. Archival data are used to measure the variables. Complete set of data is available for 71 countries.

Measures

Dependent Variable

The dependent variable is the level of IFRS adoption (*IFRS2003)* that had occurred by 2003. Renders and Gaeremynck (2007) and Cuijpers and Buijink (2005) referred to this timeframe as early adoption[4]. Adoption data were obtained from an annual publication by Deloitte & Touche (2003). The data are coded as 2 if IFRS was *required* for all domestic listed companies or for some industries, as 1 if IFRS was *permitted* (but not required), and 0 if it was *not permitted*. Although some jurisdictions claim that their GAAP is based on IFRS, typically there are differences between the two sets of standards (Deloitte & Touche, 2003). For that reason, consistent with the data source (Deloitte & Touche, 2003) and Hope et. al. (2006), full adoption of IFRS or permission to use it for financial reporting is coded based on the direct use of IFRS.

Test Variables

Strength of the *governance* infrastructure is measured using Worldwide Governance Indicators (WGI) for 2002. WGI is a widely used, cross-country governance survey published by the World Bank[5] (Kaufmann & Kraay, 2008). WGI contains aggregate governance indicators for more than 200 countries. Six governance dimensions are rated. These include: voice and accountability, political stability, governance effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et. al., 2007). Voice and accountability captures the degree to which country's people are able to select their government and freely express themselves. Political stability measures the stability of the government and the likelihood of the loss

[4] This timeframe is used in order to evaluate the level of voluntary IFRS adoption prior to the time when European Commission mandated all listed companies in the European Union (EU) to adopt IFRS. EU adoption has been recognized to be driven by integration of political forces (Ball, 2006). Also, IFRS was seen by EU as an antidote to the domination of international accounting practices by the United States (Rodrigues & Craig, 2007).

[5] This World Bank measure is highly influential. For instance, after the publication of 2006 data, some developing countries, including Argentina, China and Thailand, complained about their rating and tried to pressure the bank's president to eliminate this kind of analysis from the bank's agenda (Guha & McGregor, 2007).

of power. Government effectiveness measures the quality of the public services, the quality of the civil service and the degree of its independence from political pressures. Regulatory quality measures the ability of the government to formulate and implement sound practices that promote private sector development. Rule of law measures the quality of courts, contract enforcement, and the degree to which rules are trusted and followed. Control of corruption measures the degree to which officials abuse public power for private gain (Kaufmann et. al., 2007).

Each dimension is calculated “based on hundreds of underlying individual indicators drawn from 30 organizations, based on responses from tens of thousands of citizens, enterprise managers, and experts” (Kaufmann & Kraay, 2008, p. 21). Thus the dimension level measures have significantly less measurement error than individual items (Globerman & Shapiro, 2003). Each dimension is standardized to a mean of zero and standard deviation of one. Virtually all scores lie between -2.5 and 2.5. Higher scores indicate better outcomes (Kaufmann & Kraay, 2008).

The WGI dimensions are highly correlated. Therefore, for this study, an aggregate governance index (*Govern*) is calculated and is subsequently used in statistical analysis. An aggregate index is created by adding six standardized components as per the procedure used by Li and Filer (2007). Combined scores for the *Govern* measure fall between -15 and 15.

Countries with higher economic development are characterized by higher levels of economic activity. Economic development is reflected by the size of the domestic market (Hope et. al., 2006). In this study, the extent of e*conomic development* is measured as 2002 Gross National Income[6] (GNI) per capita (Belkaoui, 1983; Adhikari & Tondkar, 1992; Doidge et. al., 2007). The data were obtained from the World Bank's *World Development Indicators* database.

The hypothesis 3 addresses the effect of nationalism. However, direct measure of nationalism is not available. Therefore, a measure of the national pride was used because national pride is associated with feelings of nationalism (Shulman, 2003; Mayda & Rodrik, 2005; Ahlerup & Hansson, 2008). Theoretically, national pride is considered to be a prerequisite of nationalism (Smith & Jarkko, 1998).

The data for national pride are obtained from the World Values Survey (WVS) [7]. This survey includes public opinion on a broad range of issues and was collected in a number of waves during 1995-2005. To measure national pride, the survey asked "How proud are you to be [American, Italian, Russian, etc.]"? The responses vary from (4) very proud to (1) not at all proud[8]. To get an aggregate measure, the answers were averaged for all respondents from each country (Shulman, 2003).

National pride data were available for 71 countries for which dependent variable data were also available. The stability of the measure over time had to be examined because the year of collection varied based on the wave when the data was collected for a particular country. For countries that have been included in the survey over multiple waves, the correlation was calculated for nationalism and amounted to 0.93. High

[6]Formerly called Gross National Product (GNP).
[7]The World Values Survey is a source of empirical data on people's values and beliefs. The survey covers the majority of the world's population and measures the values and belief related to religion, politics, economic and social life. More information about the survey and the data collection process are available from http://www.worldvaluessurvey.org/.
[8]The data were reverse coded. Higher rating indicates higher levels of nationalism as in Ahlerup and Haansson (2008).

correlation suggests that national pride is a stable phenomenon. Thus, the use of data collected in different years is not expected to alter results.

Control Variables

Previous studies revealed other factors that can potentially influence the decision to adopt IFRS (Ball et. al., 2000; Ball et. al., 2003; Hope et. al., 2006). These factors are included in the model as control variables. One such variable is the origin of the legal system. Although the WGI governance indices include the rule of law as a component, they do not account for the differences in the *origin* of the legal system. Differences in financial reporting quality were found between common-law and civil-law countries (Ball et. al., 2000) [9]. The University of Ottawa provides a country classification according to whether the origins are in common or civil law and also provides more detailed subcategories within each. For this study the following categories are used to control for origin of legal system:

ComLaw: Countries with legal system rooted in English common law.

CivLaw: Countries with legal system rooted in Roman civil law.

LawOther: All other blends.

The three legal origin categories are coded for regression by two dummy variables where common law is the base category.

Hope et. al. (2006) found that jurisdictions that provide better access to their domestic capital markets are more likely to adopt IFRS. The ease of access is included in

[9] Pure common law systems are based on English common law and are associated with less market regulation and better protection for investors, creditors, and property rights (La Porta et. al., 1998; 1999). For example, England, Canada, Australia, and New Zealand, tend to be more market-oriented and emphasize timely financial reporting and more disclosure (Jaggi & Low, 2000). Civil law countries tend to have larger government and less emphasis on public financial disclosure (Ball et. al., 2000).

the model as control variable. The measure of access is an index of the extent to which business executives rate the ease of investing in stocks and bonds for foreign investors. Ratings range from 1=are prohibited from investing in stocks and bonds in your country to 7=are free to invest in stocks and bonds.

The ease of access data were obtained from the 2001-2002 Global Competitiveness Report for 54 countries for which other data are available. In order not to lose observations, the *not rated* category was added for countries that are lacking access data. The median split was used as a differentiation point between low and high access countries in order to conserve degrees of freedom. The access data were converted into categories, where 0 = not rated, 1 = low access, and 2 = high access. In order to evaluate whether non-rated observations influence the results, analysis is performed with and without the non-rated category data.

Table 1 defines all the variables included in the study and lists the sources from which the data were obtained. I began with dependent measures for 126 countries. However, most analyses are limited to 71 countries for which all other variables of interest are also available.

Regression Model

The data are analyzed using the following model:

$$\textit{IFRS2003} = \alpha + \beta_1 \textit{Governance} + \beta_2 \textit{Economic Development} + \beta_3 \textit{Nationalism} + \beta_4 \textit{Legal Origin} + \beta_5 \textit{Access} + \varepsilon$$

In order to predict categorical dependent variables with more than two classes, multinomial logistic regression is used. The application of multinomial logistic (MNL) specification allows an estimation of the probability of a nation selecting a certain level of IFRS adoption given the values of test variables.

There are potential interaction effects between governance, economic development, and nationalism. Any moderating relationships found will be interpreted within institutional framework. In addition to the aggregate governance measure, the post hoc analysis includes examining individual governance dimensions to determine if a specific governance dimension is a better predictor of the level of IFRS adoption than an aggregate measure.

Data Analysis

Descriptive Statistics and Univariate Analysis

Test Variables

Table 2 displays descriptive statistics for the data grouped based by level of adoption. Preliminary examination of the summary information suggests some differences between the groups that are consistent with the hypotheses (See Table 2, Panel A). As expected, countries that *required* IFRS had the lowest governance quality with the mean value of -0.847. Substantively higher governance values were observed for countries that merely *permitted* ($\bar{x}$ = 3.488) or *did not permit* ($\bar{x}$ = 2.359) IFRS. Univariate tests revealed that the quality of governance differs for countries at various levels of IFRS adoption ($\chi 2$ = 6.712, $p < 0.05$).

Economic development followed similar pattern as described above ($\chi 2$ = 10.456, $p < 0.01$). Countries that *required* IFRS, on average, had the lowest economic development (*GNI02*) with a mean of 2,916. Higher economic development values were observed for countries that *permitted* but did not require ($\bar{x}$ = 11,824) or *did not permit* ($\bar{x}$ = 10,165) IFRS.

According to the nationalism measure, on average people are proud of their countries. The highest nationalism was observed in Ghana, Venezuela, Trinidad and Tobago and Mali with the scores ranging between 3.92 and 3.88 (4 = very proud and 3 = quite proud). On the other end of the spectrum, Hong Kong, Taiwan, Japan, and Latvia demonstrated the lowest nationalism with 2.62 to 2.78. The level of nationalism was, on average, the highest for the *not permitted* group with a mean of 3.516, followed by countries that *require* and *permit* with the means of 3.403 and 3.194. The results indicate that groups differ significantly from those that would be expected by chance at the 0.011 level. Preliminary findings for nationalism variable were not entirely as expected. The significant result is driven by the lower nationalism of the countries that *permitted* IFRS. Although countries with the highest average levels of national pride were those that *do not permit* IFRS, unexpectedly, countries that *require* also had similarly high levels of nationalism.

Control Variables

The majority of the countries with legal origin rooted in common law did *not permit* IFRS. These countries are associated with better investor protection (La Porta et. al., 1998; 1999), thus have a less pressing need for IFRS to legitimize their financial reporting. Civil law countries were more likely to *require* or *not permit* IFRS. Proportionally, civil law countries were more likely to *require* IFRS as compared to their common law counterparts.

Based on the available data, variation in access was observed for adopters of IFRS. Specifically, countries with high access were more likely to *permit* the use of the standards. Counties with low-rated access had a higher tendency to *require* IFRS than their high-access counterparts (See Table 2, Panel B). Hope et. al. (2006) found that low-access countries were more likely to adopt IFRS. That study did not differentiate between countries that *permit* or *require* IFRS.

Correlation Coefficients

As a final univariate analysis, the bivariate correlations between pairs of the test and control variables were examined (Table 3). There is a large and statistically significant correlation between the level of governance and economic development (Spearman 0.854), such that higher economic development is associated with better governance. To avoid biased regression results, the economic development variable is omitted from the subsequent multivariate analyses. Correlations between other variables do not provide an indication of unacceptable level of multicollinearity that can bias results[10].

Multivariate Results

The multinomial logistic regression was utilized to identify the likelihood of various levels of IFRS adoption (Hausman & McFadden, 1984). The parameters were estimated using the maximum likelihood technique. The applicability of the institutional factors of interest to explain the level of IFRS adoption is based on analysis of the test statistics generated from the model. To determine the significance of the overall model, a

[10]According to Farrar and Glauber (1967), multicollinearity can reach harmful levels when bivariate correlations are above 0.80 (p. 98).

log likelihood χ^2 statistic was used. Wald χ^2 statistics were utilized in assessing the statistical significance for each explanatory variable.

The results of the multinomial logistic regression are presented in Table 4, Panel A. The fit of the model was statistically significant with $\chi 2 = 27.066$, $p < 0.01$ (two-tailed). The level of IFRS adoption was significantly related to the quality of governance and nationalism ($p < 0.05$, one-tailed).

Further, the quality of governance and the level of IFRS adoption were analyzed. Countries with better governance structures were expected to have a lower level of commitment to IFRS. On the other hand, countries with weaker governance were expected to be more likely to *require* IFRS. Hence, estimated MNL coefficients reflect the effect of independent variables on the likelihood of the specific levels of IFRS adoption (IFRS *permitted* or *not permitted*) relative to the group that *requires* IFRS. IFRS *required* was used as a reference category.

As revealed in Table 4, Panel B, results are consistent with expectations. Relative to the countries which *required* IRFS, the governance measure possessed the expected positive sign, indicating that countries that *permit* or do *not permit* IFRS are more likely to have better governance infrastructure. The measure was significant at 0.017 level only for the *not permitted* group, indicating a greater likelihood of better governance in countries that do not *permit* IFRS as compared to countries that *require* IFRS.

As to nationalism, I predicted that more nationalistic countries would be more likely *not to permit* IFRS than their less nationalistic counterparts. The results are generally consistent with this hypothesis. To aid in the interpretation of the nationalism coefficients, the regression was rerun with *not permitted* as a reference category (Table 4, Panel C). The regression results indicate that the nationalism measure had the expected negative sign indicating that countries with lower levels of nationalism are more likely to *permit* or *require* IFRS as compared to countries with higher levels of nationalism. However, the nationalism effect was significant only in the analysis comparing countries that *permit* IFRS and the ones that *do not permit* ($p < 0.01$).

By examining the characteristics of adopters and non-adopters of IFRS, Hope et. al. (2006) found that jurisdictions with perceived better access to their capital markets were more likely to adopt IFRS. In this study the level of adoption is differentiated as *permit* or *require*. The examination with a more exact level of adoption reveals that low-access countries are more likely to *require* IFRS than countries with high access which are more likely to *permit* the use of IFRS ($p < 0.05$). The finding is consistent with the theoretical argument that IFRS offers a way to legitimize local financial reporting in order to improve the flow of foreign investments.

In prior studies, the country's legal origin was found to impact the quality of financial reporting (Ball et. al., 2000). In this study, the legal origin was included in the model as a control variable. Based on the results, legal origin of the country was not significantly related to the level of IFRS adoption.

Robustness Tests and Post Hoc Analysis

Several robustness tests were conducted. Economic development was substituted for governance quality as an indicator of relative need for legitimacy, and the full regression was re-estimated. Results were similar to those presented in Table 4. The model was also estimated without the not-rated category for the level of access to the domestic markets by foreign investors. The findings and regression results were consistent with those presented in Table 4.

The study uses a cumulative governance measure which is the sum of six dimensions (Kaufmann et. al., 2007). It is not the primary purpose of this paper to develop a predictive model of IFRS adoption, but rather to understand relationships in the context of theory. Nonetheless, in order to evaluate whether individual dimensions of governance are better predictors than a cumulative measure, the regression was re-estimated with each dimension as a test variable representing a specific aspect of governance. The predictability of the model improved when the dimension “control of corruption” was used as a measure of country’s governance quality. The finding was that nations that are *not* effective in curbing corruption are more likely to *require* IFRS. Results are consistent with observations made from the regression results in Table 4, Panel A when cumulative governance measure was used.

Nationalism is a force that can counteract an external push to adopt foreign standards. Thus, the interaction effect between governance and nationalism was examined with results reported in Table 5. Overall, both governance and the interaction of governance and nationalism were significant at 0.015 and 0.019 levels, respectively (Table 5, Panel A). The comparison of countries within each level of IFRS adoption indicates that countries with higher governance were more likely to *permit* or *not permit* IFRS when compared to countries which *require* the standards. The interaction between governance and nationalism was significant ($p < 0.05$) for counties that *permit* IFRS when compared to the *required* group (Table 5, Panel B). In high quality governance countries nationalism is significant ($p < 0.05$) and behaves as expected (Table 5, Panel

C). That is, highly nationalistic countries with otherwise strong environments are less likely to permit. Less nationalistic countries in strong environments are more likely to permit IFRS. Nationalism is trumped by the need for legitimacy in environments with weak governance.

Discussion, Limitations and Conclusions

The purpose of this study was to examine the relationship between institutional factors and the *level* of IFRS adoption at the national unit of analysis. Consistent with actual practice, IFRS adoption is conceptualized as a multi-level undertaking rather than a yes-no choice. The results are generally consistent with expectations derived from world-level institutional theory. This theory argues that countries attempt to appear legitimate; and I argue that countries may utilize IFRS adoption as a tool to gain the needed legitimacy. Theory suggested that countries with weaker national economies or with weaker national governance structures were more in need of international legitimacy. As expected, I found that less-developed economies and countries with weaker governance were more likely to *require* IFRS as compared to countries with more developed economies or stronger governance structures.

The level of nationalism also influenced the adoption decision. Nationalism is known as a cultural factor which may contribute to protectionism and diminished acceptance of other structures and cultures (Mayda & Rodrik, 2005). More nationalistic countries were expected to resist the adoption of IFRS and prefer reporting using their national GAAP. Preliminary analysis suggested that the relation of nationalism to IFRS adoption, if any, may be non-linear. Highest levels of nationalism were observed at the two extremes of IFRS adoption. That is, the highest levels of nationalism were observed in countries that *do not permit* IFRS. The second highest level of nationalism was found in countries that *require* the standards. It was not expected for countries that *required* IFRS to have high nationalism. On average, these countries also have the lowest governance rating. It appears anti-isomorphic force of nationalism was subdued by the need to legitimize the quality of financial reporting.

In this sample of early adopters, IFRS was adopted at the *required level* by countries with weaker governance. Post hoc analysis of one specific dimensions of governance revealed a positive relationship between the level of adoption and degree of corruption. It is not immediately clear how IFRS can be effective in countries that lack the institutional infrastructure to ensure enforcement (Leuz & Wysocki, 2008). This calls to mind previous allegations that some developing countries superficially adopt IFRS as a "quick fix" to give the impression of having addressed the underdeveloped national accounting standards (Belkaoui, 2004).

Establishing and maintaining a reputable financial disclosure regime is expensive and involved. There is a concern that the adoption of IFRS has more to do with "window-dressing" than with a desire to improve *actual* financial reporting (Ball, 2006). In institutional literature, the ceremonial adoptions of innovations by organizations have been described as decoupling (Meyer & Rowan, 1977). Decoupling leads to misalignment between actual practices and formal structures (Carruthers, 1995). At the world-level, "decoupling is endemic because nation-states are modeled on an external culture that cannot simply be imported wholesale as a fully functioning system" (Meyer et. al., 1997, p. 154). In the case of this study, adopting countries might find it easier to adopt the latest structural forms, in this case IFRS, than to make actual changes to the enforcement and monitoring mechanisms (Meyer et. al., 1997).

A similar concern has been raised with regard to the importation of legal codes by developing economies. Although countries could quickly conduct an overhaul of their defunct legal systems, the overhaul was superficial and ineffective to the absence of strong enforcement mechanisms. The laws function less effectively as they are not adapted to local conditions and internalized by the population (Berkowitz et. al., 2003). For example, many former Soviet republics adopted laws to protect shareholders and creditors but the lack of enforcement institutions has made the judiciary system ineffective and not trustworthy (Berkowitz et. al., 2003).

In order to understand the growing diffusion of transnational regulation, more work is needed on how the interaction of different institutional factors impacts the level of standard adoption. In this study, the results for those countries that require IFRS suggest that demands for transparency trumped nationalism in countries with low governance rating. The results not only inform why countries adopt at a particular level but also provide an insight into the potential countervailing forces.

A primary limitation of the study is the inability to determine the genuineness of intent with regard to national adoption of IFRS. As just discussed, the outcome of adoption depends substantially on whether the adoption was genuine or superficial. The study was not designed to determine that. Additionally, only a small number of potential proxies for the conceptual variables of interest are used; other proxies might have produced different results.

The foregoing limitations aside, the study provides theoretically framed evidence about factors that influence the level of IFRS adoption at the national level. These findings are informative for standard setters. The findings are also informative to academics interested in the role of institutional factors in the diffusion of accounting practices, as well as the identification of factors that serve to counteract such diffusion. Future research is needed to assess the extent to which formal adoption of IFRS will result in the convergence of *actual* financial reporting practices.

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STUDY TWO: INSTITUTIONALIZATION OF IFRS IN THE U.S. – A QUALITATIVE ANALYSIS

Introduction

In 2007 the Securities and Exchange Commission (SEC) made an historic ruling related to the acceptability of accounting standards other than U.S. GAAP. That ruling was a deciding moment in the journey toward U.S. acceptance of International Financial Reporting Standards (IFRS) as a set of quality financial reporting standards. The ruling allowed foreign issuers trading on U.S. markets to file IFRS[11] financial statements without reconciling the information to U.S. GAAP.

Previously the SEC's main role has been that of a strong proponent of established U.S. accounting rules (Bealing, 1994; Bealing et. al., 1996; Licata et. al, 1997). In the decision to accept IFRS statements from foreign issuers without GAAP reconciliation, the SEC has changed the practice of adhering to a sole accounting standard in the U.S. Additionally, the SEC is ceding some of its sole control over the site of U.S. accounting regulation.

This move toward acceptance of IFRS by the primary U.S. regulator is of academic interest because it represents a relatively rare opportunity to study the theoretical concept of deinstitutionalization. In the context of institutional theory, deinstitutionalization refers to the process by which previously widespread social or organizational practices weaken or disappear. At the same time, the demise of existing practices is probably accompanied by the arrival and institutionalization of new beliefs

[11] The standards issued by the former International Accounting Standards Committee are labeled "IAS" while more recent pronouncements are called "IFRS". I use "IFRS" throughout the paper to refer to the entire set of standards.

and practices (Scott, 2001). Conceptually, the SEC's ruling simultaneously captures the process of deinstitutionalizing U.S. GAAP and institutionalizing IFRS.

Prior studies have examined accounting regulation as formerly accomplished by national-level professional associations, national-level regulatory agencies, and standard setting bodies (see a review by Cooper & Robson, 2006). However, as accounting standard-setting is becoming a global undertaking, there is a necessity to examine the standard-setting in the transnational context. There is a growing influence by transnational players such as multinational corporations, multinational accounting firms, non-governmental organizations (NGOs) and international governmental organizations (IGOs) (Suddaby et. al., 2007). Recent research has called for increased attention to these transnational players and the strategies they use (e.g., Cooper & Robson, 2006; Djelic & Sahlin-Andersson, 2006; Suddaby et. al., 2007).

The purpose of this study is to investigate the positions taken and strategies used by domestic, foreign, and transnational players who are involved in regulatory accounting change. Toward that end, this paper provides a qualitative examination of the comment letters received by the SEC on the 2007 proposal to allow IFRS statements from foreign issuers without U.S. GAAP reconciliation. The acceptance of that proposal has moved U.S. closer to recognizing IFRS as a set of accounting standards that is acceptable for U.S. investors. Particular attention is paid to the rhetorical arguments that participants use in order to legitimize their position.

The study utilizes institutional theory as a conceptual framework. The analysis is informed by a number of models that are used to explain institutional change. Specifically, theoretical insights from the *model of institutional change* (Greenwood et.

al., 2002), the *role of rhetoric* in legitimating institutional change (Suddaby & Greenwood, 2005), and the *agents of change model* (Djelic & Quack, 2003b) are applied. Investigation focuses on the theorization stage of the change process in order to investigate how problems with the existing structures are rhetorically framed and alternatives are justified (Greenwood et. al., 2002).

The proponents and opponents of institutional change are theorized to use different arguments to influence the established logic. Institutional theory recognizes the importance of such rhetoric and “links the skillful use of rhetoric to facilitating processes of change” (Suddaby & Greenwood, 2005, p. 40). In this study, the examination of the rhetorical strategies allows me to establish how various constituencies project their positions to others and why new ideas get adopted. The *agents of change model* (Djelic & Quack, 2003b) provides a theoretical basis for understanding the positions taken by, and the impact of, different actors.

The analysis of the data is based on the “middle-range” thinking approach as discussed by Laughlin (1995). Recognizing the importance of contextual influences, a “skeletal” theoretical framework is presented and made meaningful by the empirical details associated with the episode under study. Preliminary coding schema were developed based on theory. Data were read and content analyzed. Coding schema were informed by the analysis and re-categorized. Thus, empirical details complement, inform, and complete the "skeletal" theory. The approach offers flexibility in the discovery process and links theory and practice (Laughlin, 1995).

This investigation is important for several reasons. First, the study presents a synthesis of different theoretical perspectives to investigate institutional change in accounting regulation. The study deepens the understanding of how institutional change is theorized by evaluating the level of participation by specific groups based on their dominance in the area. Their position on the change is connected to the rhetoric used to establish pragmatic and moral legitimacy of the new practices.

Second, empirical studies of deinstitutionalization are relatively rare (exceptions include Davis et. al., 1994; Ahmadjian & Robinson, 2001; Maguire & Hardy, 2009). Institutional studies often focus on the dissemination process for new practices and on their persistence (DiMaggio & Powell, 1983). However, “new practices cannot be adopted unless the old ones are left behind” (Ahmadjian & Robinson, 2001, p. 622). Maguire & Hardy (2009) invited scholars to further explore the deinstitutionalization process. This study responds to that invitation.

Finally, globalization is having an unprecedented impact on national institutions, such as national standard-setters, by exerting forces from the outside on national contexts. Prior studies have not always differentiated between the positions taken and strategies used by domestic and foreign participants (Kenny & Larson, 1993). Additionally, little is known about the work done by the transnational players to disrupt institutions (Lawrence & Suddaby, 2006, p. 238). In this study, domestic, foreign, and transnational players are examined separately to understand how various actors operationalize their interests and the role they play in the changing regulatory environment (Cooper & Robson, 2006).

The remainder of this paper is organized as follows: the second and third sections present the background and the theoretical development, respectively. The fourth section presents the research method, while the fifth section provides the results. Discussions and conclusions follow.

Background

Accounting Standards and Regulation

In the highly globalized environment, domestic regulation of non-harmonized accounting standards has long been viewed as a barrier to trade and investment (Arnold, 2005). In response to those concerns, the International Accounting Standards Committee (IASC) was founded in June 1973. The IASC successor entity, the International Accounting Standards Board (IASB)[12] continues to advance IFRS as a unified global set of standards. The goal of these standards was to improve comparability and transparency of financial information (Daske et. al, 2008).

The growing adoption of IFRS has had a dramatic impact on standard-setting regulatory structures. Accounting regulation has become transnational in nature with states becoming only one part of the regulatory scene (Djelic & Sahlin-Andersson, 2006). Some of the major organizations involved in 'global' accounting regulation include the Securities and Exchange Commission (SEC), the International Accounting Standards Board (IASB), the UK Accounting Standards Board (ASB), the Financial Accounting Standards Board (FASB), the International Organization of Securities Commissions (IOSCO), and the European Union (EU). Multinational corporations, trade groups, and non-governmental organizations have also become increasingly involved in the regulatory process (Picciotto, 1989; Suddaby et. al., 2007).

[12] IASB replaced IASC in 2001. International Accounting Standards Committee Foundation (IASCF) is the legal parent of IASB (Ball, 2006).

Theoretical Perspectives on Accounting Regulation

Accounting is responsible for streamlining information for the world-wide capital markets and plays an important role in the modern society. Researchers are interested in how accounting practices are regulated. Generally, two major approaches have been used in the study of accounting regulation (see overview by Cooper & Robson, 2006). The first of these approaches is rooted in applied economics. This literature applies public choice theory to accounting public policy. These studies focus on the political lobbying of the interested parties which lobby standard setters to maximize their utility (e.g. Watts & Zimmerman, 1978; Hope & Gray, 1982; Sutton, 1984; Georgiou, 2004). This approach has been criticized as being "too restricted in its conceptions of politics, too oriented to an individualistic conception of society and politics, too neglectful of the power of large organizations and groups" (Cooper & Robson, 2006, p. 424).

A second perspective on accounting regulation focuses on the broader social context surrounding regulatory bodies. Standard-setting is recognized as a political (e.g. Tandy & Wilburn, 1992; Fogarty et. al., 1994; Hogler et. al., 1996) and 'complex process' (Lowe et. al., 1983). Authors in this stream argue the need to further incorporate broader social, economic and historic influences into the study of standard-setting, especially with increasingly transnational nature of the process.

The growing influence of transnational actors has altered the role of the national regulatory agencies in the accounting standard-setting process. In turn, changes in the actual participants have led to different research approaches. The literature on transnational regulation primarily examines the way in which transnational institutions influence the institutions of nation states (Hegarty, 1997; Strange, 1996). Particular attention is paid to changes in the way power is conceived and exercised as the sites of regulation change from local to global.

Sites of Regulation

Theorists argue that the sites of regulatory processes matter (Lucio & MacKenzie, 2004). The agencies where regulation occurs affect the outcome and legitimacy of the practices that are introduced (Cooper & Robson, 2006). In general, society has observed a shift in the location of regulatory processes from national regulatory bodies to transnational institutions (Cooper & Robson, 2006; Djelic & Sahlin-Andersson, 2006).

Accounting regulation has followed a similar pattern to that observed in society. Until recently, U.S. regulators did not seriously consider an alternative to U.S. GAAP. Instead regulators stressed the importance of high quality accounting standards for the stability of the financial markets. In that regard they maintained that only U.S. GAAP provides transparent financial reporting to ensure necessary investor protections (Levitt, 1998).

Due to the perception that IFRS lacked sufficient quality, IASB was not recognized as a legitimate site of accounting regulation for U.S investors. The SEC's position was that IFRS needed to be comprehensive, high quality, and rigorously interpreted and applied (Sutton, 1997). Also, because IFRS are less detailed than U.S. GAAP, the SEC questioned if the core standards can be operational considering the interpretive and cross-border enforcement issues (Sutton, 1997). The lack of the enforcement power on the part of IASB also contributed to the SEC's concern (Meek & Thomas, 2004). Just a decade ago, due to the perceived lack of quality attributed to

IFRS, “harmonization of worldwide standards was considered a worthwhile, yet likely unachievable, goal” (Gupta et. al., 2007. p. 29).

In recent years, IFRS has been gaining credibility as an acceptable global accounting standard (SEC, 2007b; SEC, 2008). The harmonization of the world’s financial standards has become an accepted goal as many countries are adopting and implementing IFRS or IFRS-based standards. In 2005, IFRS was adopted by the listed companies throughout the European Union. By the end of 2007, over 100 countries required or permitted the use of IFRS for financial reporting (Cox, 2008).

U.S. Path toward Change

With the global shift in the dominant logic toward IFRS, the U.S. regulators have been cautiously making changes. The SEC’s final ruling for 2007 was to begin accepting IFRS statements from foreign private issuers without requiring reconciliation to U.S. GAAP[13] (SEC, 2007b). This decision legitimized IASB, a transnational standard-setter, as an acceptable site of accounting regulation for U.S.-traded companies.

The SEC’s 2007 decision was not universally supported. For example, the Financial Accounting and Reporting Section of the American Accounting Association, argued that the elimination of the reconciliation requirement was premature. The grounds for opposition were based on convergence and compliance issues (Hopkins et. al., 2008). Such arguments do not appear to slow down the U.S. regulators. The SEC has continued on the path toward IFRS reporting by announcing a roadmap for U.S. issuers to potentially adopt IFRS by 2014 (SEC, 2008).

[13] The foreign registrants trading on the US markets were permitted to file under standards other than U.S. GAAP but were required to provide a reconciliation called Form 20-F which was designed to assure that foreign companies coming to U.S. markets “provide disclosures that are useful to US investors and protect investor’s interests” (Meek & Thomas, 2004; Sutton, 1997, p. 1).

Dissenting views aside, the SEC actions demonstrate a dramatic reversal in the attitude toward IFRS. Merely ten years earlier, the SEC's Chairman Levitt expressed doubts if IFRS could reach the quality of U.S. GAAP (Levitt, 1998). In 2008, Chairman of SEC Cox described a near future where IFRS is a set of truly global, high-quality accounting standards (Cox, 2008).

In this study, the change toward potential adoption of IFRS by the U.S. is investigated from an institutional perspective[14]. Specifically, theoretical insights from the *model of institutional change* (Greenwood et. al., 2002), the *role of rhetoric* in legitimating institutional change (Suddaby & Greenwood, 2005), and the *agents of change model* (Djelic & Quack, 2003b) are applied. A detailed description of these models is presented in the following section.

Theoretical Framework

Institutional Theory

The study is rooted in institutional theory. Three concepts that are the building blocks of the theory are introduced first. These are institutions, institutional pillars, and institutional isomorphism.

Institutions are social forms and practices that achieved widespread acceptance and have demonstrated resilience (Scott, 1987; Oliver, 1991). Money, a common language, and a unified legal system are all examples of institutions which influence

[14] Institutional perspective has been used to examine environmental factors that influence various aspects of accounting and regulation, including: accounting profession (Fogarty, 1992; Carpenter & Dirsmith, 1993; Dirsmith et al., 1997; Fogarty et. al., 1997; Hunt & Hogler, 1993; Suddaby et. al., 2007), accounting regulation (Hines et. al., 2001; Botzem & Quack, 2006), the Securities and Exchange Commission (Bealing, 1994; Bealing et al., 1996), and the General Accounting Office (Gupta et. al., 1994; Basu et. al., 1999; Dirsmith et. al., 2000).

behavior routinely by providing individuals and organizations with scripts for acceptable action in a given context (DiMaggio & Powell, 1991). According to institutional theorists, established and accepted practices are also institutions that create a commonly understood social framework for behavior (Barley & Tolbert, 1997). When a practice reaches the level of widespread near universal acceptance it is said to be institutionalized.

In institutional theory, the term “pillar” is used to describe the support base of different institutional practices. The pillars encourage conformity by “repetitively activated, socially constructed controls” that make deviations from institutionalized practices costly (Jepperson, 1991, p. 145). The research literature typically identifies three classes of pillars. These are regulative pillars, normative pillars, and cultural-cognitive pillars (Scott, 1987; Oliver, 1991).

The regulative pillar of institutions involves “the capacity to establish rules, inspect others’ conformity to them, and, as necessary, manipulate sanctions-rewards or punishments in an attempt to influence future behavior” (Scott, 2001, p. 52). For example, compliance with legal rules is reinforced by potential penalties which are associated with noncompliance (Maguire & Hardy, 2009). In essence, regulatory pillars have the ability to coercively institutionalize certain practices.

The normative pillar of institutions is represented by shared values and norms. Norms and values impact behavior through persuasion and consensus rather than legal force. These mechanisms are viewed as imposing constraints on social behavior but also enabling social action (Scott, 2001). Organizational accreditation and professional licensing are examples of normative mechanisms. “They confer rights as well as responsibilities, privileges as well as duties, licenses as well as mandates" (Scott, 2001, p. 55).

The cultural-cognitive pillar is based on shared beliefs. For example, stereotypes about appropriate gender roles are cultural-cognitive pillars that support certain socially-acceptable behaviors. Cultural pillars are important because common beliefs and conceptions may have more influence on organizations than the obligations associated with regulative or normative pillar (Selznick, 1996; Scott, 2001). However, Scott (2001) noted that all pillars can be mutually reinforcing.

A third key element of institutional thought is the concept of isomorphism. DiMaggio and Powell (1983) empirically observed that structural similarities of modern organizations are the consequence of organizational responses to similar institutional imperatives. The term 'isomorphism' is used to capture the process that leads to these structural similarities and forces organizations to resemble each other under similar environmental conditions (DiMaggio & Powell, 1983). The reason organizations choose similar forms, practices, and policies is to increase their legitimacy. This in turn gives the perception that the actions of an entity are desirable, proper, or appropriate (Suchman, 1995) and improves its ability to survive in its environment.

Deinstitutionalization and the Change Process

Institutionalism by its nature reflects a move toward isomorphism and stability. Yet empirically, institutions can and do change over time (Dacin et. al., 2002). The process by which existing institutions weaken and disappear over time is called deinstitutionalization (Scott, 2001). In theory, the deinstitutionalization of practices is more likely to occur when supporting pillars become misaligned (Caronna, 2004) or collapse (Ahmadjian & Robbins, 2001). In that case, the previously legitimized practices may lose their original meaning due to the changes in the environment; this creates space for the new ones (Ahmadjian & Robinson, 2001; Maguire & Hardy, 2009).

Prior empirical studies have demonstrated how the changes in environment affect deinstitutionalization of previously institutionalized practices (Davis et. al., 1994; Ahmadjian & Robinson, 2001). The weakening of one practice is expected to coincide with the onset of new practices. Thus, Scott (2001) recommended placing the studies of deinstitutionalization in the broader context of institutional change.

Greenwood et. al. (2002) offers such a model of institutional change. The model was developed based on an integration of earlier theoretical and empirical literature (e.g., Berger & Luckmann, 1967; Zucker, 1977; Tolbert & Zucker, 1996). It encompasses six stages. The process starts with the first stage where social, technological, or regulatory jolts can destabilize established practices. In stage II, deinstitutionalization occurs when consensus about the old practice is disturbed by the introduction of new ideas and players (Greenwood et. al., 2002). In the following stage of preinstitutionalization (stage III), organizations are argued to innovate independently in order to resolve the problems. In stage IV, the crucial theorization stage, new practices are explained and rationalized as a justifiable solution (Greenwood et. al., 2002, p. 60). If the new practices are compellingly presented, theorization is successful and is followed by diffusion and reinstitutionalization (stages V and VI). The diffusion and reinstitutionalization stage deal with the movement of new ideas within organizational communities and growing cognitive legitimacy of the practice.

In order to become a viable alternative, the new practice has to obtain legitimacy (Greenwood et. al., 2002). Suchman (1995) defined legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, and definitions” (Suchman, 1995, p. 574). Legitimacy is considered to be a critical element for the survival of the new practice (Suddaby & Greenwood, 2005). According to Greenwood et. al. (2002) pragmatic and/or moral legitimacy is especially important. Pragmatic legitimacy is based on the portrayal of the practice as beneficial for the specific constituency (Suchman, 1995; Tolbert & Zucker, 1996; Greenwood et. al., 2002). Moral legitimacy is established by fitting the new practice within the established normative prescriptions, as a “right thing to do” (Suchman, 1995; Greenwood et. al., 2002).

Empirically, Greenwood et. al. (2002) showed how the accounting profession framed the inability to provide non-accounting services as a weakness. The alternative structure of expanded services was justified by invoking professional values and the ability of the profession to better serve client needs. The moral legitimacy for providing clients with additional services was established by justifying the practice within the established professional values of service, objectivity, and expertise (Greenwood et. al., 2002). The success of theorizing change depends on how well communities project their perspectives on others (Suddaby & Greenwood, 2005).

Rhetorical Strategies in Institutional Change

Different players use various strategies to legitimize institutional changes. The two tasks Greenwood et. al. (2002) associate with the theorization stage are *problem framing* and *justification* of the alternative. The problem framing demonstrates the weaknesses of the current practice and the need for change. The compelling presentation of the ideas in support of the new practice occurs as a part of the justification task.

Institutional theory suggests that rhetoric plays an important role in supporting the shifts in institutional logic (Suddaby & Greenwood, 2005). Rhetoric is the art of persuasion (Burke, 1969; Suddaby & Greenwood, 2005). The skillful and strategic use of language is used to convey weaknesses of the old practice and the legitimacy of new practices.

Rhetorical analysis typically focuses on the persuasive texts produced by interested parties in response to a specific social change (Suddaby & Greenwood, 2005). The analysis seeks to uncover recurring themes, genres, and shared assumptions that are embedded in these texts (Freedman & Medway, 1994).

A number of prior studies in accounting have used rhetorical analysis. Covaleski et. al. (2003) used rhetorical analysis to examine the encroachment of external audit firms on the jurisdictional domain of internal auditing. Suddaby and Greenwood (2005) analyzed rhetorical strategies in the jurisdictional dispute between accounting and law. The rhetorical expressions in the ongoing construction of professional ideology of the accounting profession were analyzed by Baker (2005). The attempted repositioning of the accounting identity and practice through the AICPA Vision Project was examined by Fogarty et. al. (2006). Dwyer and Alon (2008) analyzed the rhetoric of professional ideology in a study of the AICPA's State Cascade Project. In sum, prior research has addressed the role of rhetoric in the success of a variety of institutionalization projects[15].

[15] Some additional studies that utilize rhetorical analysis include Nahapiet, 1988; Ahrens, 1996; Oakes et. al., 1998; Young, 2003; Berland & Chiapello, 2009.

Power and Agents of Institutional Change

Scholars acknowledge that the institutionalization of practices is a political process which reflects the "relative power of organized interests and the actors who mobilize around them" (Dillard et. al., 2004, p. 510). Successful theorization occurs when new arrangements are widely supported and promoted as superior (Djelic & Quack, 2003a). While power is socially diffused, Cooper and Robson (2006) found that interest groups frequently are connected by a similar outlook, and changes occur when the interests of powerful groups align (Olson, 1965).

Institutional change can be enabled by either dominant or fringe players[16] (Djelic & Quack, 2003b). The players are considered dominant if they hold a "central position in terms of power and social status" (Djelic & Quack, 2003b, p. 24). Outsiders (fringe players) are those that lack dominant positions, centrality (Maguire & Hardy, 2009), communication networks (Lounsbury, 2001), and legitimacy (Phillips et. al., 2004).

In the increasingly globalized environment, dominant and fringe categories may not be sufficient to classify the actors involved. Prior studies have not fully considered the influences and participation of the foreign and transnational players. This dimension adds another factor to theorize when considering institutional change. Djelic & Quack (2003b) offer a model (D&Q) that examines agents of institutional change based on more precisely defined categories. The framework organizes players as foreign, domestic, transnational as well as dominant and fringe. The model predicts how, based on the categorization, different groups participate and influence institutional change.

[16] Prior literature does not use a consistent terminology to classify players. The actors involved in the process have been classified as dominant vs fringe (Djelic & Quack, 2003b), core vs peripheral (Davis et. al., 1994), insider vs. outsider (Maguire & Hardy, 2009). The players that are known as dominant, core or insider are thought to be in the dominant elite position. In this study, consistent with Djelic and Quack (2003b), dominant vs. fringe classification is used throughout.

The dominant local players are described as being invested in the local structures and, during the periods of stability, tend to resist change (Djelic & Quack, 2003b). In the periods associated with critical challenges, however, domestic dominant players turn into advocates for the institutional change (Djelic & Quack, 2003b). The model views dominant foreign actors as having resources and power to "push along their own rules of the game well beyond their traditional boundaries of activity. They can become 'missionaries' of institutional change" (Djelic & Quack, 2003b, p. 24). The transnational dominant actors are typically organizations that are not fully foreign or domestic. These players have become the 'engines of growth' for the world economy (Strange, 1996). According to the D&Q agents of change model, transnational dominant players have a tendency to be "unsatisfied with the preexisting institutional conditions characteristic of their country of origin" and are likely to be active promoters of institutional change (Djelic & Quack, 2003b, p. 24).

Empirical studies of institutional change during periods of instability found that the change was initiated by the dominant players. For example, in Canada, domestic accounting professional associations advocated significant expansion of services (Greenwood et. al., 2002). Lee and Pennings (2002) studied the Dutch accounting sector in the early 19th century and found that the diffusion of a new partner-associate organizational structure was dominated by successful firms.

Fringe players have relatively less power and fewer resources than other players (Djelic & Quack, 2003b). Both local and foreign fringe players are theorized to be relatively passive (Djelic & Quack, 2003b). For example, Hogler et. al. (1996) explored the direct participation of unions and employees in the accounting regulation which was expected to decrease employee benefits. They found that neither has participated in the FASB hearings on the standard[17].

Fringe players can influence the process but need to be innovative (Djelic & Quack, 2003b). Maguire and Hardy (2009) demonstrated a classic example of fringe player influence in the abandonment of the widespread use of DDT. The demise of this long established practice resulted from an “outsider-driven deinstitutionalization”. The outsider (fringe) role was played by an influential text which undermined the cognitive, normative, and regulatory pillars supporting DDT use. Leblebici et. al. (1991) study of the radio broadcasting industry is another example of such change. Most new practices of the industry were introduced by the “weaker networks” and small independent stations for whom experimentation was less costly and “who were less likely to be sanctioned by more central players” (p. 358).

Overall, these models provide a conceptual basis for studying an episode of institutional change. Greenwood et. al. (2002) offer a general model which details phases that occur. Djelic and Quack (2003b) specify who initiates and becomes involved in the change. The evaluation of rhetoric in legitimating institutional change allows for a broader understanding of the change process. Next section applies these theoretical models to the setting of accounting regulation.

[17] SFAS 106 requires US companies to accrue obligations arising from employee postretirement health care plans. The standard was expected to reduce corporate profits and lead to reduction or elimination of employee benefits programs.

The U.S. Accounting Standard-Setting

U.S. GAAP as an Institution

U.S. GAAP is a set of guidance from the FASB and its predecessors that govern the preparation of financial statements. U.S. GAAP is considered one of the most comprehensive standards of financial reporting in the world (Levitt, 1997). It is an enduring institutionalized practice and a trademark of financial transparency (Carpenter & Feroz, 2001).

The practice of U.S. GAAP is supported by regulative, normative, and cultural-cognitive pillars. The SEC represents the regulatory pillar. It has the authority to set the accounting standards for the entities that file with it (SEC, 2007a)[18]. It has a mandate to protect investors and can penalize, sue, and delist violators (SEC, 2009). The normative pillar of the U.S. GAAP is the accounting profession which has a licensing requirement and ethical expectations for individuals providing assurance on the quality of financial reporting. The profession specifies how individuals holding accounting and auditing positions are expected to behave. The cultural-cognitive pillar is partially represented by generally free capital markets constrained by the culture of investor protection and financial transparency. These beliefs reinforce the need for high quality accounting standards and an independent standard setter.

[18] The authority to produce and amend the standards has been delegated to Financial Accounting Standards Board (FASB), an independent body, whose activities are overseen by the SEC. FASB's standard-setting activities and the influence of the surrounding constituents have been extensively investigated in prior literature (see overview in Fogarty, Hussein, & Ketz, 1994).

Deinstitutionalization

The credibility of U.S. GAAP was compromised by a number of accounting scandals that became public during 2002 (Patsuris, 2002). The SEC investigated accounting irregularities at premier American companies, including Enron, Tyco, WorldCom, Kmart, and others (Patsuris, 2002). With the corporate scandals directly involving misleading accounting, the pillars supporting U.S. GAAP are theorized to have become weakened. The ability of the SEC to enforce transparent application of U.S. GAAP was questioned. Also, the offering of non-accounting services to clients by the accounting profession contributed to the perception that accounting firms were driven by the commercial values rather than the commitment to independence and public interest (Covaleski et. al, 2003; Fogarty et. al., 2006).

This crisis acted as a jolt that caused a reevaluation of U.S. GAAP. With the growing scope and the size of the scandals, it became questionable whether the rule-based GAAP is encouraging rule-gaming rather than transparent reporting (Bratton, 2004). In the past the SEC was reluctant to adopt IFRS or allow foreign issuers to use it in their reporting due to quality concerns (Levitt, 1997). Now, the principles-based IFRS was becoming a viable alternative to the rules-based U.S. GAAP.

Rhetoric and the Agents of Change

For IFRS to be recognized as acceptable for U.S. financial reporting, the standards need to gain legitimacy (Greenwood et. al., 2002). As noted by Greenwood et. al. (2002), the task of establishing legitimacy occurs as part of the theorization stage of change. In this setting, successful theorization would involve specifying a problem with the existing practice of requiring reconciliation. Then, the alternative practice (allowing

IFRS) must be justified on grounds of moral and/or pragmatic legitimacy (Suchman, 1995; Greenwood et. al., 2002).

Applying D&Q *agents of change* model (Djelic & Quack, 2003b), the crisis in accounting acted as a jolt which is expected to produce different types of action by different categories of institutional participants. Domestic dominant players are theorized to explore alternatives and encourage changes in the accounting standards. It is expected that these players will act as proponents of IFRS. The dominant foreign players have the resources and are referred to as 'missionaries' of institutional change as they tend to push their own rules.

The position of transnational players, such as multinational companies and large accounting firms, is complicated by their conflicting interests. For example, Big Four accounting firms may be motivated by their professional values, needs of their domestic and foreign clients, and their own business needs. In general, the transnational actors have a tendency to be unsatisfied with the preexisting institutional conditions. In this case, these actors are expected to promote a transition toward IFRS.

Domestic fringe players are not expected to promote this change as it undermines the dominance of U.S. GAAP. According to the model, foreign fringe players are unlikely to participate in the regulatory change. The proponents and opponents of the change are expected to utilize different rhetorical strategies in an attempt to legitimize their perspective (Suddaby & Greenwood, 2005).

Research Method

Data

This study examines the SEC's decision to allow foreign issuers to file IFRS-based statements. Data for the analysis are 117 comment letters received by the SEC regarding the proposed change (SEC, 2007a)[19]. The input from the participants is examined in order to evaluate how and by whom the acceptance of unreconciled IFRS-based statements was framed and justified. As these comment letters were produced for public record, there may be a different set of strategies used to legitimize the change to internal members of business, trade and professional organizations.

Method

The analysis of the data is based on the "middle-range" thinking approach as discussed in Laughlin (1995). The approach was utilized in a number of qualitative accounting studies (for example, Broadbent & Laughlin, 1997; Broadbent et. al., 2001). Recognizing the importance of contextual influences, a "skeletal" theoretical framework is presented and complemented by the empirical details associated with the episode under study. A preliminary coding scheme is developed based on the theoretical models. After comment letters are analyzed, the coding scheme is informed by the particulars of the episode. Thus, empirical details complement, inform, and complete the theory. The approach offers flexibility in the discovery process and links theory and practice (Laughlin, 1995).

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[19] To avoid potential conflict of interest, the sample excludes comment letters received from students to satisfy class requirements.

The comment letters are analyzed using latent content analysis. Latent analysis is seeks to uncover underlying categories of meaning (Berg, 2004). Each individual letter represents a single unit of analysis. Consistent with prior research in this paradigm, the data in these documents are treated as ‘‘rhetorical devices’’ intended to convey a persuasive message to its constituencies (e.g., Young, 2003; Dwyer & Alon, 2008). Two coders read the letters to identify theoretically established categories and the type of legitimacy communicated by the participants. The preliminary differences in coding were discussed and either resolved or coded as ‘‘other’’ if irresolvable. Additional categories were added if the meaningful rhetoric did not fit within the pre-established categories. By its nature, thematic content analysis involves a level of subjectivity. Thus, consistent with prior research, quotes from the text are included for the interpretation of the reader (e.g., Covaleski et. al. 2003).

Preliminary Coding Categories

Type of Participants

The preliminary coding scheme for the comment letters was developed based on the theoretical models described earlier and from the prior literature. To analyze the range of players involved, the comments submitted to SEC were coded based on the following categories observed in prior studies (Mezias, 1990; Suddaby et. al., 2007): individuals/users of financial information, preparers of financial information, audit firms, professional associations, trade associations, and regulatory agencies. Due to their lack of resources, individuals were theoretically classified as fringe players in this setting. Preparers, auditors, trade and professional associations, and regulatory agencies were considered dominant players due to their availability of resources, position of power, and/or social status (Djelic & Quack, 2003b). While the extent of their dominance varies, these groups have significantly greater resources than individual users of the financial information. To capture the impact of transnational and foreign players, the comment letters were coded as domestic, transnational, or foreign. The country of origin was noted for foreign comment letters.

Position of Participants

I analyzed the position taken to evaluate if the players operationalize their interests in ways consistent with Djelic and Quack (2003b) *agents of change model*. Three levels of position were coded: oppose the change; support; call for broader change. In the present study, the last position is related to the desire by some participants to have the reconciliation requirement waived for more filers than originally proposed by the SEC[20].

Rhetorical Strategies

As previously discussed, the successful adoption of the change depends on the effective legitimization of the new practice in the theorization stage of the process (Greenwood et. al., 2002). In all cases, participants were expected to communicate the weaknesses of the position they oppose and the benefits of the position they favor. Therefore, the comment letters were analyzed to identify the rhetorical strategies utilized

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[20]SEC proposal examines the elimination of the reconciliation requirement only for filers using the English version of IFRS as published by IASB (SEC, 2007a). However, some jurisdictions utilize a translated version of IFRS, for example Korea and Israel. Others, such as EU countries, have not adopted the entire set of IFRS and have a regulatory endorsement mechanism which requires regulatory approval from EU before companies can adopt the standards. As a result, there are some IFRS standards that have not been adopted for EU. Thus, it is expected that some participants would like to see a broader change and will advocate including the translated versions of IFRS and jurisdictional variations in the proposal as well.

to promote or oppose IFRS reporting in U.S. Expected themes are presented in Table 6 and described below.

Expected Rhetorical Strategies of Proponents

The proponents of the change were expected to convey a lack of pragmatic legitimacy associated with the current practice of reconciling IFRS to U.S. GAAP. The current practice of reconciliation provides information that makes standard differences more transparent for investors. Thus, proponents of change were not expected to attack the moral legitimacy of the current practice. Instead, change proponents are expected to criticize the pragmatic legitimacy of the current practice (Greenwood et. al., 2002). Prior literature suggests the following rhetorical themes may be used to frame the pragmatic weaknesses of the current practice: excessive cost to registrants, excessive complexity, lack of usefulness, and lack of material differences between the standards (SEC, 2007a; Jamal et. al., 2008).

According to Greenwood et. al. (2002), the second task of theorization - justification - involves demonstrating the legitimacy of the proposed alternative. The themes associated with moral legitimacy were expected to convey how IASB and IFRS-based reporting aligns with the established notion of transparency in financial reporting. The moral legitimacy of IASB as a legitimate site of accounting regulation for U.S. investors was also expected to be communicated by references to IASB quality, independence, and funding sufficiency. These participants were also expected to highlight the high quality of IFRS, the ability of IFRS to meet investor information needs and contribute to increased transparency around the world (Jermakowicz & Gornik-Tomaszewski, 2005; Ball, 2006). Many of the foreign respondents already had substantively adopted IFRS. Thus, foreign supporters were more likely to urge a wider acceptance of jurisdictional and translated versions of the standards. These players need to convince U.S. investors that variants of the standards also meet investor needs.

Change proponents were also likely to convey the *pragmatic* benefits of IFRS-based reporting. Rhetoric with focus on the instrumental benefits of the proposal was expected from the proponents. The following themes were anticipated: greater investment opportunities, lower cost of preparation, and lower cost of capital (Jermakowicz & Gornik-Tomaszewski, 2005; Ball, 2006; Hopkins et. al., 2008; Jamal et. al., 2008).

Expected Rhetorical Strategies of Opponents

Opponents of the change were expected to focus on moral legitimacy. This is because if the proposed alternative is not normatively preferred, pragmatic benefits are less relevant. Opponents of the change were anticipated to argue the moral legitimacy of the current system of reconciliation and demonstrate the lack of it in the proposed alternative. Thus, these participants were likely to stress the high quality of U.S. GAAP and the legitimacy of FASB as a site of accounting regulation. Their rhetoric was expected to focus on the independence of FASB, adequate funding of FASB, high quality of U.S. GAAP, and usefulness of reconciliation to investors (Ball, 2006). On the other hand, the prospect of IASB as a regulator of accounting standards for U.S. investors was expected to be criticized. The basis of this criticism was the potential lack of uniform application of IFRS across firms and countries, lack of dedicated enforcement function for IASB, and inconsistent funding of IASB (Ball, 2006).

Data Analysis

Location

Comments came from a wide range of locales. European or transnational Europe-based players dominated the process; they provided 54 out of a total of 117 letters. Comments were received from preparers, trade groups, and regulatory agencies located in a number of European countries, including Belgium, France, Germany, Netherlands, Switzerland, United Kingdom, and Finland. With a significant number of European companies trading on the American financial markets, the issue was of great importance for the European participants. With all public companies in the European Union using IFRS for financial reporting, EU understandably aims for broader acceptance and greater influence of IFRS.

The National Institute of Accountants and a trade group of finance executives represented Australia. Asia's participation was limited to the Japanese Business Federation and the Korean Accounting Standards Board. Developing and transitioning economies generally did not comment.

Type of Participants

Domestic, foreign, and transnational participants provided comments on the proposal. As indicated in Table 7, transnational participants provided 69 out of 117 comments, followed by the domestic players with 28 comments and foreign players with 20. Transnational players had the highest rate of participation. These data support the growing literature maintaining that regulation and governance are becoming increasingly transnational (Djelic & Sahlin-Andersson, 2006). Transnational participants were mostly transnational audit firms, publicly-traded companies and trade associations. The perspectives of foreign players were reinforced by their trade associations, professional associations, and regulatory agencies. Domestic participation was very limited, and most of the participation was by individuals.

Positions Taken

Proponents

The summary of the positions taken is presented in Table 7. Comments supporting the change accounted for 88 percent of all letters received on this proposal. Preparers (companies) and trade associations representing various preparers together provided 70 percent of the comments supporting the change.

The results have revealed some anticipated but also some unexpected trends. Transnational players provided the largest number of comments. Dominant transnational proponents are preparers, transnational audit firms, trade and professional associations, and regulatory agencies. According to D&Q model, dominant transnational players will promote institutional change during the periods of acute challenges (Djelic & Quack, 2003b). Transnational players overwhelmingly favored the proposal and supported the acceptance of IFRS statements from foreign issuers without U.S. GAAP reconciliation. Further, the majority called for a broader change and advised waiver of the reconciliation requirement not only for companies that can affirm the use of "the approved English version of IFRS as published by the IASB" (SEC, 2007a) but also for users of jurisdictional and translated versions of IFRS.

The participation of foreign players was consistent with the model. Foreign regulatory agencies, trade and professional associations overwhelmingly supported the proposal and called for inclusion of jurisdictional and translated versions. D&Q model anticipated that only dominant foreign players would take the position of "missionaries" and call for broader changes (Djelic & Quack, 2003b). The results indicate that not only the majority of foreign but also transnational proponents called for the adoption of a broader proposal. Most European-based conglomerates that use IFRS as adopted by the European Union called for the broader acceptance.

> We strongly recommend that the Commission will eliminate the U.S. GAAP reconciliation requirement for companies that publish their financial statements in accordance to widely used high-quality jurisdictional variants of IFRS, such as IFRS as adopted by the EU (SEC, 2007a: Nokia).

Some preparers and top-tier audit firms recommended that foreign issuers be allowed to reconcile to IFRS as published by IASB instead of U.S. GAAP.

> We propose that the SEC adopt their current proposal, but add an additional provision that would allow FPIs to reconcile from their home country accounting standards, inclusive of jurisdictional variants of IFRS, to IFRS as published by the IASB, in lieu of reconciling to U.S. GAAP. This proposal not only benefits a larger number of FPIs (foreign public issuers), it contributes more substantively to broadening the efficiency of the global capital markets while supporting the movement towards a single global standard setter (SEC, 2007a: PriceWaterhouseCoopers).

Such expansion of the proposal would further establish IFRS as a dominant set of global accounting standards and the IASB as a legitimate site of global regulation for financial reporting.

Opponents

Fourteen U.S. individuals commented on the proposal. These contributors are conceptually categorized as fringe players as they have limited power and few resources. Thirteen of these individuals opposed the proposed regulation. The proposal was perceived to be premature. D&Q *agents of change* model (2003b) notes that domestic fringe players can play a role of "agitators" and initiate institutional change. In this case, these participants were not instigating change but were trying to keep the status quo and maintain U.S. GAAP as a single standard for all issuers trading on U.S. financial markets. In this episode, domestic fringe players were not expected to promote change as it undermines the dominance of U.S. GAAP.

As predicted by the model, foreign fringe players demonstrated minimal participation. These players may not be directly impacted by the proposed change. Also, they may not be familiar with the comment process.

Analysis of Rhetorical Strategies - Proponents

Lack of Pragmatic Legitimacy in the Reconciliation Approach

The rhetorical analysis revealed many instances of the theoretically pre-identified themes, but also revealed additional relevant themes. Many proponents of change argued that the existing reconciliation lacked pragmatic legitimacy. Transnational and foreign dominant players attacked pragmatic legitimacy by referring to the high cost of the process, the minimal differences between U.S. GAAP and IFRS, and the lack of usefulness of the reconciliation for investors.

> We fully support the Commission's proposal to accept IFRS financial statements from FPls without reconciliation to US GAAP. This reconciliation still absorbs substantial resources. However, the benefits which it affords users have considerably diminished as the IASB and FASB have progressed in their convergence efforts, so that reconciliation differences have become largely minor technical points or purely historical "legacy" items reflecting former differences which have now disappeared for new transactions, e.g. goodwill (SEC, 2007a: Novartis).

As anticipated, in order not to appear dismissive of the domestic regulation, transnational and foreign participants questioned pragmatic but not the moral legitimacy of the reconciliation.

Domestic trade and professional associations mainly focused on the lack of pragmatic legitimacy of the reconciliation. Specifically, they suggested lack of usefulness and attacked the high costs associated with the process:

> Maintaining two (or more) sets of “books” is very costly and we are not aware of any evidence indicating that the benefits exceed those costs (SEC, 2007a: Certified Management Accountants).

It is interesting to note that domestic players were concerned about the costs incurred by the foreign issuers. With increasingly globalized markets, it seems that the concerns expected to be voiced by the foreign participants are communicated by the domestic organizations. Consistent with arguments in Suddaby et. al (2007), due to the links and mutual interests, an increasingly common language is shared by the participants within the transnational structures of regulation.

Moral Legitimacy of the Proposal to Waive Reconciliation

Proponents presented IFRS as a morally acceptable alternative. The supporting rhetoric conveyed the high quality of IFRS, sufficient transparency in the IASB’s standard-setting process, and high degree of convergence between U.S. GAAP and IFRS. Specifically, transnational and foreign proponents attempted to minimize the impact of the change on investors by focusing on the comparability of U.S. GAAP and IFRS standards.

> We fully support the proposal to eliminate the IFRS – U.S. GAAP reconciliation. We believe that IFRS financial statements provide high-quality and transparent information to users of financial statements. The recent efforts towards convergence by the IASB and the FASB have resulted in substantially similar sets of accounting standards and we do not believe that investors would make different investment decisions for the same company if the company prepared its financial statements under IFRS or U.S. GAAP (SEC, 2007a: Deutsche Bank).

The focus of the transnational and foreign proponents on moral legitimacy may be explained by a desire not to appear self-serving but rather to position their support for the change within the established norms of public interest and investor protection.

Transnational audit firms actively supported the proposal. This group plays an influential role in the regulation of financial reporting (Cooper & Robson, 2006; Suddaby et. al., 2007). In theory, professional ideology leads us to believe that these firms intend to uphold public interest (e.g, Kultgen, 1988; Wyatt & Gaa, 2004). However, the commitment of these players to public interest has been frequently questioned due to their involvement in the financial scandals and identification with the commercial values (e. g. Baker, 2005; Fogarty et. al. 2006; Suddaby et. al., 2009). In their comments, these participants argued for the moral legitimacy of the change. They did this by highlighting the independence of IASB standard-setting process and the high quality of IFRS.

> IASB was constituted with a commitment to “develop, in the public interest, a single set of high quality, understandable, and enforceable global accounting standards that require high quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions.” Given the composition of the IASB, IFRS are issued through a robust process that is transparent to the public and reflect the collective input of technicians and practitioners from around the world (SEC, 2007a: Ernst & Young).

Associations such as the American Accounting Association, the American Bankers Association, and the American Bar Association are classified as domestic participants. Normally these associations might be expected to take a protectionist stance in support of existing domestic regulation. However, they tended to argue for change. For example, AICPA through its affiliate, Center for Audit Quality, supported the change.

> Overall, the Center supports the elimination of the U.S. GAAP reconciliation for foreign private issuers using IFRS, which we believe is an important step in the process toward development of a single-set of high-quality globally-accepted accounting standards. In addition, we do not believe that the elimination of the U.S. GAAP reconciliation should be predicated on the adequacy or continuation of the convergence process, nor on the development of further guidance in areas not currently addressed by IFRS (SEC, 2007a: AICPA Center for Audit Quality).

Due to the strong influence of the transnational audit firms in the regulation of the professional services (e. g., Copper & Robson, 2006; Suddaby et. al., 2007), it is not surprising that the position of this organization is similar to what was presented by the transnational audit firms.

Pragmatic Legitimacy of the Proposal to Waive Reconciliation

The main rhetorical focus of the domestic proponents was on the pragmatic legitimacy of the proposal. These participants highlighted the increased comparability for investors and more seamless international markets.

> Clearly, this will benefit our markets by encouraging foreign companies to access our markets and U.S. investors by providing access to a broader range of investment opportunities (SEC, 2007a: Center for Capital Markets Competitiveness).

Foreign proponents also conveyed how their constituency and U.S. investors will benefit from the adoption of the proposed regulation. Pragmatic themes related to the lower cost of capital for preparers and increased investment opportunities for U.S. investors were expressed.

> With business operating globally, a single set of global financial reporting standards is necessary in order to enhance investor confidence, by facilitating analysis of financial statements on a comparable basis. This ultimately will contribute to a lower cost of capital for businesses and freedom for companies to list on different stock exchanges. This will be of benefit to the US by making it more attractive for foreign companies to list in the US, and providing greater choice for US investors (SEC, 2007a: Institute of Chartered Accountants of Scotland).

The quote above demonstrates the strategy of blurring the differences in the needs of foreign businesses and U.S. investors in order to justify the transition to IFRS.

Transnational preparers also presented some pragmatic arguments. These participants conveyed that the acceptance of the proposal was expected to increase the attractiveness of U.S markets for foreign firms and contribute to more comparability in financial reporting.

> Fairfax believes that allowing the use of IFRS financial statements without reconciliation to US GAAP will effectively accomplish two key goals: (1) helping to level the playing field between U.S. and non-U.S. issuers who access the U.S. capital markets, and (2) protecting investors – U.S. and non-U.S. – who will benefit from high quality and easily understood financials and afford comparability across companies (SEC, 2007a: Fairfax).

The comparability argument is curious. By allowing foreign issuers to file using IFRS, a second set of standards is actually introduced to the American markets. That would appear to make comparability across companies more elusive.

In summary, the majority of proponents argued as expected. I anticipated that the rhetoric of proponents would focus on (1) the lack of pragmatic legitimacy in framing the problem and (2) the moral and pragmatic legitimacy in justifying the alternative. Consistent with expectations, the actual analysis revealed that these players communicated the drawbacks of the current system by focusing on the high cost of the process, the minimal differences between U.S. GAAP and IFRS, and the lack of usefulness of the reconciliation for investors.

The rhetoric of justification for the proposed change varied across proponent groups depending upon their classification in the *agents of change* model (Djelic & Quack, 2003b). Domestic participants emphasized the pragmatic benefits of the proposal. In contrast, transnational and foreign participants were more likely to focus on the moral legitimacy. Transnational and foreign players communicated the high quality of IFRS, sufficient transparency in the IASB's standard-setting process, and high degree of convergence between U.S. GAAP and IFRS. In short, transnational and foreign players used rhetoric that minimized the normative differences between the existing and proposed processes. The commonalities in the themes communicated by transnational and foreign participants were consistent with the similarities observed in their position on the proposal.

Analysis of Rhetorical Strategies - Opponents

Lack of Moral Legitimacy of the Proposal to Waive Reconciliation

Opposition to the SEC's proposal was primarily voiced by the domestic individuals, fringe players in this case, and some professional associations. Opponents communicated the lack of moral legitimacy of the proposal to waive U.S. GAAP reconciliation for foreign issuers using IFRS. Their normative concerns centered on themes related to insufficient quality of IFRS and inconsistent funding of IASB. Opponents saw the addition of another set of standards to U.S. markets as a detriment to a normative goal of comparability. Such concerns are supported by Henry et. al. (2009) study of E.U. firms where significant differences between results reported under IFRS and U.S. GAAP were found. Because of the differences in the standards, most companies using IFRS reported higher profitability than would be allowed under U.S. GAAP.

Many opponents also voiced concern over the lack of comparability that could arise from inconsistent interpretation and application of the standards. Differing institutional structures across countries were expected to contribute to inconsistent interpretation of the standards.

> The idea of one universal IFRS is largely a myth. There are actually numerous versions of nationally recognized IFRS: there is an Australian IFRS, Hong Kong IFRS, etc., an actual potpourri of standards. While the IASB is attempting to reverse this little-discussed situation and elevate its own brand, it is misleading at this point to assume that other sovereign nations have or will abdicate their national interest to a body over which they have no control. Why then should we? (SEC, 2007a: Gaylen Hansen, CPA).

Jurisdictional versions of the standards were seen as a significant detriment to comparability. Hence, the removal of the reconciliation was argued to be premature and damaging to the functioning of U.S. markets.

> As the Commission acknowledges in the proposed rule, convergence of IFRS and U.S. GAAP is far from complete, and significant differences remain….These differences will create an uneven competitive field for domestic and foreign registrants and will make it difficult for investors to compare the performance of companies from different geographies (SEC, 2007a: New York State Society of Certified Public Accountants).

The New York State Society of Certified Public Accountants (NYSSCPA) is one of the largest and oldest state accounting organizations in the country. The society was established in 1897 and today has approximately 28,000 members (NYSSCPA, 2010). Their position that the proposed change is premature was in stark contrast to the supportive position taken by the AICPA, a national organization representing CPAs. The NYSSCPA as a state society may be less prone to "capture" by the interests of the transnational accounting firms and their transnational clients.

In contrast to supporters of the proposal, domestic opponents raised considerable concern over the lack of enforcement function at the IASB. Such concerns contributed to questions about the uniformity of IFRS implementation.

> The IFRS are not as of yet of the same quality as U.S. GAAP. The problems of interpretation that a principle-based system such as IFRS engenders are

> compounded by the fact that there is no effective enforcement mechanism to ensure compliance (SEC, 2007a: William Craven).

In prior research, Ball (2006) cautioned that substantial differences in international financial reporting are inevitable due to questionable rigor of international enforcement agencies. Lack of enforcement function at IASB is one of the major issues that contribute to concerns about whether worldwide uniformity in financial reporting is achievable.

Moral Legitimacy of the Reconciliation Approach

Opponents of the proposal stressed the moral legitimacy of the current reconciliation approach. Their rhetoric focused on the usefulness of the reconciliation for investors and the high quality of U.S. GAAP. Jack Ciesielski, a member of FASB's Investors Technical Advisory Committee, voiced some of these concerns:

> The reconciliation currently provides investors with visibility into corporate earnings arising from the choice of accounting methods. As currently formulated, this proposal will turn investors' vision into blindness. It would run counter to the Commission's public policy mission (SEC, 2007a: Jack Ciesielski).

A slight majority of the participating domestic professional associations opposed the proposal. Their rhetoric reaffirmed the moral legitimacy of the current reconciliation process by focusing on its usefulness for investors.

> Our review of the academic research literature does not support the SEC's proposal to eliminate the U.S. GAAP – IFRS reconciliation requirement for foreign private issuers. The research on the IFRS-U.S. GAAP reconciliation suggests that material differences between IFRS and U.S. GAAP exist and that information contained in the reconciliations are reflected in investment decisions made by U.S. investors (SEC, 2007a: Financial Accounting and Reporting Section of the American Accounting Association).

The perspective of the American Accounting Association (AAA) was ambiguous. Two opposing comments were received from different committees of AAA. Although both letters cited prior research, the committees came to different conclusions.

The Financial Reporting Policy Committee of the Financial Accounting and Reporting Section of the AAA opposed the proposal. They focused on lack of moral legitimacy of the proposed change. In support they cited the lack of enforcement power of IFRS and differences in implementation due to cross-country institutional differences.

> Based on a review of the literature, the committee has concluded that eliminating the reconciliation requirement is premature (SEC 2007a: AAA, Financial Reporting Policy Committee of the Accounting and Reporting Section).

On the other hand, the Financial Accounting Standards Committee of the AAA supported the proposal.

> Financial statements based on IFRS can provide good financial reports that are equivalent to those based on U.S. GAAP. While there are differences in the financial reporting environment (governance, legal regime, audit, and securities regulation) among countries, the SEC should not wait until all elements of the financial reporting environment are harmonized on a global basis, even assuming that harmonization were possible and desirable. Allowing foreign companies to use IFRS without costly reconciliations to U.S. GAAP is likely to make U.S. stock exchanges more competitive and provide useful feedback to U.S. accounting standard setters about the efficacy of their standards (SEC 2007a: AAA, Financial Accounting Standards Committee).

Although both letters noted that these are the perspectives of the respective committees and not the official position of the American Accounting Association, they provide an insight on the divided position held by academics on this issue.

In summary, the majority of the opponents were domestic individuals and professional associations. Opponents were expected to emphasize the moral legitimacy of the current reconciliation approach and the lack of the moral legitimacy associated with the proposal. Consistent with expectations, opponents used rhetorical themes that supported moral legitimacy of the status quo and the lack of such in the proposed alternative.

Additional pertinent themes were observed in the rhetoric of the participants. They address the IASB's independence from the SEC, sovereignty of the U.S. standard-setting, and users' familiarity with IFRS. These themes and implications are discussed below.

Additional Themes

Independence of the IASB from the SEC

A number of participants expressed concern that the SEC would be overly involved in the standard-setting and interpretation of IFRS. In general, these participants urged SEC to maintain only an advisory role to IASB. Approximately 33% of transnational and 35% of foreign players urged the SEC to play a backseat role.

> We therefore urge the SEC to show caution in managing its relationship with the IASB and IFRIC as well as taking care about the SEC's own impact on IFRS as a body of literature. It is particularly important to ensure that the position of IFRIC as the only formal issuer of interpretations of IFRS is not undermined (SEC, 2007a: Institute of Chartered Accountants).

The UBS, a transnational wealth management firm, voiced the following concerns:

> We are concerned that the SEC may become too involved in the interpretation of IFRS. The SEC has interpreted and changed US GAAP many times in the past. SEC speeches at annual SEC/AICPA conferences and SEC staff accounting bulletins are examples of that activity. The SEC must resist the urge to unilaterally interpret IFRS (SEC, 2007a: UBS).

The quotes highlight the political nature of transnational standardization where different actors attempt to carve out areas of influence (Djelic & Quack, 2003b; Botzem & Quack, 2006). These struggles are representative of the ongoing renegotiation of power relations that occur when boundaries of transnational standard setting are shifting

(Botzem & Quack, 2006). Participants are concerned that if U.S. accepts IFRS-based financial statements, the SEC may desire a more active role in the standard-setting and interpretation of the standards. The particular nature of the concern with SEC intervention is revealed in the following quote from the International Swaps and Derivatives Association. The organization encourages SEC not to clarify less specific principles-based IFRS and abstain from regulatory intervention.

> We urge the SEC to ensure the integrity and independence of the IFRS standard setting process, and recognize and respect the IASB's goal of developing "principles based" accounting standards. This process can result in fewer rules based accounting standards than perhaps the US investor community is used to. However, the SEC should not be tempted to address areas not covered by rules in IFRS and not seek to provide US guidance on the appropriate interpretation and application of IFRS (SEC, 2007a: International Swaps and Derivatives Association).

In order to bolster the legitimacy of IASB, some participants called for establishment of a more dependable funding for the organization. To fund its operations, IASB collects funds from countries and private organizations. As a result, the regulatory body that is responsible for setting IFRS does not appear independent. For example, 33% of IASB funding for 2008 came from transnational audit firms (Osterland, 2008).

> A global funding mechanism for the IASB, other than private contributions, should be developed that is commensurate and consistent with the role of the IASB as the independent global standard setter…With appropriate funding, the IASB can continue to have the resources to have a full-time Board as well as a full complement of staff required in recognition of its increased workload. In addition, it could function in the role of the principal global standard setter able to develop standards of the highest quality without relying too heavily on the support of local standard setters around the world (SEC, 2007a: Ernst & Young).

Developing a consistent funding mechanism for IASB is necessary in order to legitimize IASB and decrease interference from the national regulatory bodies and transnational audit firms.

Sovereignty of the U.S. Standard-setting

The independence of regulatory site was an important theme for the opponents of the proposal as well. However, their arguments took a more protectionist tone. Opponents questioned the legitimacy of IASB as a regulator and were concerned that the proposed change will undermine FASB's ability to set accounting standards. In short, the change was expected to weaken the U.S. regulatory environment. The independence of IASB from its donors was also questioned:

> Albeit indirectly, FASB would be beholden to IASB's donors as it was to its donors before SOX. That is not likely in the interests of investors, markets or the public (SEC, 2007a: Lawrence Cunningham).

Similar concerns were communicated by the two senior members of the U.S. Senate:

> While the Sarbanes-Oxley Act preserved the SEC's authority to set its own accounting standards, the SEC's proposal to treat standards set by the IASB as generally accepted, whether expressly or impliedly, is an end-run around Congress' intent in establishing the independent funding mechanism and other qualifications necessary to justify reliance on a standards-setter other than the SEC itself (SEC, 2007a: Jack Reed and Christopher Dodd, U.S. Senate).

Opponents were troubled by the potential loss of regulatory control to IASB. Participants were reluctant to move the regulation of financial reporting to a transnational space due to the potential loss of sovereignty and oversight over the standard-setting process. As seen in other countries that have adopted IFRS, it is difficult to give up the standard-setting authority to the private transnational body. For instance, European Union has an endorsement mechanism which approves new IFRS standards for E.U. adoption. It contributes to jurisdictional differences between the standards.

Familiarity with IFRS

Both proponents and opponents used the theme of user familiarity to justify their contradictory positions. Supporters of the proposal argued that market participants have sufficient experience with IFRS to permit foreign issuers to use the standards in the U.S. Proponents' arguments stress the moral legitimacy of the change and indicate that the existing expertise would ease the transition.

> Investors already understand IFRS accounts and take [*sic*] decisions on that basis today (SEC, 2007a: Galileo Global Advisors).

> We should add that the experience of our member banks suggests that US investors and analysts are already well versed in IFRS. Several hold US investor relations events and we are told that little, if any, interest is shown in the US GAAP reconciliation. This is compatible with it being understood that it is the IFRS accounts that provide the key to understanding the running of the business and its performance (SEC, 2007a: British Bankers' Association).

The claims of sufficient familiarity and experience are noteworthy as the constituency that is actually familiar with IFRS may be limited to institutional and international investors. Retail investors may not be able to navigate the landscape of transnational accounting standards. In particular, retail investors may not be familiar with the differences between IFRS and U.S. GAAP, jurisdictional "carve-outs", and translated versions.

On the other hand, opponents of the proposal highlighted the lack of training and experience of users with IFRS. The ability of SEC to handle increased volume of IFRS filers was also questioned.

> In fact, we have minimal experience with which to assess the quality of IFRS reports…And does the Commission have sufficient resources to effectively monitor the quality of these yet to be evaluated reports upon which U.S. investors rely? (SEC, 2007a: Terry Warfield, PhD, Associate Professor of Accounting).

For the most part, the current system of accounting education is not focused on the principles-based conceptual framework that drives IFRS but rather on a more rules-based U.S. GAAP. Due to a more litigious U.S. business environment, businesses have relied on rules to mitigate the litigation risk. As a result, the ability of local accounting professionals to interpret IFRS statements for their clients was questioned:

> A real practical problem is that IFRS is not taught in the business schools of the United States, including CPA programs. I doubt that there are any substantial Continuing Education courses given to CPAs on the subject…How can financial statements under IFRS be either interpreted or explained to the American public by professionals who don't even know what they contain? (SEC, 2007a: Carl Olson).

The view of the domestic participants is contrary to the one communicated by the foreign and transnational proponents who perceived market participants to be well-versed in IFRS filings. Both may be correct as it relates to different constituencies. While transnational audit firms and transnational preparers may have the needed expertise, U.S. investors and preparers may not.

Epilogue

On December 21, 2007, SEC published a final ruling with a decision to accept financial statements from foreign issuers prepared according to IFRS as issued by IASB without reconciliation to U.S. GAAP (SEC, 2007b). The decision was effective immediately. The reconciliation would also be waived for foreign issuers that prepare financial statements under jurisdictional versions only if they also comply with IFRS as issued by IASB (SEC, 2007b). The significant participation by EU constituency in the comment process yielded results. The SEC gave existing EU foreign registrants a two-year reprieve from reconciling to U.S. GAAP if they report under a jurisdictional EU version of IFRS. Companies using other jurisdictional versions or basis of accounting still need to reconcile to U.S. GAAP.

Discussion, Limitations and Conclusions

Institutional Change

Significant institutional changes in the U.S. accounting regulation have occurred since accounting scandals of the early 2000s. Worldwide, U.S. GAAP is no longer the dominant set of accounting standards. More than 150 countries are in the process of implementing IFRS. However, due to the importance of U.S. financial markets, acceptance by the U.S. would further legitimize IFRS as a quality set of standards.

I investigate the SEC's proposal to accept IFRS-based statements without requiring reconciliation to U.S. GAAP. This episode is an opportunity to simultaneously investigate the deinstitutionalization of U.S. GAAP and the theorization of an alternative practice. The study draws on Greenwood et. al. (2002) *model of institutional change* and Djelic and Quack (2003b) *agents of change model*. The empirical data are the comment letters submitted to the SEC. The analysis focused on the position taken by participants and the rhetorical themes used to support their positions.

Participants and Positions

The majority of participants were dominant transnational players, including preparers, audit firms, and trade associations. As predicted by Djelic and Quack's (2003b) *agents of change* model, change was mostly supported by the dominant transnational and foreign players. While the model differentiates between foreign and transnational participants, in this case the position of these players was similar. Many foreign and transnational participants took on a “missionary” role and called for an even broader change which would include jurisdictional and/or translated versions of IFRS. Maintaining uniformity of the standards is considered crucial in order to capitalize on potential improvement in comparability, one of the major benefits expected from IFRS adoption (SEC, 2007b Daske et. al, 2008).

Increasing participation of transnational and foreign participants in the regulatory process is consistent with the observations made in the expanding literature on the sites of regulation (Djelic & Quack, 2003a; Botzem & Quack, 2006; Cooper & Robson 2006; Djelic & Sahlin-Andersson, 2006; Greenwood & Suddaby, 2006; Suddaby et. al., 2007; Botzem & Hofmann, 2008). The internationalization of economic activity has contributed to the involvement of additional actors in an increasingly transnational standard-setting arena (Djelic & Quack, 2003a). Transnational accounting firms and non-governmental organizations are argued to have become important sites of regulation for professional services (Cooper & Robson, 2006; Greenwood & Suddaby, 2006; Suddaby et. al., 2007).

According to D&Q model, fringe players, who lack resources, are less likely to drive change. Consistent with expectations, a limited number of domestic individuals (fringe players) participated in the process. Most of those thought that acceptance of IFRS from foreign issuers was premature.

An interesting contrast is observed in the position taken by the New York State Society of CPAs (NYSSCPA) and the Center of Audit Quality, AICPA affiliate. The NYSSCPA is one of the largest and oldest state accounting organizations in the nation. It is a long-time publisher of a well-respected journal, and has historically been an active participant in accounting and auditing debates. Their position that the proposal was premature was in stark contrast to the position taken by the AICPA. As noted, this may reflect a "capture" of the ostensibly domestic AICPA by interests of the transnational accounting firms and their transnational clients.

The perspective of the American Accounting Association, the largest American academic association, was ambiguous. Two opposing comment letters were prepared by the separate committees of the AAA. The divided front presented by the association is interesting and not immediately theoretically explainable. Finding the causes of such division is beyond the scope of this investigation but is an interesting topic for future research.

Not only is it informative to evaluate who participated in the process, the absence of participation is telling as well. There were no comments from developing and transition economies. The lack of participation may be attributed to unfamiliarity with the SEC comment process. Some of these countries are still developing domestic regulatory practices. The standards used in these countries may not qualify for exemption from the reconciliation under the proposed regulation.

Rhetoric and Pragmatic and Moral Legitimacy

The examination of rhetoric allows a glimpse into the themes that participants deem to be acceptable by their respective constituencies. The proponents and opponents of the change were expected to utilize different rhetorical strategies in an attempt to legitimize their perspectives (Suddaby & Greenwood, 2005). The conversation of opponents and proponents through the comment letters revealed the struggle of the participants to legitimize their positions.

Supporters of the proposal communicated the *lack of pragmatic* legitimacy by focusing on the high costs and lack of usefulness associated with the reconciliation between IFRS and U.S GAAP. The D&Q model differentiates between foreign and transnational players. However, the analysis reveals that not only did these players take similar positions on the issue, they also used similar themes to support it. The transnational and foreign proponents focused on the *moral* legitimacy. The themes conveyed the high quality of the standards, sufficient transparency in standard-setting process, and high degree of convergence between U.S. GAAP and IFRS. The focus of these participants on the *moral* legitimacy may reflect a desire not to appear self-serving but rather to position the change within the established norms of investor protection. For example, as recognized experts in the field, transnational audit firms are in the position to benefit from the move toward IFRS through additional engagement opportunities. The message of how the proposal is "the right thing to do" has significantly more traction with a broad consistency than a self-focused message (Suchman, 1995).

Domestic dominant proponents focused on the *pragmatic* benefits of lower cost and increased investment opportunities. The benefits of a seamless international market were also communicated by a number of "American" professional and trade associations. Results indicate that while their position closely mirrors the one taken by the transnational and foreign participants, these players were more likely to communicate the pragmatic benefits of the proposal. Domestic supporters may choose pragmatic rhetoric due to unwillingness to provide moral justification for transnational standards.

Fringe players, represented by domestic individuals, opposed the change. They argued that the proposed regulation does not serve the needs of investors, thus the proposed change is not legitimate. Consistent with expectations, they focused on the *moral* legitimacy of the existing reconciliation and the lack of *moral* legitimacy of IFRS. Current reconciliation requirement was thought to better serve the needs of investors by providing a consistent cross-firm comparison of financial results. Themes related to the inconsistent application of the standards, lack of the dedicated enforcement function monitoring the quality of IFRS reporting, and inconsistent funding of IASB were used to convey that the proposal does not offer sufficient investor protection.

Independence of the IASB and the SEC

An unexpected concern, expressed by both proponents and opponents, relates to the role of the SEC going forward. Both sides were troubled by the shifting site of regulation and the related power of SEC. Transnational and foreign supporters were concerned that SEC would have too much influence over IASB and IFRS. U.S.-based interpretation of the standards would make activities of IASB and IFRIC irrelevant. IFRS was intended to be an antidote to the domination of international accounting practices by the United States (Rodrigues & Craig, 2007). Transnational and foreign participants did not want SEC to produce rule-based guidance in order to ease the implementation of the principle-based standards. Such a role by the SEC, regulator of the largest financial market, might be interpreted by observers as another example of contemporary imperialism (e.g., Annisette, 2000; Arnold 2005). Thus, transnational and foreign participants encouraged SEC not to produce interpretative guidance for IFRS. The apprehension was related to the possibility that additional regulation may revert transnational financial reporting to the rule-based approach.

At the same time, domestic opponents expressed more protectionist concerns. They feared that the SEC will lose the standard-setting authority. The authority by default will fall to IASB which does not have the enforcement mechanism or sufficient funding to appear independent.

Limitations and Conclusions

The findings of the study should be interpreted in light of its limitations. The investigation of rhetorical strategies is limited to a study of one regulatory episode. One episode in a long process allows us to see in action the mechanics of theorizing change. The exact rhetorical strategies may not be observed under different circumstances. The study relies on the secondary data produced for public record. There may be a different set of strategies used to legitimize the change to internal members of business, trade and professional organizations.

This investigation is relevant for several reasons. First, the issue of IFRS entering U.S. markets is important and highly debated. The study presents a synthesis of different theoretical perspectives to investigate institutional change in accounting regulation. Specifically, theoretical insights from the *model of institutional change* (Greenwood et. al., 2002), the *role of rhetoric* in legitimating institutional change (Suddaby & Greenwood, 2005), and the *agents of change model* (Djelic & Quack, 2003b) are applied.

Secondly, the level of participation, the position on the proposed change, and rhetorical strategies of specific groups are evaluated. Their position on the change is connected to the rhetoric used to establish pragmatic and moral legitimacy of the new practices. The study demonstrates the use of rhetorical strategies by different factions to present similar ideas in a significantly different manner. Rhetoric was used to convey legitimacy or discredit the proposal.

Additionally, the study highlights interesting differences within the domestic constituents as well as a possible ongoing struggle against perceived U.S. imperialism. For example, opposing perspectives were presented by NYSSCPA and AICPA. Also, two separate AAA committees took different positions on the proposal. Transnational and foreign supporters were concerned that SEC would have too much influence over IASB and IFRS.

Finally, the study empirically demonstrates the increasing involvement of the transnational players in domestic institutional change. The interplay of transnational, foreign, and domestic players within the same arena reveal how these groups mobilize to defend or defeat institutional change. The combined voices of dominant players have further contributed to the deinstitutionalization of U.S. GAAP as a dominant standard. Because the ruling reinforced the use of IFRS on U.S. financial markets, the adoption of IFRS for U.S. is no longer a fantasy. SEC's decision, in light of the overwhelming disapproval by the individual investors whose interests SEC is protecting, may be indicative of the shift in regulation toward commercial interests represented by dominant transnational players (Suddaby et. al., 2007).

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STUDY THREE: DIFFUSION OF IFRS IN DEVELOPING COUNTRIES: THE CASE OF RUSSIA

Introduction

Developing countries have become an important economic driver for the world economy. The most populous among them, Brazil, Russia, India, and China (BRICs), are seen as the future leading economies (Goldman Sachs, 2003; O'Leary, 2008). Goldman Sachs (2003), for example, predicted that BRICs will be among the world's economic leaders by 2050, surpassing the G7 countries. The global recession that started in 2008 is not expected to significantly derail their rise (O'Neill, 2009).

With increasing global economic and political interdependence, BRICs are looking to legitimize their financial reporting systems. Financial transparency has been recognized as a key ingredient for future economic growth of developing countries (Stiglitz, 2000). In particular, International Financial Reporting Standards (IFRS) have been advocated as one way to enhance financial transparency, international comparability and credibility of financial reporting (Mennicken, 2008). The claim is based on the premise that IFRS are more comprehensive and of higher quality than most local GAAP (Ding et. al., 2007; Daske et. al, 2008).

Prior accounting studies evaluating the adoption of IFRS in developing countries have mostly concentrated on factors that drive IFRS adoption (Zeghal & Mhedhbi, 2006) or have examined the impact of adoption on a specific jurisdiction (Chamisa, 2000; Ashraf & Ghani, 2005; Mir & Rahaman, 2005; Tyrrall et. al., 2007). In general, these studies have found that IFRS adoption may *not* lead to improvement in actual quality of financial reporting in developing countries. As a result, despite the widespread adoption of IFRS by developing countries, it is not clear whether IFRS reforms actually produce intended improvements in these countries.

In order to get more insight on this important issue, the purpose of this study is to investigate the evaluation of the IFRS adoption. The focus is on the perceptions of IFRS adoption in developing countries by early adopters. Perceptions matter theoretically because perceptions about the innovation by early adopters influence whether the innovation (IFRS, in this case) will experience a broader diffusion (Rogers, 1995). Companies can adopt IFRS voluntarily or may be mandated to do so by a country-level or an industry directive. Thus, also of interest is whether the perception of IFRS adoption by individuals in those firms differs depending on whether the adoption was voluntary or mandatory. Finally, the study examines whether there are spillover effects associated with IFRS adoption and the evaluation of broader financial reforms in a country. The spillover impact of IFRS adoption on the evaluation of the overall financial reforms in developing counties has not been previously investigated.

The BRIC countries are at various stages of transition toward IFRS. Brazil's listed companies will be required to report according to IFRS in 2010. India will require listed companies, banks, insurance companies, and large entities to adopt IFRS starting in 2011 (IASB, 2007). China is adopting new standards in order to achieve substantial convergence[21] between Chinese standards and IFRS (IASB, 2006). Russia has required IFRS for banks since 2004 and permits other companies to use IFRS for reporting.

The study specifically focuses on IFRS in Russia. Because Russia is an early adopter of IFRS among the BRIC countries, its case is used to get insight on the IFRS

[21] Convergence refers to the process of narrowing differences between IFRS and the accounting standards of countries that retain their own standards (Ball, 2006).

adoption in developing countries, in general, and BRIC countries, more specifically. In Russia, as in other developing countries, the push for financial transparency is juxtaposed against the long-established opaque informal practices, poor translation of international standards, lack of training, and enforcement problems (Aron, 2003; Nobes & Parker, 2006; Barnes, 2007). By focusing on one country I can control for country-specific effects and examine the variables of interest in a single context.

The study draws on institutional and diffusion theories. Specifically, theoretical insights from the *model of institutional change* (Greenwood et. al., 2002), the *diffusion of innovations theory* (Rogers, 1995), and *spillover effect* (Janakiraman et. al., 2009) are applied. These three frameworks provide an appropriate base for studying the type of phenomenon of interest to this study.

This investigation is important for several reasons. Practically, the growing adoption of IFRS by developing countries is raising concerns on whether IFRS can actually contribute to the improved transparency (Ball, 2006). The apprehension is that IFRS is used as a surface level “quick fix” to provide the impression of having resolved the underdeveloped national accounting standards (Belkaoui, 2004), particularly in countries that lack a history and tradition of transparent financial disclosure. Some insight on this issue is provided.

The study makes a theoretical contribution by synthesizing different theoretical perspectives. Institutional change and the diffusion of innovations theories are applied to investigate the evaluation of IFRS adoption. Diffusion theory of innovations is used to complement Greenwood et. al.’s (2002) general *model of institutional change.* That model identifies the diffusion stage but does not offer specifics on how institutional change penetrates the organization to the individual level. The spillover effect concept from marketing (Janakiraman et. al., 2009) is added to investigate whether the evaluation of IFRS is associated with views on broader financial reforms in the country. This issue is of interest due to the potential policy implications.

Empirical studies of evaluation of innovation are relatively rare due to the assumption of beneficial results for adopters. Rogers (1983) noted that the evaluation of innovations have been understudied in diffusion research and invited scholars to further explore this important part of the innovation process. This study responds to that invitation by examining the perceptions of IFRS in Russia. The analysis is based on the unique dataset of responses from 1,236 financial professionals in Russia regarding IFRS, more generalized reforms, and transparency.

Finally, prior accounting studies typically have concentrated on examining the accounting quality and economic consequences associated with voluntary and/or mandatory IFRS adoption (e. g. Barth et. al., 2008; Daske et. al., 2008). However, whether the adoption approach has an impact on how the standards are perceived has not been explored. This study is the first to analyze whether the type of adoption (voluntary vs. mandatory) impacts the individual evaluation of the standards. Because individuals are tasked with the implementation, it is important to investigate the perceptions of the standards and whether one way of adoption results in a more positive evaluation of the standards and their impact.

The remainder of the paper proceeds as follows: after a background discussion which profiles the accounting systems in Soviet and post-Soviet Russia, the review of the literature on IFRS in developing countries and Russia is presented. The description of the theoretical perspective and data utilized in the study follows. In the final sections I discuss the findings and implications for the IFRS in Russia and developing countries.

Background

The Soviet collapse in 1989 has pushed many former Soviet bloc countries toward political and economic reform. Large scale changes have taken place as many jurisdictions in Central and Eastern Europe have been evolving from planned to market-based economies. To participate in the world markets, these countries had to strengthen their market mechanisms through liberalization, stabilization, and encouragement of private enterprise (Hoskisson et. al., 2000). Russia is a country that has gone through extensive economic and political transition. The institutionalization of financial transparency has been seen by some as a crucial step in Russia's future economic development (Judge & Naumova, 2004).

Economic and Political Transition in Russia

Since its opening and reform, Russia has made remarkable economic and social progress (Shleifer & Treisman, 2005). Since 2002, the overall economy has grown at around seven percent and the retailing sector at 12 percent a year (Enigma Variations, 2008). New industries and private enterprises developed (Barnes, 2007). People were given the freedom to make money, travel abroad, and drive foreign cars (Enigma Variations, 2008). However, the transition has been challenging, and sometimes chaotic. Russian capitalism continues to be controlled by the state and influenced by outdated regulations and corruption (Aron, 2003). Macroeconomic stabilization has been difficult to establish due to the lack of basic regulative and normative institutions, such as financial markets, culture of accountability, and the rule of law. Also missing is a strong accounting profession and a system of transparent financial reporting (Bailey, 1995).

Russian Accounting in Transition

The Soviet era accounting system was not designed to guide activities of the enterprises or inform investors. Due to the national ownership of firms, there was no demand for external financial statements and no tradition of audit (Nobes & Parker, 2006). Accounting was reduced to bookkeeping and was used to monitor firm performance against the goals of the national economic plan (Bailey, 1995). To avoid trouble from the administrative authorities, fluctuations over time and differences between planned output and actual output were frequently wiped out with accounting data manipulations (Bailey, 1995).

Early in the transition process it became apparent that accounting systems of the Soviet era could not meet the information needs of enterprises and external investors. In order to enter international markets and encourage investment, the country needed an overhaul of its accounting and disclosure regulation. Producing accounts that made sense was considered a first priority in order to have access to international capital (Cowley, 1995).

The adoption of IFRS is one way Russian firms could move in the direction of producing accounts that made sense. IFRS have been promoted as a way to improve user confidence in financial reporting (International Federation of Accountants, 2003) and achieve international comparability and credibility for corporate disclosure (Mennicken, 2008). Standard-setters expect IFRS to benefit investors through the improved comparability, transparency, and reporting quality (Daske et. al, 2008).

Studies evaluating the impact of IFRS at the *firm-level* suggest that IFRS adoption is related to higher quality disclosures. IFRS-based announcements were found to convey higher information content than Swiss GAAP (Auer, 1996). An improvement in analysts' forecast accuracy was observed after firms adopted IFRS (Ashbaugh & Pincus, 2001). Investors responded favorably to actions that improved the likelihood of IFRS adoption (Armstrong et. al., 2008). Based on the foreign mutual fund ownership, Covrig et. al. (2007) found that IFRS reporting is helpful in attracting foreign institutional investment.

Overall, more informative financial reports increase investor knowledge about the company and contribute to the increased user confidence (Sunder, 2002). Thus, the adoption of IFRS in Russia has been identified as a "critical ingredient" for improvement in user confidence, financial transparency, and foreign investment (Russian Corporate Governance Roundtable, 2004). However, significant challenges remain as barriers to reform are still present.

Barriers for IFRS in Developing Economies

Critics have acknowledged that to be effective, accounting standards must take into account specific needs of developing countries (Briston, 1978; Hove, 1986; Nobes, 1998). Otherwise, it is postulated that wide but superficial adoption of IFRS will result in differences in actual reporting quality being hidden under the façade of uniform standards (Ball, 2006). It has been argued that before developing countries can institutionalize transparent financial reporting, they need to be "introduced to the market mechanisms and systems where stock market and free trade of shares flourish and financial statements can be consistently and prudently prepared, reviewed and analyzed" (Doost, 1997, p. 506). Doost (1997) noted that developing countries have adopted international standards without considering if such reporting system is applicable to their particular situation.

To determine if IFRS is appropriate for developing economies, researchers investigated the adoption and implementation of IFRS in specific jurisdictions. Chamisa (2000), based on the data collected in Zimbabwe, argued that IFRS is relevant only for countries where the private sector dominates the economy. A study of accounting practices in Pakistan found that due to weak governance and poor protection of the investor interests, the adoption of IFRS did not lead to the improvement in the actual quality of financial reporting (Ashraf & Ghani, 2005). Tyrrall et. al. (2007) concluded that the adoption of the standards in Kazakhstan was motivated by the need for funding rather than a desire for actual improvement in the accounting system. Based on these studies, actual improvement may depend on the existence of an appropriate supporting institutional infrastructure.

Russian Challenges

In Russia, challenges associated with IFRS adoption and implementation relate to the unique features in the Russian environment (Burchell et. al., 1985). Such features include the lack of training on IFRS principles, poor translation, enforcement problems, and entrenched informal practices (Aron, 2003; Nobes & Parker, 2006; Barnes, 2007). As to the lack of training, the majority of practicing accountants have not been exposed to the principles-based logic of IFRS financial reporting (McGee & Preobragenskaya, 2005). IFRS is a conceptual set of standards which emphasizes "substance over form" approach. In contrast, in Russia, accounting regulation has been prescriptive, promoting "form over substance" and providing specific instructions on how transactions need to be recorded (Russian Corporate Governance Roundtable, 2004). Russian accountants have not historically been encouraged to develop the professional judgment which is needed to implement conceptual standards (Mennicken, 2008).

The translation of the standards is a complicated process both legislatively and linguistically (Mennicken, 2008). Given that accounting in Russia is a part of legislative process, there would always be a lag between the time IFRS is issued, translated and then adopted as part of the Russian code (McGee & Preobragenskaya, 2005). Potential for linguistic misunderstandings is great as there is a lack of market-based business and accounting terminology in Russian. Even if the translated version is faithful to the original, it may not be compatible with the Russian accounting tradition (Russian Corporate Governance Roundtable, 2004).

The lack of an established standard-enforcing institution presents an additional challenge. The Securities Commission was created in 1994 but it lacks funds, qualified people, and clout to investigate misdeeds (Black et. al., 2000). Weaknesses of the audit and audit profession also contribute to enforcement and implementation problems (Russian Corporate Governance Roundtable, 2004, p. 8).

Informal social practices further compound the weakness in formal government structures. Ledeneva (2006) describes a number of prevalent informal practices that shaped post-Soviet business, including corruption and financial scheming. These practices compensate for the weaknesses in the institutional and legal framework and enable the functioning of the economy (Ledeneva, 2006). Opaque practices are routine in the Russian business environment, and transparency required by IFRS is often missing.

Corruption has become endemic in Russia (Enigma Variations, 2008). In the post- Soviet era, businesses pay bribes to obtain access to export licensing, state budget transactions, customs duties, and privatization deals (Ledeneva, 2006). The size of the corruption market is estimated at $300 billion which is as much as 20% of the country's GDP (Enigma Variations, 2008). It is expected that 80% of Russian businesses pay bribes (Enigma Variations, 2008)

Numerous schemes are utilized by the Russian businesses mainly in order to misrepresent the true state of affairs (Ledeneva, 2006). The practice of backdating sales, issuing false invoices, creating non-existent debt, over- or under-reporting receipts have become common in the post-Soviet business environment (Ledeneva, 2006). A more sophisticated financial scheming is used to channel profits and hide true ownership. Numerous companies and trusts are set up to make it impossible to locate true shareholders (Ledeneva, 2006). Such activities undermine the spirit of accountability and transparency intended by the financial disclosure.

Forces behind the Reform

In order to enter international markets and encourage investment, in 1998 the Russian Ministry of Finance[22] introduced a convergence project to align Russian Accounting Standards (RAS) with IFRS by 2010. The convergence approach was preferred to unconditional adoption of the Anglo-American accounting model (Sokolov

[22] Ministry of Finance of the Russian Federation has responsibility for instituting financial reporting reform for all organizations, except for banks and credit institutions which are regulated by the Bank of Russia.

et. al., 2001). RAS are intended to meet the needs of the tax authorities while IFRS focuses on financial reporting for external users. To accommodate the needs of external users, new accounting standards were issued by the Ministry of Finance in order to align accounting practices with IFRS. International organizations, for example the U.S. Agency for International Development (USAID), the American Chamber of Commerce in Russia, the European Bank for Reconstruction and Development (EBRD), and others, provided technical and financial assistance for the accounting reform process (de Leon, 1999). The convergence of RAS with IFRS on the national level has progressed slowly and there are still significant differences between the two sets of standards (Khazimuratova, 2006).

The main forces behind IFRS adoption in Russia have been individual Russian firms. These firms have more or less voluntarily adopted IFRS in order to access foreign markets and to raise capital. According to the 2007 list of the 400 largest Russian companies, 78 utilized IFRS for financial reporting (Expert, 2007). At the same time, all Russian companies must continue to report using RAS for the Russian authorities. As such, firms have to either maintain parallel accounts under both standards or perform transformations of RAS to IFRS at the end of reporting periods. The former approach is expensive and the latter is less accurate (Khazimuratova, 2006). Typically RAS-based information is transformed to IFRS at the end of the reporting periods. The process is time consuming and error prone (Barabanov, 2003).

Banks are another set of firms that are using IFRS. In contrast to the voluntary adoption by other firms, adoption in the banking sector is mandatory. During the 1990s, Russia received significant assistance from the IMF and the World Bank. The IMF advised Russia on the banking reform and recommended an introduction of IFRS in order to improve financial transparency (Odling-Smee, 2004). Following a period of financial instability, Russian banks have been required in 2004 by their regulatory body, the Bank of Russia, to use IFRS (Barabanov, 2003). The stability of the banking system has been seen as a prerequisite to the development of the equity markets (see review by Tompson, 2004). Increasing transparency is one of the main components of the banking reform in Russia. Banks are required to produce results according to IFRS to build confidence in the system known for opacity, shady deals, and under-reporting of non-performing loans (Tompson, 2004).

In light of the previously discussed barriers, as well as the potential for merely superficial compliance, it is not clear whether IFRS adoption will enhance financial reporting quality or investor protection in developing countries. Therefore, in this study I investigate perceived effects of the change toward IFRS in Russia. The investigation is guided by institutional and diffusion theories. These theories are complementary and allow studying the phenomenon of interest at national, firm, and individual levels. All of these levels are involved in the change process and are influenced by the transformation that occurs. A detailed description of the theories used in the study is presented in the following section.

Theoretical Framework

Institutional Theory

Institutions are social structures that have attained a widespread acceptance and a high degree of resilience (Scott, 1987; Oliver, 1991). Money, a common language, a unified legal system are all examples of institutions which influence behavior routinely and almost universally by providing individuals and organizations with scripts for acceptable action in a given context (DiMaggio & Powell, 1991). According to institutional theorists, established and accepted practices are also institutions that create a commonly understood social framework for behavior (Barley & Tolbert, 1997). When a practice reaches the level of widespread near universal acceptance it is said to be "institutionalized".

In institutional theory, the term "pillar" is used to describe the support base of different institutional practices. The pillars encourage conformity to institutionalized practices by "repetitively activated, socially constructed controls" that make deviations from institutionalized practices costly (Jepperson, 1991, p. 145). The research literature typically identifies three classes of pillars. These are regulative pillars, normative pillars, and cultural-cognitive pillars (Scott, 1987; Oliver, 1991).

The regulative pillar of institutions involves "the capacity to establish rules, inspect others' conformity to them, and, as necessary, manipulate sanctions-rewards or punishments in an attempt to influence future behavior" (Scott, 2001, p. 52). For example, compliance with legal rules is reinforced by potential penalties which are associated with noncompliance (Maguire & Hardy, 2009). In essence, regulatory pillars have the ability to coerce behavior.

The normative pillar of institutions is represented by shared values and norms. Norms and values impact behavior through persuasion and consensus rather than legal force. These mechanisms are viewed as imposing constraints on social behavior but also enabling social action (Scott, 2001). Organizational accreditation and professional licensing are examples of normative mechanisms in accounting. "They confer rights as well as responsibilities, privileges as well as duties, licenses as well as mandates" (Scott, 2001, p. 55).

The cultural-cognitive pillar is based on shared beliefs. For example, stereotypes about appropriate gender roles are cultural-cognitive pillars that support certain socially-acceptable behavior. Cultural pillars are important because common beliefs and conceptions may have more influence on organizations than the obligations associated with regulative or normative pillar (Selznick, 1996; Scott, 2001). However, Scott (2001) noted that all pillars can be mutually reinforcing.

DiMaggio and Powell (1983) empirically observed that structural similarities of modern organizations are the outcomes of their response to similar institutional imperatives. The term 'isomorphism' is used to capture the process that leads to these structural similarities and forces organizations to resemble each other under similar environmental conditions (DiMaggio & Powell, 1983). The reason organizations adopt similar forms, practices, and policies is to increase their legitimacy. This in turn gives the perception that their actions are socially desirable and appropriate (Suchman, 1995), which improves their ability to survive in their environment.

General Model of Institutional Change

Institutionalism by its nature and definition reflects a move toward isomorphism and stability. Yet empirically, institutions can and do change over time (Dacin et. al., 2002). In order to study the process of institutional change, Greenwood et. al. (2002) offer a model that specifies the stages that occur. The model was developed based on an integration of earlier theoretical and empirical literature (e.g., Berger & Luckmann, 1967;

Zucker, 1977; Tolbert & Zucker, 1996). It proposes six stages. The process starts with the first stage where social, technological, or regulatory jolts can destabilize the current practices. In stage II, deinstitutionalization occurs when consensus about the old practice is disturbed by the introduction of new ideas and players (Greenwood et. al., 2002). In the following stage of preinstitutionalization (stage III), organizations are argued to innovate independently in order to resolve the problems. In stage IV, the crucial theorization stage, new practices are explained and rationalized as a justifiable solution (Greenwood et. al., 2002, p. 60). If the new practices are compellingly presented, theorization is successful and is followed by diffusion and reinstitutionalization (stages V and VI). The diffusion and reinstitutionalization stages deal with the movement of new ideas within organizational communities and growing legitimacy of the new practices.

This study examines the diffusion stage of the process. The diffusion stage focuses on how innovations are transported within organizational communities. Innovations have to appear superior to existing practices in order for diffusion to occur (Greenwood et. al., 2002).

National and Transnational Pressures

Drawing from the institutional framework, Djelic and Quack (2003) (D&Q) provide insight on the diffusion of change by considering the interplay of national and transnational spheres. In this study, their perspective is used to investigate conditions that result in voluntary and/or mandatory adoption of IFRS. According to Djelic and Quack (2003), globalization propels modification of the institutional systems. These are typically incremental changes that contribute to the transformation of the national systems where "national configurations may erode and be reshaped progressively through time" (Djelic & Quack, 2003, p. 310). A country's dominant national practices are called the 'incumbent rules' (Djelic & Quack, 2003). While incumbent rules still play an important role in today's environment, 'challenger rules' are undermining their dominance. Challenger rules are the rules of the economic game from another national or transnational space (Djelic & Quack, 2003, p. 310). The challenger rules at times conflict and challenge the established national institutional framework.

Djelic and Quack (2003) propose that transformation of national institutional systems occurs through one of two paths. They label these as trickle up or trickle down trajectories. The trickle up movement of challenger rules is initiated *voluntarily* at the sub-national level by national or foreign actors, including: individuals, groups of individuals, firms or network of firms. Local actors expanding abroad are one of the reasons for the trickle up changes in the national institutions (Djelic & Quack, 2003).

The trickle down trajectories are often associated with the *mandated* changes at the national level (Djelic & Quack, 2003). Countries with weak incumbent rules and dependency on transnational organizations, such as IMF and the World Bank, are more likely to mandate a trickle down of the challenger rules (Djelic & Quack, 2003). The directive from the national authority represents a trickle down trajectory of the change in national financial reporting. Djelic and Quack (2003) credit such adoptions to mimetic mechanisms where challenger rules typically are adopted due to their perceived superiority. D&Q (2003) focus on the transformation of national institutions. Next section examines the impact of such changes on individuals who are charged with implementing challenger rules.

Individual Actors and the Diffusion of Innovations Theory

Prior institutional studies have examined the diffusion of ideas within organizational communities (e.g., Davis, 1991; Davis & Greve, 1997; Gulati, 1995; Tolbert & Zucker, 1983). However, these studies have generally not addressed the consequences and the impact such changes have on individuals that are tasked with implementing the changes. More recently, the importance of individual actors in creating, maintaining, and disrupting institutions has been recognized because actors affect institutional arrangements within which they operate (Lawrence & Suddaby, 2006; Lawrence, et. al., 2009). Diffusion theory of innovations provides a framework that allows to investigate how innovations (known as the challenger rules in Djelic and Quack, 2003) are spread across members of social system (Rogers, 1995). In this study it is used to complement Greenwood et. al.'s (2002) general *model of institutional change.* That model identifies the diffusion stage but does not offer specifics on how institutional change penetrates the organization to the individual level.

Elements of Diffusion

Innovation, Social System & Communication

Diffusion is an important stage in the institutionalization of change. It involves the adoption of innovation by members of a social system which then leads to a broader adoption by other members (Levi-Faur, 2005, p. 23). Rogers (1995) theorizes the process and the elements involved in diffusion. The main elements of diffusion are the innovation itself, its surrounding social system, communication methods, and time-related innovation-decision process. The innovation is a tangible object or an intangible idea or practice that is perceived as new. As long as it is perceived as new, it is considered an innovation irrespective of the time since its discovery (Rogers, 1995). A device, management practice, norm, or new standard are all examples of potential innovations.

Diffusion theory recognizes the importance of the surrounding social system for adoption and diffusion of innovations. Diffusion theory has been used to investigate the spread of technological innovations (e. g. Lee & Runge, 2001). It has also been used to examine the diffusion of social phenomena, such as organizational management practices (Castka & Balzarova, 2008) and accounting practices (Alcouffe et. al., 2008). According to Rogers (1995), individuals, organizations, and informal groups are members of a social system. Such systems are believed to condition the behavior through social norms (Rutherford, 1994). The social norms consist of various types of rules that are enforced by social approval or disapproval. The structure of the social system and the pre-existing norms can hinder or facilitate the diffusion of the innovation (Rogers, 1995).

According to Rogers (1995), the adoption decision is typically based upon a subjective evaluation of the innovation by other individuals that previously adopted the innovation. "This dependence on the communicated experience of near-peers suggests that the heart of the diffusion process is the modeling and imitation by potential adopters of their network partners who have adopted previously" (Rogers, 1983, p. 18). Specifically, the wider adoption of innovations depends on the positive perception of the innovation by the early adopters (Rogers, 1983).

Innovation-Decision Process: Evaluation

This study focuses on the organizational adoption of innovation and individual evaluation of the innovation because it is relevant for future diffusion. Rogers (1983) considers early adopters to be the missionaries of the diffusion process and the "opinion leaders" in providing advice and information about the innovation. As previously noted, the perceptions about the innovation by early adopters influence whether the innovation will experience a broader diffusion.

Additionally, the study evaluates the spillover effect from the IFRS adoption to the perceptions of the countries' broader financial reforms. "Spillovers occur when information and existing perceptions influence beliefs that are not directly addressed by or related to the original information source or perception object" (Janakiraman et. al., 2009). The marketing literature has examined spillover effects due to their importance in understanding the likely success of new product introductions (e. g. Ahluwalia et. al., 2001; Balachnder & Ghose, 2003; Janakiraman et. al., 2009). Ahluwaia et. al. (2001) found that positive spillover to attributes of a single product occurs when consumers like the brand. More recently, Janakiraman et. al. (2009) observed spillover effect across competing but similar brands. In this study the spillover effect is of interest in order to investigate whether the perceptions of IFRS extend to perceptions about the broader financial reforms in the country. The next section applies the theoretical perspectives described in this section to the adoption of IFRS in Russia.

IFRS Adoption in Russia

In Russia, the weak financial reporting system coupled with the desire to develop local markets and access foreign capital has moved firms toward IFRS adoption. Using diffusion theory (Rogers, 1995), in the Russian context IFRS can be conceptualized as an innovation. These standards are the transnational rules of the economic game that enter the national space and challenge the 'incumbent rules'.

Perceptions of Adopters

Russian firms have been adopting IFRS in order to improve the perceived quality of their financial reporting. Individuals from the firms that are utilizing IFRS are working under a new script. They are being exposed to the international reporting framework and principles of transparency and investor protection. As indicated by the diffusion of innovations theory, the wider adoption of innovations depends on the positive perception of the innovation by the early adopters (Rogers, 1983). Because their subjective evaluation is at a heart of the diffusion process, this study is looking to determine whether the perceptions of adopters differ from non-adopters.

> *Research Question 1*: Do perceptions of effectiveness of IFRS transition differ between adopters and non-adopters?

Spillover Effect

Next, the study examines the potential for the spillover effect. The spillover effect is of interest in order to gain insight on whether the perceptions of IFRS-related reforms spillover to the perceptions of broader financial reforms. Russia does not have a long history of setting quality standards for external financial reporting. There is a belief that transnational standards may contribute to higher quality financial reporting (Sucher & Bychkova, 2001). Ahluwaia et. al. (2001) found that positive spillover to other product attributes occurs when consumers like the brand. Thus, the analogous question here is whether the perceptions of IFRS-related reforms spillover to perceptions about the broader financial reforms in Russia.

> *Research Question 2*: Is there a spillover effect of the perceptions of broader financial reforms in Russia, such that positive IFRS perceptions are associated with positive perceptions of broader financial reforms?

Mandatory and Voluntary Adoption

Russia's financial reporting system is going through transition. In addition to developing RAS, a wide range of firms have adopted IFRS voluntarily or due to a government mandate. Russia offers a unique setting to explore voluntary and mandatory IFRS adoption within the same country, thus controlling for a wide variety of cultural and economic factors.

The voluntary adoption is associated with the trickle up trajectory of change (Djelic & Quack, 2003) and in Russia is reflected by the voluntary adoption of IFRS by certain firms. Russian companies trading on foreign markets adopt IFRS in order to participate in foreign capital markets. On the other hand, Russian banks have been mandated by their regulatory body, the Bank of Russia, to use IFRS. The directive from the national authority represents a trickle down trajectory of change in national financial reporting (Djelic & Quack, 2003). As previously noted, Russian banks have been required in 2004 by their regulatory body, the Bank of Russia, to use IFRS. The standards were expected to increase the quality and comparability of information in the banking sector (Tompson, 2004).

Prior studies have evaluated whether voluntary and /or mandatory adoption of IFRS resulted in capital market benefits to the firm. Such benefits were operationalized as greater liquidity and lower cost of capital. The evidence on voluntary adoption of IFRS is mixed but on balance shows positive capital market effects for voluntary adopters (e.g., Leuz and Verrecchia, 2000; Cuijpers & Buijink, 2005; Karamanou & Nishiotis, 2009). Daske et. al. (2008) found that, relative to the voluntary adopters, mandatory adopters did not gain in market value or market liquidity in the year of the mandated switch. The differences in effects were attributed to better responsiveness by voluntary adopters to institutional changes (Daske et. al., 2008).

Considering the observed differences in the market effects associated with the varying trajectories that drive IFRS adoption, this study examines whether the perceptions of the standards vary depending on the trajectory of adoption in Russia. When the adoption is initiated by firms, it is possible that individuals from those firms will be more attuned to the nature of changes associated with the adoption of IFRS. At the same time, banks have adopted IFRS due to the mandate from the Bank of Russia, thus may have greater commitment from the local regulatory body to provide proper training and resources. Due to the lack of information about the direction of these relationships, this leads to the exploratory research question:

> *Research Question 3*: Do perceptions of effectiveness of IFRS transition differ among voluntary and mandatory adopters?

Research Method

The study explores whether the firm-level adoption of IFRS impacts individuals who are tasked with implementation and, theoretically, play a role in the future diffusion of the standards. Data from a national survey are used to measure the variables. Due to the categorical nature of the dependent variable, Chi-square tests of independence and multinomial logistic regression are used to analyze the data.

Data

The data for this study were obtained from a survey conducted as part of the Accounting Reform (AR) project[23]. The overall objective of the Accounting Reform project was to assist in the implementation of the accounting reform in Russia. As part of the project, three national surveys were conducted to evaluate the attitude of Russian businesses toward financial reporting reforms in general and IFRS in particular. The last survey was conducted at the end of 2007. The list of companies surveyed was created based on the data from the Goscomstat (State Statistical Committee), Uniform State Register, and Business Information Agency (Accounting Reform, 2004-2007). To ensure the representativeness of the population, companies were divided into groups based on size, region, and ownership structure (Accounting Reform, 2004). A random sample was taken from each stratum in proportion to the total population. The participants were interviewed using Computer Assisted Telephone Interviewing (CATI) technique[24].

The AR project data were received in Russian and translated by the author of this study and verified by another Russian language expert. A total of 1236 accounting and finance employees were interviewed. Out of this total, 206 participants were from the firms that have adopted IFRS. Participants included controllers, assistant controllers, accountants, and financial analysts. A control question was included to measure participant familiarity with IFRS. All participants knew about IFRS.

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[23] The description of the Accounting Reform project and descriptive survey results are retrieved from http://www.accountingreform.ru/. The data were collected by Romir Monitoring, a firm that specializes in market research and analysis, for PriceWaterhouseCoopers-Russia as part of the Accounting Reform project.

[24] With a paperless CATI system, the computer constantly monitors the process and automatically dials pre-selected telephone numbers for the interviewers. Because a computer controls the questionnaire, skip patterns are executed exactly as intended and responses are within range.

Measures

Dependent Variables

The research questions address the perceptions of employees regarding IFRS and broader financial reforms in Russia. According to diffusion theory, the perceptions of early adopters matter greatly for broader diffusion of IFRS. All variables and measurement categories are described in Table 8. For research questions 1 and 3, perceptions about transition success and educational opportunities evaluate the effectiveness of IFRS transition:

1. Success of transition: How do you rate the success of transition toward IFRS in the past 5 years in Russia? 0 – can't answer; 1 - no progress, 2 – almost no progress, 3 – noticeable progress; 4 –significant progress

2. Opportunities to learn: Over the past 5 years in Russia, has there been an improvement in opportunities to learn IFRS? 0 – can't answer; 1 – no improvement; 2 – almost no improvement; 3 – noticeable improvement; 4 – significant improvement

According to institutional theory, IFRS is externally legitimized set of standards which is expected to elevate user confidence in financial reporting. The response to the question below evaluates whether diffusion of IFRS was effective in achieving that goal.

3. User confidence: Do you think the use of IFRS increases user confidence in the financial statements of an organization? 0 – can't answer; 1 – does not increase confidence at all; 2 – no faster increase in confidence; 3 – neither, nor; 4 – faster increase in confidence; 5 – significantly increases confidence

The next question evaluates the timeframe that groups of interest advocate for mandatory transition to IFRS. It is used to get information about the attitude toward wider diffusion of the standards.

4. Transition timeframe: When do you think the mandatory IFRS transition should occur in Russia? 0 – can't answer; 1 – 2008; 2 – 2009; 3 – 2010; 4 – after 2010; 5 – never

Answers to the following questions are used to examine the perceptions associated with the spillover effect to broader reforms (research question 2). Specifically, whether positive (negative) IFRS-related perceptions are associated with the positive (negative) perceptions of broader financial reforms at a national level.

5. Russian financial reforms: How do you rate the progress of reforms in financial reporting in Russia in the past 5 years? 0 – can't answer; 1 - no progress, 2 – almost no progress, 3 – noticeable progress; 4 –significant progress

6. Reforms of Russian accounting standards: How do you rate the progress over the past 5 years in creating Russian accounting standards that align with the needs of users and financial markets? 0 – can't answer; 1 - no progress, 2 – almost no progress, 3 – noticeable progress; 4 –significant progress

Questions above measure six different perceptions related to the success of IFRS transition. Single items are used to evaluate each perception. While multi-item measures are often preferred (Sackett & Larson, 1990; Wanous et. al., 1997; Nagy, 2002), pre-existing data offers limited options.

Test and Control Variables

Research question 1 and 2 examine potential differences between adopters and non-adopters. Therefore, the main test variable for research questions 1 and 2 is whether IFRS was adopted or not. For research question 3, only responses of adopters were evaluated in order to evaluate differences between mandatory and voluntary adopters. To differentiate between mandatory and voluntary adopters, banks were coded as mandatory adopters because they are required to use IFRS by law. Other firms were considered voluntary adopters.

Additional factors that can potentially influence perceptions of IFRS and wider reforms are included in the model as control variables. These include regions of Russia, industry, size of the firm, and individual knowledge of the standards. Regions matter because economic activity is not uniformly distributed. Russia is a large country with significant differences across the regions (Brainerd, 1998). Seven predetermined categories are used to identify the region where the firm is located. The industry is reflected through seven predetermined categories and is included because it has an impact on firm's strategic decisions (Porter, 1980). Firm size is included to control for variation among firms in financial reporting sophistication (Daske et. al., 2008). Firm size is measured by the number of employees and is based on five predetermined categories. Finally, the self-reported level of IFRS knowledge ranged from minimal to expert.

Regression Model

In order to predict categorical dependent variables with more than two classes of categories, multinomial logistic regression is used. The application of multinomial logistic (MNL) specification allows an estimation of likelihood of certain perceptions from participants given the values of test and control variables. The descriptions of all variables and their measures are summarized in Table 8. The data are analyzed using the following models:

Research Question 1: The analysis was based on responses from 1,236 individuals.

$$\textit{Perception X} = \beta_0 + \beta_1 \textit{ Adoption of IFRS} + \beta_2 \textit{ Industry} + \beta_3 \textit{ Region} + \beta_4 \textit{ Firm Size} + \beta_5 \textit{ IFRS Knowledge} + \varepsilon$$

where X = perceptions 1 through 4.

Research Question 2: The analysis was based on responses from 1,236 individuals.

$$\textit{Perception } \mathrm{X} = \beta_0 + \beta_1 \textit{ Adoption of IFRS} + \beta_2 \textit{ Industry} + \beta_3 \textit{ Region} + \beta_4 \textit{ Firm Size} + \beta_5 \textit{ IFRS Knowledge} + \varepsilon$$

where X = perceptions 5 and 6.

Research Question 3: Data from 206 adopters were analyzed for the following model.

$$\textit{Perception } X = \beta_0 + \beta_1 \textit{ Type of IFRS Adoption} + \beta_2 \textit{ Industry} + \beta_3 \textit{ Region} + \beta_4 \textit{ Firm Size} + \beta_5 \textit{ IFRS Knowledge} + \varepsilon$$

where X = perceptions 1 through 4.

The study uses self-report measures to investigate the relationships of interest. The accuracy of self-report measures has been questioned due to a number of existing response biases and the potential for inflated correlations attributed to data collected through a common method (Donaldson & Grant-Vallone, 2002; Podsakoff et. al., 2003). The nature of the biases varies based on the construct of interest (Spector, 1994; Donaldson & Grant-Vallone, 2002). The methodology is considered valuable for measuring people's feelings and perceptions (Spector, 1994). Particularly, self-report measures are useful when utilized for measuring outcome variables in changing conditions (Spector, 1994). For example, Griffin (1991) used self-report data to examine how job changes impacted the perceptions of job conditions. Similarly, in this study the measures are used to gauge perceptions of various aspects of IFRS adoption and wider reforms.

When the data are collected from the same source, there is a risk that covariance observed between the dependent and independent variables is produced by the fact that the measurement is obtained from the same respondent (Podsakoff et. al., 2003). It is particularly problematic when dependent and independent variables measure attitudes, perceptions, and behaviors (Podsakoff et. al., 2003). In this study the issue is less problematic due to the different nature of the variables. The dependent variables measure perceptions while independent variables consider respondent and firm characteristics.

Data Analysis

Descriptive Statistics and Univariate Analysis

Table 9 displays summary statistics grouped based on whether IFRS was adopted or not. Participants are grouped according to the industry, the region of Russia, and size of the firm. Examination of the summary information suggests some differences between the groups. As presented in Table 9, Panel A, in terms of industries, adoption is heaviest in finance (almost 60%). Such trend is expected as banks are mandated to adopt IFRS. The proportion of adopters in other industries varies between 10-16%. IFRS has been adopted by companies in various regions across Russia (Table 9, Panel B). Firms located in Moscow and Central region of Russia represent 82 out of 206 IFRS adopters in this study. These areas are considered a hub of Russia's economic activity. More banks and companies doing international business are located there. Diffusion theory shows that organizational links formed due to the physical proximity and other connections influence the diffusion of practices (Rogers, 1995). In this case, such links may develop from belonging to a specific industry and/or region of a country.

As predicted by diffusion theory, due to greater resources, larger firms are more likely to be the early adopters of innovations (Table 9, Panel C). This is because larger firms have greater resources to enter the foreign markets. In terms of knowledge, participants from firms that adopted IFRS self-reported greater overall knowledge of IFRS ($\chi 2 = 120.200$, $p < 0.001$).

As part of univariate analysis, responses of adopters and non-adopters to measures of interest were examined. Examination of the data indicates significant differences between the groups. Results for the research question 1 are presented in Table 10.

Adopters of IFRS had a more positive perception of transition toward IFRS ($\chi 2 = 66.171$, $p < 0.001$) and improvement in opportunities to learn IFRS ($\chi 2 = 43.066$, $p < 0.001$). These responders were more likely to perceive IFRS improving user confidence ($\chi 2 = 20.813$, $p < 0.01$) and were more likely to voice support for a shorter timeframe on a national adoption ($\chi 2 = 34.769$, $p < 0.001$). Overall, the adopters were more positive about IFRS than non-adopters.

In order to test the existence of a spillover effect presented in research question 2, correlations between the dependent variables were examined. Table 11 reveals a positive association between perceptions of IFRS-related reforms and broader financial reforms in Russia. Specifically, Spearman correlations between the evaluation of IFRS transition success, the progress of overall financial reforms, and the progress of creating Russian standards were 0.235 ($p < 0.001$) and 0.258 ($p < 0.001$), respectively. To examine whether there are differences between adopter and non-adopter perceptions of broader reforms, univariate analysis was performed (Table 12, Panel A). The differences between the groups were significant. Adopters of IFRS had a more positive perception of broader reforms in Russia ($\chi 2 = 19.643$, $p < 0.01$) and progress made in creating Russian accounting standards ($\chi 2 = 11.579$, $p < 0.05$).

In general, preliminary analysis revealed no significant differences between voluntary and mandatory adopters in terms of perceptions of IFRS (Table 12, Panel B). Improvement in learning opportunities was one area where voluntary adopters were significantly more positive about the progress ($\chi 2 = 11.265$, $p < 0.05$). In summary, univariate results indicate that while adoption influences perceptions, the trajectory of adoption (voluntary vs. mandatory) does not.

As a final univariate analysis, the bivariate correlations between pairs of the test and control variables were examined (not tabulated). Correlations between test and control variables ranged between 0.020 and 0.300. Absolute value of correlations among the control variables were below 0.170. These correlations do not provide an indication of unacceptable level of multicollinearity that can bias results[25].

Multivariate Results

The study evaluates whether IFRS adoption, after controlling for industry, geographic location, size of the firm, and overall familiarity with the standards, explains individual perceptions of the standards and broader financial reforms. The sentiments of the adopters are important for future diffusion of the standards. The empirical models examining these relationships are evaluated using multinomial logistic regression. The parameters were estimated using maximum likelihood estimation.

RQ 1: Perceptions of Effectiveness of IFRS Diffusion

The results of the multinomial regressions exploring this research question are presented in Table 13. Four different dependent measures were used. Each had a different response scale. Thus, four regressions are summarized. The effectiveness of transition was evaluated by examining the perceptions about (1) the success of transition, (2) opportunities to learn, (3) user confidence, and (4) a timeframe for a national IFRS adoption. The overall model fit is assessed by using a log likelihood $\chi 2$ statistic. The fit for all models was statistically significant at $p < 0.01$.

[25]According to Farrar and Glauber (1967), multicollinearity can reach harmful levels when bivariate correlations are above 0.80 (p. 98).

Table 13, column (1) contains the model evaluating whether IFRS adoption influences perceptions of success of IFRS transition. Whether IFRS was adopted was significantly related to how individuals rated success of the transition ($\chi 2 = 28.444$, $p < 0.001$). Individuals from firms that adopted IFRS were more likely to perceive the success of transition to IFRS in Russia more positively than non-adopters.

The results for the model evaluating the impact of variables of interest on the perceptions of improvement in IFRS educational opportunities is presented in Table 13, column (2). There is a significant relationship between the adoption of the standards and how IFRS-related learning opportunities were perceived ($\chi 2 = 9.951$, $p < 0.05$). Adopters were more likely to indicate greater improvement in educational opportunities as compared to non-adopters.

Table 13, column (3) contains the model evaluating the impact of IFRS on user confidence. The adoption variable was significant at the 0.061 level. The responses to whether the use of IFRS increases user confidence in the financial statements indicate that adopters have a more positive perspective of IFRS impact on user confidence. The marginally significant result for the impact of IFRS on user confidence brings to mind previous assertions that some developing countries superficially adopt IFRS as a "quick fix" to give the impression of having addressed the underdeveloped national accounting standards (Belkaoui, 2004). Because establishing and maintaining a reputable financial disclosure regime is expensive and involved, there is a concern that the adoption of IFRS has more to do with "window-dressing" than with a desire to improve *actual* financial reporting (Ball, 2006).

Overall, adopters of IFRS had more positive perceptions of the switch to IFRS, educational opportunities, and the impact of IFRS on user confidence. Thus, it is consistent with that trend that adopters would voice support for national adoption to take place at an earlier date. The analysis of the timeframe measure is contained in column (4), Table 13. Non-adopters were more likely to prefer mandatory IFRS adoption to take place at a later time as compared to adopters of IFRS ($\chi 2 = 24.950$, $p < 0.001$).

The control variables measuring firm size and the level of overall IFRS knowledge were statistically significant for success of transition and timeline dependent measures ($p < .05$). The results indicate that participants from larger firms and with greater overall knowledge of IFRS rated the success of transition more positively and were more likely to accept earlier timeline for mandatory IFRS adoption. The region control variable was significant only for the user confidence model (p < 0.01).

RQ 2: Spillover Effect

Next I investigate whether adopters of IFRS also have more positive perceptions of the broader financial reforms in Russia than non-adopters. The models evaluating the impact of IFRS adoption on the perceptions of broader financial reforms were estimated. The fit of both models was statistically significant at $p < 0.001$.

Table 14, column (1) provides results for the model evaluating the perceptions of financial reporting reforms in Russia. Adoption of IFRS was significant ($\chi 2 = 10.707$, $p < 0.05$). The detailed examination of the group coefficients indicates that adopters of IFRS were more positive about the rate of progress associated with financial reforms in Russia than non-adopters.

The creation of the Russian accounting standards that meet investor needs is a part of the financial reforms taking place in the country. The results for the model evaluating the progress made are presented in Table 14, column (2). IFRS adoption was significant at 0.056 level.

Firm size was significant for both models ($p < 0.05$). Larger firms were more positive about the financial reforms and the creation of the Russian standards. Also, individuals with greater knowledge of IFRS were more positive about the progress being made on reforming Russian standards.

In summary, adopters of IFRS had a more positive perception of broader financial reforms in Russia. The results suggest a spillover effect where adopters of IFRS not only had a more positive perception of IFRS diffusion but also bestowed higher ratings on the broader financial reforms in Russia. Thus, utilization of externally legitimized transnational standards in developing countries may positively influence the perceptions of broader financial reforms in the country.

RQ 3: Perceptions of Effectiveness of IFRS Diffusion by Voluntary and Mandatory Adopters

The adoption of IFRS occurs due to either the trickle up or trickle down trajectories of change. The differing trajectories result in voluntary or mandatory adoptions of the standards. In order to investigate differences between voluntary and mandatory adopters, models evaluating the perceptions of IFRS-related and broader reforms were estimated.

The results were consistent with the observations from the univariate analysis. The only model that established differences between mandatory and voluntary adopters relates to educational opportunities. Table 15 presents results only for that model. The model was significant with $\chi 2 = 106.732$, $p < 0.01$. Voluntary adopters were more likely to confer a 'significant improvement' rating on available educational opportunities than mandatory adopters. As noted in Hail et. al. (2009), voluntary adopters are theorized to be more open to institutional changes, thus may be more proactive in exploring educational opportunities.

Discussion, Limitations and Conclusions

Developing economies are adopting IFRS in order to enhance financial transparency, international comparability and credibility of financial reporting (Mennicken, 2008). The expectations of improvements are based on the premise that IFRS are more comprehensive and of higher quality than most local GAAP (Ding et. al., 2007; Daske et. al., 2008). While there is a continuing conversation within the academic community about potential benefits and drawbacks of IFRS adoption, how IFRS are perceived by adopters has not been investigated.

Diffusion of innovations theory provides a framework for investigating how innovations (known as the challenger rules in Djelic and Quack, 2003) are spread across the members of a social system (Rogers, 1995). In this study diffusion theory is used to complement Greenwood et. al.'s (2002) general *model of institutional change.* That model identifies the diffusion stage but does not offer specifics on how institutional change penetrates the organization to the individual level. Perceptions of individuals matter theoretically because perceptions about the innovation by early adopters influence whether the innovation (IFRS, in this case) will experience a broader diffusion (Rogers, 1995). Through drawing on a number of theoretical models, this study makes an important theoretical contribution to the examination of institutional change and, specifically, the diffusion portion of the process. By taking into consideration trajectories of change and examining the diffusion vertically, I am able to theorize and test the impact of institutional change on individual perceptions.

Based on responses from 1,236 accounting and finance employees in Russia, this study focuses on how IFRS adoption is perceived by individuals from firms that adopted the standards and firms that did not. The investigation also evaluates whether there are differences between perceptions of individuals from firms adopting IFRS voluntarily or due to a mandate. Finally, the study examines spillover effects associated with IFRS adoption and the evaluation of broader financial reforms in a country.

The study's results suggest that adoption of IFRS influences the perceptions of adopters. Research Question 1 examined whether perceptions about the effectiveness of IFRS diffusion differ among adopters and non-adopters. Adopters had a more positive view of transition toward IFRS and the impact of IFRS on confidence of users. The findings indicate that adopters have a more positive view and would like to have a shorter timeframe for the national transition. The observed positive perceptions of IFRS-related issues by early adopters are encouraging as the early adopters can drown out the negative messages about the innovation (Roger, 1983). Such positive perceptions about the innovation by early adopters bode well for the wider diffusion of IFRS in Russia.

The next research question evaluated whether adopters of IFRS also have a more positive opinion about the broader financial reforms taking place in the country. Because capital markets work on trust, public perceptions of reforms are essential for well-functioning financial markets (Chenok, 1994). Although financial reforms in Russia have progressed slowly, adopters of IFRS have a more positive perception of ongoing financial reforms than non-adopters. Thus, developing countries may be successfully using IFRS to legitimize evolving financial reporting structure. From the policy perspective, it is practical for developing and transition economies to permit or require IFRS in order to communicate progress in reforming financial reporting.

The final research question evaluated whether perceptions of effectiveness of IFRS diffusion differ among voluntary and mandatory adopters. In general, perceptions of voluntary and mandatory adopters were not significantly different. The lack of differences may be due to the fact that while voluntary adopters do not have a national requirement to adopt IFRS, their adoption is quasi-voluntary. These firms are adopting IFRS in order to be able to trade on the foreign stock markets and are in effect complying with the rules governing these markets. The findings indicate that perceptions of reforms by adopters do not vary based on whether the adoption is required by a national or a foreign mandate. Thus, capital needs of developing countries are moving firms toward transnational standards prior to the national mandate. Through such adoptions, institutional frameworks of other countries are influencing financial transparency in developing countries.

The only significant difference between voluntary and mandatory adopters was related to the perceptions of IFRS educational opportunities. The voluntary adopters were more positive about the improvement in opportunities to learn IFRS. This indicates that voluntary adopters may be more likely to seek out educational opportunities and get familiar with IFRS. Increased familiarity with the standards may contribute to actual changes in reporting quality. Alternatively, a "quick fix" mandated adoption may have more to do with the desire to give the impression of having addressed the underdeveloped national accounting standards than with *actual* improvement in financial reporting (Ball, 2006). While some prior studies have found some positive capital markets effects for voluntary adopters (e.g., Karamanou & Nishiotis, 2009; Daske et. al., 2008), evidence have been mixed. Future studies can further examine how the type of adoption impacts the implementation of the standards and the quality of financial reporting.

Limitations and Conclusions

A number of limitations have to be considered when interpreting the findings of this study. The perceptions of the reforms are examined based on the sample from Russia. While there are similarities, there are also significant differences in the governance of developing countries, specifically BRICs. According to Standard & Poor's report, Russia lags behind Brazil, India, and China in financial reporting transparency (Shvyrkov et. al., 2008). Thus, the perceptions of reforms there may differ from other countries.

The study relied on a secondary data. The self-report data utilized is prone to biases. In particular, results for research question 2 may be subject to common rater bias due to consistency motif of responders to appear consistent and rational (Podsakoff, 2003).

By design, the study only permits top level inferences about the perceptions of IFRS and potential implications of such for future diffusion. Questions about actual implementation of IFRS could not be answered. Issues related to standard implementation and enforcement are critical for materialization of 'IFRS promise'. "Even if the standards themselves mandate superior accounting practices and require more disclosures, it is not clear whether firms implement these requirements in ways that make the reported numbers more informative" (Hail et. al., 2009, p. 21). Proper enforcement infrastructure may encourage firms to actually change their reporting practices and not just adopt the label of IFRS (Daske et. al., 2008; Hail et. al., 2009).

In conclusion, the study utilizes the explanatory power of the three conceptual frameworks in theorizing the importance of perceptions in further diffusion of institutional change. The findings illustrate that individuals from firms that adopted IFRS rate the effectiveness of diffusion more positively than participants from non-adopting firms. Such response is desirable and indicates the recognition of potential benefits associated with adoption of IFRS in Russia.

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GENERAL CONCLUSION

This dissertation examined institutionalization of International Financial Reporting Standards in domestic and international arenas through three interrelated studies. Institutional theory and complementary models were used to investigate the institutionalization of IFRS world-wide, in U.S., and in Russia. With increasing importance of IFRS, this dissertation advances the literature by offering insights for academics and policymakers.

The first study investigated whether institutional factors such as the country-level governance, economic development, and nationalism impact the level of IFRS adoption. Based on data for 71 countries, results show that the level of IFRS adoption is influenced by the variables of interest. The results are consistent with the world-level institutional theory which predicts that countries attempt to appear legitimate and may utilize IFRS adoption as a tool to gain the needed legitimacy. Specifically, countries with weaker national governance structures and lower economic development demonstrated the highest level of commitment to IFRS by *requiring* the use of the standards. Nationalism was found to influence the extent of adoption. In high quality governance countries highly nationalistic countries with otherwise strong environments are less likely to permit IFRS. Less nationalistic countries in strong environments are more likely to permit IFRS. Nationalism is trumped by the need for legitimacy in environments with weak governance. The findings have implications not only for adoption of IFRS but also for the spread of other transnational standards and regulation. Building on these findings, future research should further focus on the impact of institutional factors on implementation of transnational standards.

The second study examined the ongoing change in the U.S. accounting regulation. In 2007, the Securities and Exchange Commission (SEC) proposed and subsequently accepted the proposal to allow foreign issuers to file IFRS-based financial statements. The study contributes to transnational accounting regulation literature by deepening the understanding of how institutional change in accounting standards is theorized and justified by domestic, foreign, and transnational participants. The study is informed theoretically by a combination of the following: a model of institutional change (Greenwood et. al., 2002), the role of rhetoric in legitimating institutional change (Suddaby & Greenwood, 2005), and the agents of change model (Djelic & Quack, 2003b). The position and rhetoric from the 117 comment letters to SEC from different groups, including regulators, transnational firms, and investors, were examined to investigate their participation in the change process. The interplay of transnational, foreign and domestic players within the same arena reveals how these groups mobilize to defend or defeat institutional change. The study empirically demonstrates the increasing involvement of the transnational players in domestic institutional change. The combined voices of dominant, largely transnational players have contributed to the institutionalization of IFRS in U.S. and deinstitutionalization of U.S. GAAP as a dominant standard.

The third study evaluated the perceptions of IFRS by early adopters in Russia. The study utilizes the explanatory power of the three conceptual frameworks in theorizing the importance of perceptions in further diffusion of institutional change. The study focuses on how IFRS transition is perceived by individuals from firms that adopted the standards and firms that did not. Perceptions matter theoretically because perceptions about the innovation (IFRS, in this case) by early adopters influence whether the standards will experience a broader diffusion (Rogers, 1995). The investigation also evaluates whether there are differences between perceptions of individuals from firms adopting IFRS voluntary or due to a mandate. Based on responses from 1,236 accounting and finance employees in Russia, the results suggest that adoption of IFRS influences the perceptions of diffusion. In general, adopters had a more positive view of transition toward IFRS. Adopters also had a more positive perception of broader financial reforms taking place in Russia. Further, the perceptions of reforms by adopters did not vary based on whether the adoption was required by a national or a foreign mandate. Such response is desirable for greater diffusion of IFRS and indicates the recognition of potential benefits associated with adoption of IFRS in Russia.

Overall, the three studies within this dissertation advance the IFRS literature. Institutional theory and complementary models are used to study country-level IFRS adoption, U.S. transition toward IFRS, and perceptions of IFRS and broader reforms in Russia. The empirical results provide important implications for institutionalization of IFRS in the U.S. and globally.

APPENDIX: TABLES

Table 1: Description of the Variables

Variable	**Description and Data Source**
Dependent Variable	
IFRS2003	Level of IFRS adoption. Defined as 2 if IFRS was *required* for all domestic listed companies or for some industries, as 1 if IFRS was *permitted* (but not required) and 0 if it was *not* permitted. Source: Delloitte and Touche (2003).
Test Variables – Institutional Factors	
Governance (Govern)	The 2002 Worldwide Governance Indicators (WGI). *Govern* is a sum of the ratings of six standardized governance components: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, control of corruption. Source: Kaufmann, et. al., 2007.
Economic Development (GNI02)	2002 GNI per capita. Source: World Bank - World Development Indicators, 2002.
Nationalism	The response to "How proud are you to be [American, Italian, Russian, etc]"? is coded as follows: (4) very proud, (3) quite proud, (2) not very proud, and (1) not at all proud. Source: World Value Survey, available from http://www.worldvaluessurvey.org/.
Control Variables	
Legal Origin	Source: University of Ottawa http://www.droitcivil.uottawa.ca/world-legal-systems/eng-monde.html.
ComLaw	Countries with legal system rooted in English common law.
CivLaw	Countries with legal system rooted in Roman civil law.
OtherMix	All other.
Access	Index of the extent to which business executives rate the ease of investing in stocks and bonds for foreign investors (1=are prohibited from investing in stocks and bonds in your country, 7=are free to invest in stocks and bonds). Source: 2001-2002 Global Competitiveness Report. Based on the median, the data is converted into the following categories: 0 = not rated, 1 = low access, 2 = high access.

Table 2: Descriptive Statistics for Variables of Interest

Panel A: Continuous Test Variables Classified by the Level of IFRS Adoption Governance, Economic Development, Nationalism

	IFRS not permitted (0)				IFRS permitted (1)				IFRS required for all or some (2)				χ^2; *p*
	N	Mean	SD	Median	N	Mean	SD	Median	N	Mean	SD	Median	
Govern	39	2.359	5.369	2.000	13	3.488	6.651	4.380	19	-0.847	3.618	-1.810	6.712; 0.035
GNI02	38	10,165	11,298	4,405	13	11,824	12,799	3,840	19	2,916	3,204	1,890	10.456; 0.005
Nationalism	39	3.516	0.320	3.620	13	3.194	0.371	3.200	19	3.403	0.272	3.340	9.102; 0.011

where:
Govern = Index of six 2002 Worldwide Governance Indicators, range from -9.76 to 11.57
GNI02 = 2002 GNI per capita in dollars from World Development Indicators, range from $150 to $41,770
Nationalism = Level of national pride from the World Values Survey, range from 2.62 to 3.92.

Panel B: Categorical Control Variables Classified by the Level of IFRS Adoption – Frequency Tables

Legal Origin

	IFRS not permitted (0)	IFRS permitted (1)	IFRS required for all or some (2)	Total
ComLaw	9	3	2	14
CivLaw	22	8	15	45
OtherMix	8	2	2	12

Access

	IFRS not permitted (0)		IFRS permitted (1)		IFRS required for all or some (2)		Total	χ^2; p
	N	% of total	N	% of total	N	% of total	N	
0 – not rated	8	47.1%	3	17.6%	6	35.3%	17	6.882; 0.142
1 – low	17	60.7%	2	7.1%	9	32.1%	28	
2 – high	14	53.8%	8	30.8%	4	15.4%	26	

where:
ComLaw = a country's legal system rooted in English common law
CivLaw = a country's legal system rooted in Roman civil law
OtherMix = does not fall into categories above
Access = 0 if not rated, 1 if low access, 2 if high access

Table 3: Univariate Correlations (Pearson and Spearman)

	Govern	GNI02	Nationalism	ComLaw	CivLaw	OtherMix	Access
Govern		0.854**	-0.333**	0.075	0.052	-0.147	0.388**
		0.000	0.005	0.533	0.666	0.222	0.004
GNI02	0.816**		-0.332**	0.019	0.086	-0.131	0.529**
	0.000		0.005	0.873	0.477	0.279	0.000
Nationalism	-0.309**	-0.289*		0.263*	-0.370**	0.196	-0.131
	0.009	0.015		0.027	0.002	0.101	0.345
ComLaw	0.119	0.178	0.231		-.652**	-0.224	0.123
	0.325	0.141	0.053		0.000	0.061	0.375
CivLaw	0.057	-0.008	-0.358**	-0.652**		-0.593**	0.092
	0.638	0.945	0.002	0.000		0.000	0.507
OtherMix	-0.199	-0.178	0.215	-0.224	-0.593**		-0.240
	0.097	0.141	0.071	0.061	0.000		0.081
Access	0.367**	0.452**	-0.022	0.147	0.020	-0.172	
	0.002	0.001	0.873	0.290	0.886	0.214	

The variables are described in Table 1. Spearman rank correlations are reported above the diagonal and Pearson correlations are reported below the diagonal. *, ** indicate significance at the 5 percent and 1 percent levels (two-tailed).

Table 4: Multinomial Logistic Analysis of the Level of IFRS Adoption

Panel A: Results for the Overall Model

Dependent Variable (IFRS2003): Level of IFRS adoption (0 = not permitted, 1 = permitted, and 2 = required)

Variable Name	$\chi 2$	*p* value
Govern	5.218*	0.037
Nationalism	11.425**	0.002
CivLaw	2.160	0.170
OtherMix	0.103	0.475
Access	6.118	0.096

Pseudo R^2	0.37 (Nagelkerke)
Model χ^2	27.066**
Model p	0.008
	n=71

*,** Significant at the 5 percent and 1 percent levels, respectively. Single-tailed *p* values are shown for individual variables. The significance for the overall model is two-tailed.

where:
Govern = Index of six 2002 Worldwide Governance Indicators
Nationalism = Level of national pride from the World Values Survey
CivLaw = a country's legal system is rooted in the Roman civil law
OtherMix = does not fall into civil or common law categories
Access = 0 if not rated, 1 if low access, 2 if high access

Panel B: Results Compared to "IFRS required" as Reference Category

Dependent Variable (IFRS2003): Level of IFRS adoption (0 = not permitted, 1 = permitted, and 2 = required).

Variable Name	**Parameter estimate**	**Wald $\chi2$**	***p* value**
IFRS not permitted (0)			
Intercept	-4.135	1.056	0.152
Govern	0.169	4.536*	0.017
Nationalism	1.460	1.743	0.094
CivLaw	0.838	0.714	0.199
OtherMix	-0.382	0.100	0.376
Access (0)	-0.297	0.096	0.379
Access (1)	-0.366	0.207	0.325
IFRS permitted (1)			
Intercept	9.926	3.105	0.039
Govern	0.096	0.755	0.193
Nationalism	-2.904	3.184*	0.037
CivLaw	1.913	2.018	0.078
OtherMix	-0.369	0.057	0.406
Access (0)	-0.843	0.401	0.263
Access (1)	-2.469	4.172*	0.021

Pseudo R^2	0.37 (Nagelkerke)
Model χ^2	27.066**
Model *p*	0.008
	n=71

*,** Significant at the 5 percent and 1 percent levels, respectively. Single-tailed *p* values are shown for individual variables. The significance for the overall model is two-tailed.

where:

Govern = Index of six 2002 Worldwide Governance Indicators
Nationalism = Level of national pride from the World Values Survey
CivLaw = a country's legal system is rooted in the Roman civil law
OtherMix = does not fall into civil or common law categories
Access = 0 if not rated, 1 if low access, 2 if high access

Panel C: Results Compared to "IFRS not permitted" as Reference Category

Dependent Variable (IFRS2003): Level of IFRS adoption (0 = not permitted, 1 = permitted, and 2 = required).

Variable Name	Parameter estimate	Wald $\chi 2$	*p* value
IFRS permitted (1)			
Intercept	14.061	7.163**	0.004
Govern	-0.072	0.568	0.226
Nationalism	-4.364	7.957**	0.003
CivLaw	1.075	0.921	0.169
OtherMix	0.013	0.000	0.496
Access (0)	-0.546	0.205	0.325
Access (1)	-2.103	3.660*	0.028
IFRS required (2)			
Intercept	4.135	1.056	0.152
Govern	-0.169	4.536*	0.017
Nationalism	-1.460	1.743	0.094
CivLaw	-0.838	0.714	0.199
OtherMix	0.382	0.100	0.376
Access (0)	0.297	0.096	0.379
Access (1)	0.366	0.207	0.325

Pseudo R^2	0.37 (Nagelkerke)
Model χ^2	27.066**
Model *p*	0.008
	n=71

*,** Significant at the 5 percent and 1 percent levels, respectively. Single-tailed *p* values are shown for individual variables. The significance for the overall model is two-tailed.

where:
Govern = Index of six 2002 Worldwide Governance Indicators
Nationalism = Level of national pride from the World Values Survey
CivLaw = a country's legal system is rooted in the Roman civil law
OtherMix = does not fall into civil or common law categories
Access = 0 if not rated, 1 if low access, 2 if high access

Table 5: Multinomial Logistic Analysis of the Level of IFRS Adoption: Interaction Effect of Governance and Nationalism

Panel A: Results for the Overall Model

Dependent Variable (IFRS2003): Level of IFRS adoption (0 = not permitted, 1 = permitted, and 2 = required)

Variable Name	**$\chi 2$**	***p* value**
Govern	7.061*	0.015
Nationalism	4.149	0.063
CivLaw	2.051	0.180
OtherMix	0.145	0.465
Access	5.014	0.143
Govern*Nationalism	6.530*	0.019

Pseudo R^2	0.44 (Nagelkerke)
Model χ^2	33.596**
Model *p*	0.002
	n=71

*,** Significant at the 5 percent and 1 percent levels, respectively. Single-tailed *p* values are shown for individual variables. The significance for the overall model is two-tailed.

where:

Govern = Index of six 2002 Worldwide Governance Indicators
Nationalism = Level of national pride from the World Values Survey
CivLaw = a country's legal system is rooted in the Roman civil law
OtherMix = does not fall into civil or common law categories
Access = 0 if not rated, 1 if low access, 2 if high access

Panel B: Results Compared to "IFRS required" as Reference Category

Dependent Variable (IFRS2003): Level of IFRS adoption (0 = not permitted, 1 = permitted, and 2 = required).

Variable Name	**Parameter estimate**	**Wald $\chi 2$**	***p* value**
IFRS not permitted (0)			
Intercept	-4.139	0.882	0.174
Govern	1.658	2.713*	0.050
Nationalism	1.409	1.338	0.124
CivLaw	0.809	0.699	0.202
OtherMix	-0.452	0.140	0.354
Access (0)	-0.082	0.007	0.467
Access (1)	-0.294	0.133	0.358
Govern*Nationalism	-0.431	2.266	0.066
IFRS permitted (1)			
Intercept	6.177	6.954	0.187
Govern	2.900	5.260*	0.011
Nationalism	-1.964	0.991	0.160
CivLaw	1.924	1.949	0.082
OtherMix	-0.442	0.080	0.389
Access (0)	-0.504	0.131	0.359
Access (1)	-2.427	3.333*	0.034
Govern*Nationalism	-0.818	5.084*	0.012
Pseudo R^2	0.44 (Nagelkerke)		
Model χ^2	33.596**		
Model *p*	0.002		
	n=71		

*,** Significant at the 5 percent and 1 percent levels, respectively. Single-tailed *p* values are shown for individual variables. The significance for the overall model is two-tailed.

where:
Govern = Index of six 2002 Worldwide Governance Indicators
Nationalism = Level of national pride from the World Values Survey
CivLaw = a country's legal system is rooted in the Roman civil law
OtherMix = does not fall into civil or common law categories
Access = 0 if not rated, 1 if low access, 2 if high access

Panel C: Results Compared to "IFRS not permitted" as Reference Category

Dependent Variable (IFRS2003): Level of IFRS adoption (0 = not permitted, 1 = permitted, and 2 = required).

Variable Name	**Parameter estimate**	**Wald $\chi 2$**	***p* value**
IFRS permitted (1)			
Intercept	10.316	2.466	0.058
Govern	1.242	1.417	0.117
Nationalism	-3.373	3.262*	0.036
CivLaw	1.115	0.895	0.172
OtherMix	0.010	0.000	0.497
Access (0)	-0.421	0.115	0.367
Access (1)	-2.133	3.193*	0.037
Govern*Nationalism	-0.386	1.664	0.099
IFRS required (2)			
Intercept	4.139	0.882	0.174
Govern	-1.658	2.713*	0.050
Nationalism	-1.409	1.338	0.124
CivLaw	-0.809	0.699	0.202
OtherMix	0.452	0.140	0.354
Access (0)	0.082	0.007	0.467
Access (1)	0.294	0.133	0.358
Govern*Nationalism	0.431	2.266	0.066
Pseudo R^2	0.44 (Nagelkerke)		
Model χ^2	33.596**		
Model *p*	0.002		
	n=71		

*,** Significant at the 5 percent and 1 percent levels, respectively. Single-tailed *p* values are shown for individual variables. The significance for the overall model is two-tailed.

where:
Govern = Index of six 2002 Worldwide Governance Indicators
Nationalism = Level of national pride from the World Values Survey
CivLaw = a country's legal system is rooted in the Roman civil law
OtherMix = does not fall into civil or common law categories
Access = 0 if not rated, 1 if low access, 2 if high access

Table 6: Agents of Change Model & Anticipated Rhetoric

	Domestic	Transnational	Foreign
	Active Promoters (support change)	**Active Promoters (support change)**	**Missionaries (call for broader change)**
Dominant	Anticipated rhetorical themes associated with the lack of pragmatic legitimacy of the current approach (reconciliation) • excessive cost to registrants • excessive complexity • lack of usefulness • lack of material differences between the standards Anticipated rhetorical themes associated with the moral legitimacy of the alternative approach • IASB meets quality, independence, and funding expectations • IFRS are high quality • IFRS are able to meet investor information needs • IFRS contribute to greater financial transparency around the world Anticipated rhetorical themes associated with the pragmatic legitimacy of the alternative • increased international comparability • lower cost of preparation • lower cost of capital	Anticipated rhetorical themes associated with the lack of pragmatic legitimacy of the current approach (reconciliation) • excessive cost to registrants • excessive complexity • lack of usefulness • lack of material differences between the standards Anticipated rhetorical themes associated with the moral legitimacy of the alternative approach • IASB meets quality, independence, and funding expectations • IFRS are high quality • IFRS are able to meet investor information needs • IFRS contribute to greater financial transparency around the world Anticipated rhetorical themes associated with the pragmatic legitimacy of the alternative • increased international comparability • lower cost of preparation • lower cost of capital	Anticipated rhetorical themes associated with the lack of pragmatic legitimacy of the current approach (reconciliation) • excessive cost to registrants • excessive complexity • lack of usefulness • lack of material differences between the standards Anticipated rhetorical themes associated with the moral legitimacy of the broader alternative • IASB meets quality, independence, and funding expectations • Translated and jurisdictional variations of IFRS are high quality • Translated and jurisdictional variations of IFRS are able to meet investor information needs • Translated and jurisdictional variations of IFRS contribute to greater financial transparency around the world Anticipated rhetorical themes associated with the pragmatic legitimacy of the alternative • increased international comparability • lower cost of preparation • lower cost of capital

	Domestic	Foreign
Fringe	**Agitators (oppose change)** Anticipated rhetorical themes associated with the moral legitimacy of the current approach (reconciliation) • independence of FASB • adequate funding • high quality of U.S. GAAP • usefulness of reconciliation Anticipated rhetorical themes associated with the lack of moral legitimacy of the alternative approach • potential lack of uniform application of IFRS across firms and countries • lack of dedicated enforcement function • inconsistent funding of IASB	**Absent**

Adopted and modified from Djelic and Quack (2003b).

Table 7: Classification of Comment Letters by Position Taken

	Domestic Participants			Transnational Participants			Foreign Participants			Total
	Position			Position			Position			
	1	2	3	1	2	3	1	2	3	
Individuals/Users	13	0	1	1	1	0	1	1	0	18
Preparers	0	0	0	1	17	17	0	0	0	35
Auditors/Consulting	0	0	0	0	3	7	0	0	0	10
Trade Associations	0	2	4	0	8	10	0	2	6	32
Prof Associations	4	2	1	0	0	3	0	1	2	13
Regulatory Agencies	1	0	0	0	0	1	0	1	6	9
Total	18	4	6	2	29	38	1	5	14	117

where:

Position 1 = oppose allowing foreign issuers to file with SEC using IFRS without reconciliation to U.S. GAAP
Position 2 = support as proposed by SEC
Position 3 = call for a broader acceptance than proposed by SEC

Table 8: Description of the Variables

Variable	Questions and Data Coding
Dependent Variable - Perceptions	
Research Question 1 & 3	
1.Success of transition	How do you rate the success of transition toward IFRS in the past 5 years in Russia? 0 – can't answer; 1 - no progress, 2 – almost no progress, 3 – noticeable progress; 4 –significant progress
2.Opportunities to learn	Over the past 5 years in Russia, has there been an improvement in opportunities to learn IFRS? 0 – can't answer; 1 – no improvement; 2 – almost no improvement; 3 – noticeable improvement; 4 – significant improvement
3.User confidence	Do you think the use of IFRS increases user confidence in the financial statements of an organization? 0 – can't answer; 1 – does not increase confidence at all; 2 – no faster increase in confidence; 3 – neither, nor; 4 – faster increase in confidence; 5 – significantly increases confidence
4.Transition timeframe	When do you think the mandatory IFRS transition should occur in Russia? 0 – can't answer; 1 – 2008; 2 – 2009; 3 – 2010; 4 – after 2010; 5 – never
Research Question 2	
5.Russian financial reporting reforms	How do you rate the progress of reforms in financial reporting in Russia in the past 5 years? 0 – can't answer; 1 - no progress, 2 – almost no progress, 3 – noticeable progress; 4 –significant progress
6.Creation of Russian accounting standards	How do you rate the progress over the past 5 years in creating Russian accounting standards that align with the needs of users and financial markets? 0 – can't answer; 1 - no progress, 2 – almost no progress, 3 – noticeable progress; 4 –significant progress
Test Variable	
Research Question 1 & 2	
Adoption of IFRS	1 - firm utilizes IFRS for reporting, 0 - does not
Research Question 3	
Type of IFRS adoption	Sample of adopters: 1 - banking firm (mandatory adoption), 0 - all other (voluntary adoption)
Control Variables	
Industry	0-hard to tell, 1-manufacturing, agriculture, 2-construction, transport, 3-trade, 4-services, 5-science, medicine, education, 6-advertising, marketing, 7-finance
Region	1- Moscow & Central, 2-St. Petersburg & North West, 3-South, 4-Volga, 5-Siberia, 6-Ural, 7-Far East
Firm size	0-can't answer, 1 - 1 to10 employees, 2 - 11 to 50 employees, 3 - 51 to100 employees, 4 - 101 to 200 employees, 5 - more than 200 employees
Knowledge	Overall, how would you rate your knowledge of IFRS? 0 – minimal; 1 - average, 2 – good, 3 – great; 4 – can teach

Table 9: Characteristics of Firms Surveyed

Panel A: Industry Data Classified by the Level of IFRS Adoption – Frequency Table

Industry

	IFRS Adopters		Non-adopters		Total	χ^2; *p*
	N	% of total	N	% of total	N	
Manufacturing, agriculture	40	15.1%	225	84.9%	265	173.700; 0.000
Construction, transport	18	10.1%	161	89.9%	179	
Trade	34	10.6%	286	89.4%	320	
Services	11	8.1%	125	91.9%	136	
Science, medicine, education	23	16.5%	116	83.5%	139	
Advertising, marketing	9	15.0%	51	85.0%	60	
Finance	68	59.6%	46	40.4%	114	
Can't answer	3	13.0%	20	87.0%	23	
Total	206		1,030		1,236	

Panel B: Region Data Classified by the Level of IFRS Adoption – Frequency Table

Region

	IFRS Adopters		Non-adopters		Total	χ^2; *p*
	N	% of total	N	% of total	N	
Moscow & Central	82	16.5%	414	83.5%	496	26.307; 0.001
St. Petersburg & North West	25	15.5%	136	84.5%	161	
South	28	22.0%	99	78.0%	127	
Volga	28	15.4%	154	84.6%	182	
Siberia	25	18.7%	109	81.3%	134	
Ural	5	5.7%	83	94.3%	88	
Far East	13	27.1%	35	72.9%	48	
Total	206		1,030		1,236	

Panel C: Firm Size Data Classified by the Level of IFRS Adoption – Frequency Table

Firm Size – number of employees

	IFRS Adopters		**Non-adopters**		**Total**	χ^2; ***p***
	N	% of total	N	% of total	N	
1-10	7	6.2%	106	93.8%	113	74.425; 0.000
11-50	34	8.4%	373	91.6%	407	
51-100	26	12.4%	183	87.6%	209	
101-200	34	25.8%	98	74.2%	132	
More than 200	87	28.2%	222	71.8%	309	
Can't answer	18	27.3%	48	72.2%	66	
Total	206		1,030		1.236	

Table 10: **Univariate Analysis - Research Questions 1**
Relationship of IFRS Adoption to Effectiveness Perceptions

Variable Name	DV = Success of transition (1)		DV = Opportunities to learn (2)		DV = User confidence (3)		DV = Transition timeframe (4)	
	$\chi 2$	*p*	$\chi 2$	*p*	$\chi 2$	*p*	$\chi 2$	*p*
Adoption of IFRS	66.171***	0.000	43.066***	0.000	20.813***	0.001	34.769***	0.000

*,**,*** Significant at the 10 percent, 5 percent, and 1 percent levels, respectively. *p* values shown are two-tailed.

where:

DV = Perceptions:

Success of transition = Response to: How do you rate the success of transition toward IFRS in the past 5 years in Russia?

Opportunities to learn = Response to: Over the past 5 years in Russia, has there been an improvement in opportunities to learn IFRS?

User confidence = Response to: Do you think the use of IFRS increases user confidence in financial statements of organization?

Transition timeframe = Response to: When do you think the mandatory IFRS transition should occur in Russia?

Adoption of IFRS = 1 adopted, 0 did not adopt IFRS

Table 11: Univariate Correlations (Spearman): Dependent and Test Variables

	Success of transition	Opportunities to learn	User confidence	Transition timeframe	Russian financial reporting reforms	Creation of Russian accounting standards	Adoption of IFRS	Type of Adoption (based on 206 adopters)
Success of transition		0.171*** 0.000	0.248*** 0.000	0.201*** 0.000	0.235*** 0.000	0.258*** 0.000	0. 219*** 0.000	0.010 0.883
Opportunities to learn	0.171*** 0.000		0.180*** 0.000	0.130*** 0.000	0.120*** 0.000	0.153*** 0.000	0. 073** 0.010	-0.155** 0.027
User confidence	0.248*** 0.000	0.180*** 0.000		0.223*** 0.000	0.201*** 0.000	0.178*** 0.000	0. 128*** 0.000	-0.034 0.632
Transition timeframe	0.201*** 0.000	0.130*** 0.000	0.223*** 0.000		0.058** 0.040	0.086*** 0.003	0. 153*** 0.000	-0.055 0.431
Russian financial reporting reforms	0.235*** 0.000	0.120*** 0.000	0.201*** 0.000	0.058** 0.040		0.453*** 0.000	0.079 *** 0.006	0.014 0.841
Creation of Russian accounting standards	0.258*** 0.000	0.153*** 0.000	0.178*** 0.000	0.086*** 0.003	0.453*** 0.000		0. 088*** 0.002	-0.070 0.318
Adoption of IFRS	0. 219*** 0.000	0. 073** 0.010	0. 128*** 0.000	0. 153*** 0.000	0.079 *** 0.006	0. 088*** 0.002		
Type of adoption (based on 206 adopters)	0.010 0.883	-0.155** 0.027	-0.034 0.632	-0.055 0.431	0.014 0.841	-0.070 0.318		

*,**,*** Significant at the 10 percent, 5 percent, and 1 percent levels, respectively (two-tailed). Description of the variables is provided in Table 8.

Table 12: Univariate Analysis - Research Questions 2 and 3

Panel A: RQ2 - Relationship of IFRS Adoption to Broader Reforms

Variable Name	DV = Russian financial reporting reforms (1)		DV = Creation of Russian accounting standards (2)	
	$\chi 2$	*p*	$\chi 2$	*p*
Adoption of IFRS	19.643***	0.001	11.579**	0.021

where:

DV = Perceptions:

Russian financial reporting reforms = Response to: How do you rate the progress of reforms in financial reporting in Russia in the past 5 years?

Creation of Russian accounting standards = Response to: How do you rate the progress over the past 5 years in creating Russian accounting standards that align with the needs of users and financial markets?

Adoption of IFRS = 1 adopted, 0 did not adopt IFRS

Panel B: RQ3 - Relationship of Type of IFRS Adoption to Effectiveness and Broader Reforms Perceptions

Variable Name	DV = Success of transition (1)		DV = Opportunities to learn (2)		DV = User confidence (3)		DV = Transition timeframe (4)	
	$\chi 2$	*p*	$\chi 2$	*p*	$\chi 2$	*p*	$\chi 2$	*p*
Type of IFRS Adoption	1.300	0.861	11.265**	0.024	4.045	0.543	6.569	0.255

*,**,*** Significant at the 10 percent, 5 percent, and 1 percent levels, respectively. *p* values shown are two-tailed.

where:

DV = Perceptions:

Success of transition = Response to: How do you rate the success of transition toward IFRS in the past 5 years in Russia?

Opportunities to learn = Response to: Over the past 5 years in Russia, has there been an improvement in opportunities to learn IFRS?

User confidence = Response to: Do you think the use of IFRS increases user confidence in financial statements of organization?

Transition timeframe = Response to: When do you think the mandatory IFRS transition should occur in Russia?

Type of IFRS adoption = 1 - banking firm (mandatory adoption), 0 - all other (voluntary adoption)

Table 13: Multinomial Logistic Analysis – Research Question 1
Relationship of IFRS Adoption to Effectiveness Perceptions

Variable Name	DV = Success of transition (1)		DV = Opportunities to learn (2)		DV = User confidence (3)		DV = Transition timeframe (4)	
	χ^2	*p* value	χ^2	*p* value	χ^2	*p* value	χ^2	*p* value
Test Variable:								
Adoption of IFRS	28.444***	0.000	9.951**	0.041	10.543*	0.061	24.950***	0.000
Control Variables:								
Firm Size	51.893***	0.000	23.399	0.270	34.065	0.107	39.084**	0.036
Industry	31.546	0.293	39.732*	0.070	42.619	0.176	29.919	0.712
Region	44.278*	0.073	42.872*	0.095	72.246***	0.001	47.448	0.195
Knowledge	53.625***	0.000	20.569	0.196	34.090**	0.026	41.696**	0.003
Pseudo R^2	0.20 (Nagelkerke)		0.11 (Nagelkerke)		0.15 (Nagelkerke)		0.15 (Nagelkerke)	
Model χ^2	251.993***		139.468***		205.161***		193.44***	
Model *p*	0.000		0.006		0.000		0.000	
	n=1,256		n=1,256		n=1,256		n=1,256	

*,**,*** Significant at the 10 percent, 5 percent, and 1 percent levels, respectively. *p* values shown are two-tailed.

where:

DV = Perceptions:

Success of transition = Response to: How do you rate the success of transition toward IFRS in the past 5 years in Russia?
Opportunities to learn = Response to: Over the past 5 years in Russia, has there been an improvement in opportunities to learn IFRS?
User confidence = Response to: Do you think the use of IFRS increases user confidence in financial statements of organization?
Transition timeframe = Response to: When do you think the mandatory IFRS transition should occur in Russia?

Adoption of IFRS = 1 adopted, 0 did not adopt IFRS
Firm Size = number of employees
Industry = industry of the participant
Region = region within Russia
Knowledge = 0 – minimal; 1 - average, 2 – good, 3 – great; 4 – can teach

Table 14: Multinomial Logistic Analysis – Research Question 2
Relationship of IFRS Adoption to Broader Reforms

Variable Name	DV = Russian financial reporting reforms (1)		DV = Creation of Russian accounting standards (2)	
	$\chi 2$	*p* value	$\chi 2$	*p* value
Test Variable:				
Adoption of IFRS	10.707**	0.030	9.231*	0.056
Control Variables:				
Firm Size	35.356**	0.018	41.716**	0.003
Industry	42.087**	0.043	21.247	0.815
Region	44.278*	0.073	73.599***	0.000
Knowledge	22.187	0.137	35.996**	0.003
Pseudo R^2	0.13 (Nagelkerke)		0.14 (Nagelkerke)	
Model χ^2	170.389***		178.015***	
Model *p*	0.000		0.000	
	n=1,256		n=1,256	

*,**,*** Significant at the 10 percent, 5 percent, and 1 percent levels, respectively. *p* values shown are two-tailed.

where:

DV = Perceptions:

Russian financial reporting reforms = Response to: How do you rate the progress of reforms in financial reporting in Russia in the past 5 years?

Creation of Russian accounting standards = Response to: How do you rate the progress over the past 5 years in creating Russian accounting standards that align with the needs of users and financial markets?

Adoption of IFRS = 1 adopted, 0 did not adopt IFRS

Firm Size = number of employees

Industry = industry of the participant

Region = region within Russia

Knowledge = 0 – minimal; 1 - average, 2 – good, 3 – great; 4 – can teach

Table 15: Multinomial Logistic Analysis – Research Question 3

Relationship of Type of IFRS Adoption to Opportunities to Learn

Variable Name	DV = Opportunities to learn	
	$\chi 2$	*p* value
Test Variable:		
Type of IFRS Adoption	16.816***	0.002
Control Variables:		
Firm Size	34.135**	0.025
Region	47.324**	0.040
Knowledge	23.782*	0.094
Pseudo R^2	0. 43 (Nagelkerke)	
Model χ^2	106.732***	
Model *p*	0.005	
	n=206	

*,**,*** Significant at the 10 percent, 5 percent, and 1 percent levels, respectively. *p* values shown are two-tailed.

where:

DV = Perception:

Opportunities to learn = Response to: Over the past 5 years in Russia, has there been an improvement in opportunities to learn IFRS?

Type of IFRS adoption = 1 - banking firm (mandatory adoption), 0 - all other (voluntary adoption)

Firm Size = number of employees

Region = region within Russia

Knowledge = 0 – minimal; 1 - average, 2 – good, 3 – great; 4 – can teach