AN INSTITUTIONAL PERSPECTIVE ON THE TIMING OF THE ADOPTION OF ACCOUNTING STANDARDS BY LARGE NON-FINANCIAL FIRMS

DAWN REILLY

A thesis submitted in partial fulfilment of the requirements of the University of Greenwich for the Degree of Doctor of Philosophy

December 2015

DECLARATION

I certify that this work has not been accepted in substance for any degree, and is not concurrently being submitted for any degree other than that of Doctor of Philosophy being studied at the University of Greenwich. I also declare that this work is the result of my own investigations except where otherwise identified by references and that I have not plagiarised the work of others.

	STUDENT	SUPERVISOR
Signed		
Name	Dawn Reilly	Dr Iwona Vellam
Date		

ACKNOWLEDGEMENTS

The author would like to thank supervisors Dr Lesley Catchpowle and Dr Iwona Vellam for their support and advice throughout this research project.

ABSTRACT

This research aims to identify the factors which explain the timing of the adoption of new and revised accounting standards by large firms. The investigation uses a mixed methods explanatory sequential quan→QUAL design as part of a pragmatic constructivist methodology. Quantitative (quan) analysis of financial statements for 158 non-financial FTSE 350 firms identifies the timing of the adoption of accounting standards since IFRS became mandatory for these firms in 2005. Findings are that early adoption is relatively unpopular but its extent varies across standards so that IFRS 6: *Exploration for and evaluation of mineral assets*, IFRS 8: *Operating segments* and the new consolidation standards were adopted early by a number of firms. Qualitative analysis (QUAL) of interviews with chief financial officers, group financial controllers, auditors and the IASB explores the values and meanings behind decisions whether to adopt a new standard from the mandatory effective date included in the published standard or to adopt early. Findings are that institutional pressures to copy the practices of other firms have an impact on both firms and their auditors and these pressures influence firms to stay in the mainstream by adopting new accounting standards from the mandatory effective dates. Firms may find the motivation to resist these pressures and adopt early if they see an efficiency, economic or strategic benefit in doing so.

By including the views of preparers, this research contributes to knowledge of the financial accounting practices of large firms. It also makes a number of contributions to institutional theory *inter alia* by portraying the institutional environment as a network of relationships and interdependencies, by presenting empirical evidence regarding the existence and interaction of multiple institutional pressures, and by considering how firms use the tactic of escape in order to avoid the requirements of an existing standard by placing themselves in the new regulatory environment containing the new standard.

CONTENTS

TABLES

TABLE **PAGE**

FIGURES

ACRONYMS AND ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ADR	American Depositary Receipt
CBI	Confederation of British Business
CFO	Chief Financial Officer
CGU	Cash-generating unit
CODM	Chief operating decision maker
CSR	Corporate social responsibility
EC	European Commission
ED	Exposure Draft
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GAAP	Generally accepted accounting principles
GFC	Group Financial Controller
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standard(s)
PPE	Property, plant and equipment
QUAL	Qualitative phase of research
quan	Quantitative phase of research

RO	Research objective
RQ	Research question
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
TRG	Transition Resource Group
UK	United Kingdom
US	United States

1. INTRODUCTION

1.1 Background

Compliance with International Financial Reporting Standards (IFRS) has been mandatory in the consolidated accounts for firms with a European listing since 2005 (European Commission (EC), 2002). To date, whenever a new or revised accounting standard has been issued by the International Accounting Standards Board (IASB), that standard has been available for early adoption before its mandatory effective date. In the period 2006 to 2014 twelve new IFRSs and revised International Accounting Standards (IASs) became effective[1]. This study investigates the factors which influence the timing of the adoption of accounting standards by large firms and explores the reasons why some firms early adopted one or more of the new and revised standards effective since 2005. Findings are that in the majority of instances firms do not adopt new standards early. This can be for practical reasons such as the amount of work and therefore the cost involved in adopting a new standard. In addition, institutional pressures to copy the practices of other firms have an impact on both firms and their auditors and these pressures influence firms to stay in the mainstream by not adopting new accounting standards before the mandatory dates. On the other hand, firms may find the motivation to resist these pressures and adopt early if they see an efficiency, economic or strategic benefit in doing so, including where a new standard provides an opportunity to meet organisational goals of reporting improved performance or hiding information from competitors.

This project uses mixed research methods. Data for the quantitative phase of the project were hand collected from nine years of annual reports for 158 non-financial Financial Times Stock Exchange (FTSE) 350 firms and data for the qualitative phase were collected via 21 semi-structured interviews with Chief Financial Officers (CFOs) and Group Financial Controllers (GFCs), and four supplementary interviews with auditors and the IASB. By asking the CFOs and GFCs who make the accounting decisions about their reasons for adopting new standards from the mandatory dates or early adopting, the findings of this study contribute to the

[1] The IASB is the standard setter which is currently responsible for issuing IFRSs. Previously IASs were issued by the International Accounting Standards Committee (IASC) and because many IASs have not been replaced by new IFRSs, they are still in force. The term IFRS is used to refer to all of the accounting standards (both IASs and IFRSs) in force on a particular date.

knowledge of the accounting practices of large firms in the context of a particular accounting choice.

The decision when to adopt is part of the process of implementing a new standard. Other studies in an IFRS setting have considered the development of new standards throughout the standard setting process (for example, Cortese *et al*. (2010) and Noël *et al*. (2010) which are discussed in Section 4.4.1 as part of a review of the literature relating to the development of IFRS 6: *Exploration for and evaluation of mineral assets*) and the impact of implementing certain standards (for example, Crawford *et al*. (2012) and Nichols *et al*. (2012) which are discussed in Section 4.4.2 as part of a review of the literature relating to the effect of implementing IFRS 8: *Operating segments*). Therefore by exploring the decision when to adopt a new standard, which is one aspect of the process of implementation, the current early adoption study has the potential to contribute to knowledge of financial accounting under IFRS.

Depending on the standard involved, the business sector and the specific circumstances of a firm, the implementation of a new accounting standard can take a considerable amount of effort, which may be exacerbated by adopting early with no 'template' or 'well-worn path' to follow. Many of the standards issued by the IASB to date have largely addressed disclosure and presentational issues which managers may consider do not warrant this level of effort because these standards have little or no impact on the measurement of earnings. However, the IASB (2015a) is continuing with its work plan to improve and develop IFRS and future standards may have a greater impact on firms' reported performance. The effects of two such standards are already anticipated by CFOs and GFCs, namely IFRS 15: *Revenue from contracts with customers* (issued in May 2014 originally with a 2017 effective date but with a proposed deferral to 2018) and the new *Leases* standard which was being considered by the IASB (2015a) at the time of the interviews. (IFRS 16: *Leases* was subsequently issued by the IASB in January 2016 with a proposed effective date of 1 January 2019.) Consequently it is considered important to understand how firms have implemented the new standards which have already become effective, specifically the factors which help managers to decide whether to adopt from the mandatory date or to adopt early. This understanding may provide insight into future reporting practices.

When a manager decides that a firm will adopt a new or revised standard early, this reduces comparability, not only with prior periods for the same firm but also with other firms.

However, in theory at least, accounting information should be comparable between many international firms because all companies listed on a stock exchange within the European Union (EU) (and on a number of other worldwide exchanges) are required to follow IFRS when preparing their consolidated financial statements. However, whilst the IASB is committed to harmonising accounting regulations and thereby removing sources of differences in financial reporting, firms retain a certain level of choice and therefore variations in accounting practice remain making complete comparability among firms improbable (Institute of Chartered Accountants in England and Wales (ICAEW), 2014). In this respect Nobes (2006) identifies several sources of differences which enable variations in accounting practice, including *"gaps in IFRS; overt options in IFRS; covert options, vague criteria and interpretations in IFRS:… transitional or first-time issues in IFRS; and imperfect enforcement of IFRS"* (Nobes, 2006, p234). The focus of Nobes' (2006) work is the international differences which remain between firms reporting under IFRS. However, the multiple sources of differences which Nobes identifies also lead to variations in accounting treatment between firms from the same country. The particular option which will comprise the context of this study is the ability of firms to choose either to adopt from the mandatory date or to adopt a new accounting standard early.

The theoretical framework for this research is provided by institutional arguments. Institutional theory has evolved into a rich and complex theory which attempts to explain the behaviours of organisations within their institutional environments (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Oliver, 1991; Selznick, 1957). The financial markets are an important environmental (or institutional) setting for listed companies and accounting standards provide part of the regulatory framework for this 'institution'. Using an inductive approach to the relationship between data and theory, this thesis explores how institutional factors shape managers' decisions to adopt a particular accounting practice where there is an available alternative in a period of transition between the existing regulatory environment (containing the old accounting standard) and the new regulatory environment (containing the new accounting standard).

This research finds that whether a firm decides to adopt a new standard early depends on a number of factors, including the following. The first factor is whether a firm's managers believe the new standard to be useful to investors and lenders (the financial market). Second, managers might want to 'wait and see' what other firms do before adopting early. A third factor is the advice received from a firm's auditor (whether that is to adopt from the mandatory date or to adopt early). Fourth, early adoption is more probable where a new standard reflects a firm's own organisational goals within its wider environment. This includes the situation where a new standard provides the opportunity to increase reported earnings, to improve key financial ratios or to hide sensitive commercial information from competitors. Other potential factors are more pragmatic. For example, if the date of formal endorsement by the EC is close to the year end, there might not be sufficient time for early adoption especially where a FTSE firm is accustomed to publishing its financial statements quickly or considerable work is required to obtain the comparative information which is required to be restated on the new basis.

Institutional theory has the potential to provide insight into the interaction of many of these factors. Institutionalists argue that organisations adopt the prevailing values and norms within an environment even when these are not efficient (Meyer and Rowan, 1977), organisations copy each other's practices in order to comply with institutional expectations and ensure legitimacy and survival (Meyer and Rowan, 1977; Suchman, 1995), and organisations are influenced by professional advisors such as auditors who act on behalf of 'the institution' (DiMaggio and Powell, 1983). Institutional arguments also explain that organisations follow their own strategic goals within their environment (Lounsbury, 2008; Oliver, 1991).

Firms which adopt a new standard from the mandatory effective date continue to comply with the norms of their existing environment. Those firms which adopt early choose to escape from the existing regulations and move into a new environment. By deciding not to copy their peers, these firms are resisting the institutional pressure to conform to the prevailing practice (Oliver, 1991). This scenario provides the opportunity to explore Oliver's (1991) model of strategic responses to institutional processes by demonstrating how improved efficiency of reporting, possible economic gains or other organisational goals may provide firms with the motivation to escape from the *status quo* and so explain the particular accounting choice of early adoption within the institutional environment for large firms.

1.2 The research aim and objectives

The purpose of this study is to identify the factors which can explain the timing of the adoption of accounting standards by large firms. This includes identifying the reasons which explain adoption from the mandatory dates as well as those which explain early adoption. The investigation therefore aims to address the following research question (RQ):

> What factors can explain the timing of the adoption of accounting standards by large firms?

This overarching question leads to the following subsidiary questions:

RQ1: Which new IFRSs and revised IASs were adopted early and by how many firms?

RQ2: What are the influences on the preparers of financial statements with reference to the decision whether to adopt a new standard from the mandatory effective date or to adopt early?

In order to meet the overall research aim, the research objectives (ROs) are as follows:

RO1: To review the literature in order to gain an understanding of institutional theory's power to explain a particular accounting choice made by firms in a time of transition between regulatory environments;

RO2: To use quantitative analysis of archived data collected from annual reports to identify the timing of adoption of new and revised standards in the period from 2005 to 2014;

RO3: To use qualitative analysis of primary data gathered via interviews with senior financial managers, auditors, and the IASB in order to gain insight into how institutional pressures interact with organisational goals and thereby influence the decision whether to adopt a new standard from the mandatory effective date or to adopt early;

RO4: To integrate the results of the quantitative and qualitative phases in order to identify the factors which explain the timing of the adoption of accounting standards; and

RO5: To use the insight gained through the qualitative analysis of interview data and the integration of the results of the quantitative and qualitative phases to develop institutional theory.

The approach adopted in this study is to use a mixed methods explanatory sequential quantitative to qualitative (quan→QUAL) design. In this study the quantitative phase (quan) is carried out first and the result of the analysis of the quan data is used to inform the design of the subsequent qualitative phase (QUAL). The QUAL findings are then used to explain the quan result (Creswell and Plano Clark, 2007).

The first phase of the study is the quantitative analysis of data gathered from 158 non-financial FTSE 350 firms' annual reports regarding when firms adopted the new and revised accounting standards which became effective in the period 2006 to 2014. This quan data is displayed in tables showing the numbers and percentages of early adopters. (See Tables 7.1 and 7.2.)

The QUAL phase of the study includes the interpretive analysis of 21 semi-structured interviews with the CFOs and GFCs of non-financial FTSE 350 firms, and four supplementary interviews with representatives of Big 4 audit firms and the IASB. (Appendix J shows that one GFC preferred to provide written answers to emailed interview questions. However, for simplicity the thesis refers to 21 interviews throughout. (See Section 6.4.2.)) The approach to the relationship between data and theory in this project is inductive so that theoretical arguments are developed on the basis of observations, largely through the interpretation of interview data. Therefore whilst the approach is mixed and the study uses both quantitative and qualitative analyses of data, the QUAL phase is considered to be dominant in this research. (See Section 2.6.3.)

1.3 Contributions to knowledge, theory and methodology

This study makes a contribution to the knowledge of accounting by explaining the factors which managers of large firms consider as they make a particular accounting choice, which is whether to adopt a new standard early or to adopt it from the mandatory date. No literature has been identified which relates directly to the early adoption of the individual accounting standards which are identified in Section 3.5 and which provide the context for this research. Further, no other study has been identified which adopts a longitudinal perspective across several standards. This means that there is opportunity for this study to make a contribution to the knowledge of large firms' accounting practices in relation to specific standards, to reflect on the results and to consider the practice of early adoption more generally, and to develop institutional theory.

There are a number of studies which investigate the early adoption of individual Statements of Financial Accounting Standards (SFASs) in the United States (US) (Amir and Livnat, 1996; Amir and Ziv, 1997; Ayres, 1986, cited in Amir and Livnat, 1996; Benjamin *et al*., 1986; Gujarathi and Hoskin, 1992; 2003; Langer and Lev, 1993). However, a point of departure from these US studies is that they focus on the extent to which early adoption is used opportunistically to manage earnings whereas this thesis also explores the reasons for early adoption where the changes required by a new standard do not affect the measurement of earnings. Further, by taking an institutional perspective, there is potential for this thesis to add to the existing knowledge and understanding of the reasons for early adoption. In addition, the current study uses interviews with CFOs and other institutional actors to explore the reasons for early adoption whereas the US studies which have been reviewed are based on quantitative analyses of archived secondary data and therefore may be more limited in their ability to explore managers' motives. (See Section 4.3.)

The setting for this study provides the opportunity to explore two potential influences on managers as they make accounting decisions. The first of these is the IASB's (2010a) *Conceptual framework for financial reporting* (the Framework). Any firm which complies with IFRS should not only comply with the requirements of individual accounting standards but also embrace the principles set out in the Framework. This thesis views the Framework as a cultural-cognitive pillar of the accounting environment (Scott, 2008a). This means that the Framework should guide accountants on how to think and act (Erb and Pelger, 2015).

However, accountants can have their own subjective interpretations of the meaning and importance of this guidance. This project considers the extent to which managers' values in relation to financial reporting arise out of the Framework. There is a growing academic literature relating to the concepts and principles outlined in the Framework[2] but no existing empirical study has been identified which asks the managers of large firms about the extent to which they consult the Framework when they make accounting decisions. This study therefore has the potential to make a contribution to knowledge of financial accounting by large firms.

The second potential influence on accounting decisions is the auditor. This study considers the part played by the auditor and the nature of the auditor's advice from a preparer's perspective. Specifically, the study considers whether auditors generally promote the emerging best practice required by a new standard so that they encourage early adoption (as suggested by DiMaggio and Powell's (1983) description of normative institutional pressure), whether they remain neutral when compliance with either the old or the new standard is permitted under IFRS in the time of transition, or whether auditors' own strategic objectives mean that they prefer their clients to adopt from the mandatory effective date in order to reduce the risk of error and protect their own reputations as auditors (Leicht and Fennell, 2008; Greenwood *et al.*, 2014) .

This study also has the potential to make a number of other contributions to institutional theory. First this thesis develops institutional theory by depicting the institutional environment as a complex and symbiotic network of relationships, influences and dependencies which may be contrasted with the vertical hierarchy which traditionally has been described in the institutional literature (DiMaggio and Powell, 1983; Zucker, 1987). Second, this thesis provides empirical evidence in relation to the existence of institutional pressures and how it is sometimes impossible to classify a pressure as exclusively coercive, mimetic or normative (DiMaggio and Powell, 1983). Third, the thesis makes a theoretical contribution by exploring and developing Oliver's (1991) model of strategic responses to institutional processes and by focussing on the tactic of escape from a particular domain in particular. Specifically, this study investigates accounting practice over a nine year period beginning in 2005 and this enables the researcher to take a longitudinal perspective and consider the way in which firms can pursue legitimacy over the long term. This investigation also demonstrates how Oliver's presentation of a single institutional factor of efficiency and economic gains benefits from a finer analysis in

[2] See Bauer *et al*. (2014), Erb and Pelger (2015) and Whittington (2008) for examples.

some settings. The thesis indicates how an institutional study can accommodate self-interested behaviours by showing how firms' strategic reporting objectives within their institutional environments provide examples of the organisational goals identified by Oliver which influence whether a particular institutional pressure is complied with.

There have been calls for both quantitative and qualitative approaches to be used together in institutional studies (Greenwood *et al*., 2008; Lounsbury, 2008). The investigation therefore uses mixed research methods. This forms part of a pragmatic constructivist methodology which views reality as being constructed out of the four aspects of historical facts, future possibilities, held values and communication with others so that the approach to research should be adequate to explore these four aspects of reality (Nørreklit *et al*., 2006; 2010). The use of a pragmatic constructivist methodology within an institutional study is believed to be another contribution of this thesis. The multi-faceted reality which is presented in the ontology which underpins this methodology is considered to be particularly relevant when attempting to understand institutional behaviour given the complex, and at times potentially conflicting, nature of institutional arguments. Further, institutions arise out of formal and informal relationships between the various institutional actors and therefore the values that these actors hold, and the communication between them, are central to an institutional study.

In order to explore the values held by the preparers of financial statements and how they consider accounting possibilities, this research includes interviews with CFOs and GFCs. In existing financial accounting studies, the literature largely comprises quantitative studies using archived secondary data. These studies do not incorporate the voices of the people who make the accounting decisions. The factors which affect these decisions, including the early adoption of IFRS, are assumed by researchers on the basis of statistical probability. (Examples of this type of quantitative study are shown in Table 4.1.) Quantitative results can sometimes be inadequate to explain the reasons for accounting choices or to describe the process of making this type of decision. This research therefore contributes to accounting research methodology by reflecting the views of important institutional actors. Specifically, it uses an explanatory sequential mixed methods quan→QUAL design (see Section 2.6.3) where the qualitative results of interviews with CFOs and GFCs are used to explain quantitative findings regarding the number of incidences of early adoption.

1.4 Overview of thesis

The remainder of the thesis is set out as follows.

Chapter 2 explains that the methodology for the study is Nørreklit *et al*.'s (2006; 2010) version of pragmatic constructivism so that reality is viewed as being constructed out of the four aspects of historical facts, future possibilities, held values and communication with others. This means that the research method(s) used should be adequate to investigate these four aspects, so that mixed methods may provide a suitable approach in some cases. Kuhn's (1970) arguments in relation to research paradigms are contrasted with Feyerabend's (1978) support for using a variety of research methods and a mixed methods research design is justified.

Chapter 3 sets out the technical background to the study by identifying the new IFRSs and revised IASs which are included in this investigation and analysing the types of changes introduced by these standards. Chapter 3 also considers why the option to adopt early continues to be allowed by the IASB when it issues new and revised accounting standards. This thesis views accounting standards as one of the regulatory pillars of the financial markets and views the IASB's (2010a) Framework as a cultural-cognitive pillar (Scott, 2008a). Therefore Chapter 3 considers the purpose of the Framework and the extent to which an organisational goal within financial reporting (for example, to report improved performance to investors) might be viewed as incompatible with the unbiased nature of faithfully represented information.

Chapter 4 documents the first part of the literature review which has been undertaken as part of this research and focusses on financial accounting studies. It summarises the literature relating to early adoption of IFRS as a regulatory framework for accounting in order to identify the theoretical underpinnings of existing early adoption studies. This includes an analysis of alternative theories which have been used to explain early adoption of IFRS in the existing literature and presents justification for using institutional arguments to provide the theoretical framework for this research. Chapter 4 also reviews US literature relating to early adoption of individual standards, showing how this body of literature focusses on earnings management so that, by taking an institutional perspective, this thesis has the potential to add a new dimension to knowledge of financial accounting. Chapter 4 then summarises the emerging literature relating to the new and revised standards which provide the context for this study. Chapter 4 also analyses existing institutional studies which are set in the context of financial accounting and justifies the use of mixed research methods in the current project.

Chapter 5 documents the second part of the literature review which relates to the theoretical framework for the project. Chapter 5 therefore commences with a critical review of the development of institutional theory starting with the strategic ('rational') approach to the regulatory environment contained within old institutional theory and moving on to new institutional theory's inclusion of 'irrational' compliance with institutional pressures and the resulting isomorphism among organisations (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Chapter 5 describes the accounting environment for large firms and considers how the decision whether to adopt a new standard from the mandatory effective date or to adopt early might be affected by institutional considerations. This includes a review of the literature relating to Oliver's (1991) model of strategic responses to institutional processes which provides part of the theoretical framework for this research. Chapter 5 ends by setting out this thesis' contributions to institutional theory.

Chapter 6 describes the mixed methods explanatory sequential quan→QUAL design used in this study. It explains that a quantitative research method is adopted in relation to archived data gathered from annual reports and a qualitative approach is then used to analyse interviews with CFOs, GFCs, auditors and the IASB in order to explain the quantitative results. The quality of the quantitative and qualitative phases of the project and also the quality of the mixing of the two methods are evaluated in Chapter 6.

The results of the quantitative and qualitative analyses are recorded in Chapter 7. This chapter synthesises the two types of result and discusses the implications. The analysis of the empirical findings and discussion in Chapter 7 provide support for the development of institutional theory in Chapter 5.

Chapter 8 presents the conclusion for the project and includes the answers to the research questions. This chapter also sets out the thesis' contributions to knowledge, theory and methodology. Chapter 8 ends with a discussion of the limitations of the project and suggested areas for future research.

1.5 Chapter summary

Chapter 1 has introduced the aim of this project as identifying the factors which influence a particular choice by non-financial FTSE 350 firms, which is the timing of the adoption of new IFRSs or revised IASs. It has explained why the theoretical framework for this research is institutional theory and has summarised the ways in which the research has the potential to make contributions to knowledge of financial accounting, institutional theory and research methodology.

The methodology which underpins this investigation is Nørreklit *et al*.'s (2006; 2010) pragmatic constructivism. Chapter 2 will now review this methodology and justify its use in this study. In order to gather empirical evidence regarding the facts of the extent of early adoption in the period under review, to attempt to interpret the meanings behind decisions made by managers and to analyse the communication between the various institutional actors, this study adopts a mixed methods approach. Therefore the use of a mixed methods research design is also justified in Chapter 2.

2. METHODOLOGY

2.1 Chapter overview

The design of the current study emerges from a methodology which is based on Nørreklit *et al*.'s (2006; 2010) pragmatic constructivism. A pragmatic constructivist ontology views reality as made up of the four aspects of historical facts, future possibilities, held values and communication with others. Researchers with a pragmatic worldview often conduct mixed methods research (Creswell, 2015; Howe, 1988; Modell, 2010; Teddlie and Tashakkori, 2009) and therefore this investigation uses a mixed methods approach. This allows the opportunity to attempt to observe and describe the facts relating to particular accounting choices actually made by firms whilst considering alternative possibilities, the organisational and institutional values which lie behind these accounting choices and the related communication between the actors themselves, and also between the actors and the researcher. In the context of this project, mixed research methods are therefore argued to be more valid than a solely quantitative or qualitative approach because of institutional theory's focus on institutional values and relationships.

Chapter 2 is set out as follows. First, Nørreklit *et al*.'s (2006; 2010) arguments in support of a pragmatic constructivist worldview are discussed in Section 2.2. Section 2.3 then analyses the ontology of existing institutional studies. This ontology is argued to be both objectivist (firms are viewed as distinct 'objects' which are separate from the individuals who work in them) and constructivist (the structures and behaviours of firms are affected (or 'constructed') by those individuals and their relationships with others). Section 2.4 sets out the epistemology of the current study which in part reflects the empirical methods of the natural sciences but also incorporates an interpretive approach to data analysis.

Building on the preceding sections, Section 2.5 justifies the use of a mixed methods approach to research in order to consider the four aspects of reality highlighted by Nørreklit *et al*. (2006; 2010). Section 2.6 then considers the definition of mixed methods research and discusses the specific mixed methods strategy for this project which is an explanatory sequential quan→QUAL design. Section 2.6 ends by clarifying the order in which the various parts of the project have been completed. This includes an explanation of the development of institutional theory as part of the inductive approach to the relationship between data and theory used in the thesis.

2.2 Pragmatic constructivism

The quantitative institutional studies listed in Table 4.3 reflect a realist ontology in that they are based on the belief that there are underlying behaviour patterns which can be observed for firms which are independent of the observation process. However, Nørreklit *et al*. (2010) argue that realism does not provide a suitable framework for accounting studies because realism oversimplifies accounting practice and ignores, *inter alia*, its social nature. In particular, they argue that realism only considers facts and reduces a description of reality to what is observable. Instead Nørreklit *et al*. identify the four aspects of *"facts, logic, values and communication"* (2006, p43) which they suggest should be included in any framework which purports to relate to accounting.

Nørreklit *et al*. (2006) view reality as a construction arising between an actor (whether an individual or an organisation) and the world; the actor creates his (its) reality out of historical facts, future possibilities, held values and communication with others. Nørreklit *et al*. argue that a research methodology which does not integrate facts, possibilities, values and communication might consider just one aspect of this complex constructed reality such as *"... the rationality of decision-makers; ... the power structure of the organi[s]ation or the subjectivity of the actors"* (2006, p43). Institutional theory encompasses all of these ideas, namely managers' actions as rational agents with their own strategic or self-interested motives (Lounsbury, 2007; Oliver, 1991), the power structure of an institution and its agents (Lawrence, 2008; Parsons, 1956b), and cognitive understandings within a particular environment together with relationships between institutional constituents (Scott, 2008a; Phillips and Malhotra, 2008). Therefore pragmatic constructivism would seem to provide a suitable research methodology for this investigation because, arising out of the analysis of the observed results, the thesis uses institutional arguments within its theoretical framework. (See Section 2.6.4.)

2.2.1 Facts

Nørreklit *et al*. (2010) propose that accounting is a practice which is based on 'facts' whilst recognising that accounting facts may be subjective in nature. This is because they are socially constructed, that is, accounting facts (for example, IFRS) are *"institutionally agreed"* (Nørreklit *et al*., 2010, p740) between practitioners. Accounting practice involves an accountant observing a particular phenomenon and then reporting those accounting facts which the accounting community currently considers are related to that phenomenon. Therefore within accounting there are objective facts (a company spent £10,000 on a new delivery van) and also subjective 'facts' (£1 was considered by the accounting community to be equivalent to $1.20 on the date of purchase and so the van is recorded at a 'cost' £10,000 if the company actually spent $12,000). Both objective and subjective 'facts' provide the basis for justifying accounting practice, as well as for guiding its development.

In the current study archived annual reports are examined to establish the facts regarding the actual early adoption practices of firms. The results are analysed quantitatively in order to identify the percentages of firms which adopted particular standards early.

2.2.2 Possibilities

Accounting possibilities arise as managers use logical reasoning to move on past the existing facts and plan for the future. Nørreklit *et al.* (2010) argue that it is the existence of such possibilities which starts to distinguish pragmatic constructivism from realism so that what is real is not restricted to what may be currently observed but reality is extended to encompass future possibilities (provided those possibilities are practical inasmuch as they are grounded in facts). Within accounting, possibilities arise out of the phenomena which are the basis of facts. Accountants make estimates and judgements which are logical because they start with the existing accounting facts (a company owns a delivery van which cost £10,000) and identify practical possibilities (the van will probably be used in the business for five years) which then lead to accounting possibilities (the amount of the annual depreciation expense in the statement of profit or loss and the measurement of the van asset in the statement of financial position).

In the current study accounting possibilities arise because a new or revised standard may be adopted early by firms, or it may be adopted from the mandatory effective date.

2.2.3 Values

Values motivate an individual or an organisation to act when at least one possibility is aligned to a value which that individual or organisation holds. People have their own beliefs and values but society also has values which people serve. Values affect future action and create a boundary to a person's practical possibilities (that is, their reality). Similarly, an organisation's values will create a boundary to its reality whether those values are those of the organisation itself or they have been adopted by the organisation because they are important for society at large or within its immediate environment (institution). Nørreklit *et al*. (2010) emphasise the importance of values in accounting practice and argue that when a firm's own values are reflected in the wider environment and also held by the accounting profession, there is action because accounting possibilities become reality.

Selznick (1996) suggests that values have a central place in institutional theory and so it is important to identify institutional values and the ways in which they are adopted or subverted by institutional constituents. Within the IFRS accounting environment, the IASB's (2010a) Framework could be argued to set out the institution's values regarding a firm's annual financial statements, including that their objective is to provide useful information to investors and other providers of financial resources. The current understanding of 'useful' includes the idea that accounts should represent accounting phenomena faithfully (meaning that accounting information is complete, neutral and free from error) and accounts should be relevant to the financial decisions made by investors and other creditors. This study uses interviews with senior financial managers and auditors in order to investigate the values of institutional actors and to consider the values which may cause firms to exploit the reporting possibilities afforded by a new standard so that they abandon the *status quo* of I_1 and adopt that new standard early. Specifically, this study considers whether managers' values reflect the concepts within the IASB's Framework.

2.2.4 Communication

Action arises out of possibilities logically derived from existing facts where those possibilities reflect the values of an organisation. In order for a firm to know (and therefore assimilate) the values of other institutional actors, those values must be communicated (Phillips and Malhotra, 2008). Therefore communication gives action a social dimension. Since the objective of financial reporting is to present information to providers of financial resources, communication is at the heart of financial accounting practice. The manner in which this information is communicated to users is the subject of legislation and IFRS (for example, an accounting standard may set out the disclosures required in relation to a particular accounting phenomenon). In addition, IFRS is developed via communication between accountants whether those accountants work for the IASB, an audit firm or another organisation (Nørreklit *et al*., 2010).

Suddaby (2010) emphasises the importance of analysing the communications used by the actors as they engage in institutional processes. Therefore this project will consider communication between actors and some of the interview questions in the qualitative phase of the project specifically address this area. Section 6.4.3.3 sets out the design of the questions used in semi-structured interviews with CFOs and GFCs. Question 2 relates to communication between a firm and its auditor and Question 6 relates to communication between a firm and the IASB. A focus of the interviews with auditors is the relationship and communication between auditors and their client firms. The IASB interview refers to communication with firms as part of the process of the development and post-implementation review of new standards. This project also considers how firms communicate with investors via their annual reports and the ways in which early adoption may provide managers with the opportunity to report strategically within their firms' annual accounts.

2.2.5 A pragmatic constructivist methodology

In order to avoid the pitfall of reducing a multi-dimensional reality to one or two dimensions, Nørreklit *et al*. (2006) argue that accounting research methodology should be adequate to investigate the four dimensions of facts, possibilities, values and communication, otherwise the validity of research findings may be compromised. These arguments appear to be particularly salient in respect of an accounting study which uses institutional theory as its theoretical framework given the complex, and at times apparently conflicting, nature of institutional arguments. Further, institutions arise out of formal and informal relationships between the various institutional actors and therefore the values that these actors hold and the communication between them are central to an institutional study.

2.3 Ontology

Using objectivist ontology, each FTSE 350 firm is viewed as an object which is separate from the individuals, including the senior managers, who work in it. Each firm has its own rules and procedures and therefore has its own ways of doing things which individual employees learn over time and which 'the firm' imposes on individuals by both negative means (the ultimate being dismissal) and positive means (including promotions, pay increases and bonuses). The firm therefore shapes behaviours and constrains the people who work within it. Consequently, in the quantitative institutional studies shown in Table 4.3, the independent variables used by Collin *et al.* (2009) and Mezias (1990) mainly relate to the firm (for example, size of firm) rather than individual managers.

In contrast, other independent variables (for example, the turnover of the top management team used by Mezias (1990)) reflect a constructivist ontology which takes the view that an organisation is socially constructed so that the employees shape the firm. In this case a firm is seen as made up of people so that it is continually being renewed and rebuilt (or 'constructed') by its current employees (particularly the senior managers) and the interactions between them. Within the institutional school this mixed approach to ontology appears to be acceptable. Scott (2008a) argues that organisations are affected and empowered by their environments as well as by their own participants and an institutional study may therefore adopt what Scott describes as a *"top-down and bottom-up"* (2008a, p214) approach.

2.4 Epistemology

Both empirical data (based on facts) and subjective interpretations (of values and meanings) appear to be helpful when attempting to understand and to explain institutions and the behaviours of their constituent organisations. Because it is believed that there are underlying behaviour patterns which may affect observable phenomena, the approach taken to initial data collection and analysis is based on the empirical methods used in the natural sciences so that observed phenomena (facts) can be used to support theory.

Pragmatic constructivist arguments suggest that if institutions exist in reality, institutional pressures will affect the behaviours of firms but firms may not always comply with what is expected (possible) because of divergent values. This would appear to resonate with the arguments of institutional theory with its focus on both compliance with institutional norms (Meyer and Rowan, 1977) and conflicting institutional logics (Lounsbury, 2008). Consequently, in addition to a quantitative analysis of observed data to establish the historical facts, an interpretive approach will also be included in this project in order to try to identify the values which influence firms' behaviours.

2.5 Research methods

2.5.1 Quantitative method

According to Nørreklit *et al*. (2006) the gathering and quantitative analysis of facts may enhance the reliability of a study's findings because this approach provides evidence that an aspect of reality exists and it has not merely been imagined. Whether a standard was adopted early or whether its adoption was from the mandatory effective date is shown in a firm's financial statements and exists independently of the observer. The timing of adoption is therefore an objective fact. The actual early adoption choices made by firms in the period since 2005 are summarised and presented in tabular form as part of a quantitative method to identify the extent of early adoption. These are the historical facts which institutional arguments are used to explain in the qualitative phase of the study.

2.5.2 Qualitative method

Nørreklit *et al*. (2010) argue that a person's values are what drive him or her to choose between possibilities, including the selection of particular accounting options. The CFOs of two firms may have different values, or similar values but with different levels of importance, or two managers in the same firm may have different values. New institutional theory attempts to reflect the different values of individuals because whilst legitimacy is assumed as a core institutional value, other logics and strategies are acknowledged to affect actors' decisions (Lounsbury, 2008; Oliver, 1991). These values probably cannot be explored adequately using a quantitative method because they are subjective and cannot be measured. They may only be revealed using an interpretive approach which recognises that people create their own view of reality and attach their own meanings to phenomena. Interpretive research therefore includes the analysis of communication.

Qualitative research is based on interpretation of, *inter alia*, observed behaviours, conversations and written documents, and *"refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things"* (Berg, 2009, p3). In order to attempt to capture the meaning behind communications and behaviours, the specific research tools used in this project to collect primary data are interviews with financial managers, auditors and the IASB which provide insight into how firms decide whether to adopt a new IFRS early.

Qualitative research is usually inductive, starting with observations which lead to the development or generation of theory. The process is an iterative one where the researcher moves back and forth between data and theory in order to explain the observed results. Bryman and Bell (2011) argue that a qualitative researcher may have a possible theoretical framework in mind before analysing data and theory may therefore influence the coding system used in the analysis. This research includes the analysis of interviews with managers, auditors and the IASB, within a framework provided by institutional arguments, in order to gain insight into the operation of institutional pressures and to develop theory. However, the particular arguments put forward regarding the use of institutional theory to explain the timing of the adoption of new accounting standards arose out of the interpretation of data in Chapter 7 and so the research is inductive. The inductive approach to the relationship between data and theory is discussed further in Section 2.6.4.1.

2.5.3 Mixing quantitative and qualitative methods to investigate reality

This study combines quantitative and qualitative research methods. Dey (1993) argues that quantitative and qualitative methods of analysis may be used together in order to avoid rigidity and a lack of creativity within research in the social sciences. Denzin and Lincoln (2005) highlight that the benefits of using mixed methods do not just include establishing validity; multiple methods may be used to add *"breadth … and depth"* (Denzin and Lincoln, 2005, p5) to an investigation. Within the institutional school there have been continuing calls for future studies to employ mixed methods which look for facts and integrate the meanings behind managers' choices (Greenwood *et al*., 2008; Lounsbury, 2008; Suddaby, 2010; Thornton and

Ocasio, 2008). A pragmatic constructive methodology provides the opportunity to use mixed methods which look for facts, identify accounting possibilities, explore managers' values and analyse communication between institutional constituents.

Borrowing from surveying terminology, the use of mixed methods is commonly referred to as triangulation, a way of mapping out an area in two dimensions. Triangulation can be a mix of quantitative and qualitative methods or an approach which employs multiple qualitative methods, each with different empirical materials and data sources. The use of mixed/multiple methods in this way can be used to enhance the validity of findings because the observed results from each method are checked against the other. However, Richardson and St. Pierre (2005) reject the usefulness of the concept of triangulation in the context of qualitative research. Instead, they argue that qualitative research can be informed by using the image of a crystal *"creating different colo[u]rs, patterns and arrays casting off in different directions"* (Richardson and St. Pierre, 2005, p963). This would appear to provide an appropriate image of the aim of qualitative research in an institutional setting given the complexities and richness of institutional theory (Czarniawska, 2008; Greenwood *et al*., 2008).

The current project will use mixed methods of analysis of data from multiple sources. Integration of the results of this analysis will be used to identify the factors which influence firms to adopt a new accounting standard from the mandatory effective date or to adopt early, and also to illuminate and to develop institutional arguments.

2.6 Mixed methods research

2.6.1 A definition of mixed methods research

Creswell defines mixed methods research as:

> … the collection and analysis of both quantitative and qualitative data in response to research questions. [It] integrates the two sources of data by combining them, connecting them … or embedding them … and incorporates these procedures into a design or plan for conducting the study … (2015, p18).

Other definitions of mixed methods research have been put forward in the literature (Grafton *et al*., 2011b; Johnson *et al*., 2007) but Grafton *et al*. (2011b) argue that there are two essential elements to the definition. First, the quantitative and qualitative elements are integrated. Second, the quantitative, qualitative and integrative phases are within a single study. Grafton *et al.* (2011b) argue that this permits variations in the 'mixing' including the mixing of methods and the timing of the mixing. However, whilst the name 'mixed methods' appears to focus on methods (of data collection and analysis), Creswell's (2015) definition serves to highlight that the 'mixing' within a mixed methods study occurs throughout the research process beginning with the design or plan.

It is therefore necessary that the overarching research question is phrased so as to encompass a mixed approach (Bazeley, 2009; Creswell and Plano Clark, 2007). Creswell (2015) suggests that the research objectives should include both quantitative (in the current study, RO2: *To use quantitative analysis of archived data collected from annual reports to identify the timing of adoption of new and revised standards in the period from 2005 to 2014*) and qualitative (RO3: *To use qualitative analysis of primary data gathered via interviews with senior financial managers, auditors, and the IASB in order to gain insight into how institutional pressures interact with organisational goals and thereby influence the decision whether to adopt a new standard from the mandatory effective date or to adopt early*) objectives. There should also be an objective which integrates the two approaches (RO4: *To integrate the results of the quantitative and qualitative phases in order to identify the factors which explain the timing of the adoption of accounting standards*). The mixing then continues through the data collection and analysis to the final conclusion which should address how the research question has been answered using mixed methods. (See Section 8.2.)

2.6.2 Mixed methods as the third research paradigm

Johnson *et al.* (2007) state that mixed methods research is now recognised as the third research paradigm, along with the quantitative and qualitative paradigms. The concept of research paradigms has been popularised by Kuhn (1970) who reflects on the history of science and argues that the scientific world is made up of discrete communities of scientists (schools) who each have their own paradigm. Scientists stay within their paradigm and do not communicate with other scientists. Their worldviews are said to be incommensurable (having no common standard and unable to be compared) with those of scientists from other schools.

Kuhn's ideas on paradigms have been used to suggest that quantitative and qualitative methods of analysis should not be mixed because they arise out of different assumptions about reality (ontology) and different views on what knowledge is (epistemology) (Sale *et al*., 2002). However, Teddlie and Tashakkori (2009) adopt a pragmatic defense of mixed methods research and argue that quantitative and qualitative methods may be used together because some researchers have successfully done so. Therefore, for Teddlie and Tashakkori (2009), mixing must be possible despite concerns over the incommensurability of research paradigms.

Loo and Lowe (2011) argue that researchers who used mixed methods should consider their ontological and epistemological positions to ensure consistency throughout their projects. The ontological and epistemological positions which underpin the current study have been outlined in Sections 2.3 and 2.4 respectively. In particular, the methodology of the current study arises from Nørreklit *et al*.'s (2006) pragmatic constructivism which views reality as made up of historical facts (explored using a quantitative method in this study) and also future possibilities, held values and communication with others (explored using a qualitative method) so that mixed methods are considered appropriate and the best approach to use in order to answer the research question for this particular investigation (Broadbent and Unerman, 2011; Kvale and Brinkmann, 2009).

Kuhn (1970) maintains that his observations on the history of science are not only descriptive but also prescriptive. He therefore claims that his theory of research paradigms provides a basis for how scientists should behave so that knowledge within a particular school can grow. However, Kuhn's claim has been contested, for example by Feyerabend (1978). Feyerabend does not contradict Kuhn's assertion that research communities exist (with their preferred theories, methodologies and techniques) but he argues that their existence is not good for science. Feyerabend's work does not advocate any one methodology or paradigm (describing himself as an 'anarchist') but rather supports an *"anything goes"* (Feyerabend, 1978, p28) approach to science. Feyerabend emphasises the benefit of scientists being open to new ideas and opinions, and using plural methodologies. He argues that the most important breakthroughs and discoveries come when scientists try new methods. Feyerabend's arguments lend support to using mixed research methods.

Whilst Feyerabend (1978) might describe a mixed approach to research as akin to anarchy, this description is refused here because the term 'anarchy' implies a rejection of any source of authority or control (Oxford Dictionaries, 2014). Within a mixed methods approach sources of authority and research conventions are not ignored because the quantitative method adheres to accepted norms within its paradigm, as does the qualitative method (Creswell, 2015; Creswell and Plano Clark, 2007; Leech *et al*., 2010). (This defense of the quality of mixed methods research is discussed further in Section 6.8.3.)

Using mixed methods is therefore considered to be a pragmatic approach which is required in order to answer some research questions provided the two methods are synthesised (integrated) so that they form a coherent argument (Bryman, 2004). As Hines argues:

> Reality is complex and multi-faceted, and research in both the physical and social sciences shows that alternative, and often incommensurable, perspectives are needed in order to understand complex phenomena (1989, pp55-56).

Quantitative and qualitative analyses may therefore be brought together to explain the behaviours of firms within their institutional environment and to interpret motives and meanings.

In this mixed methods study a quantitative phase is used initially to identify the facts regarding historical incidences of early adoption. Specifically, this information is not regarded as mere contextual background. The accounting standards which were early adopted and the numbers of early adopters comprise the quantitative data for the study in accordance with Sayer:

> Contexts … are rarely just background; exploration of how the context is structured and how the key agents under study fit into it – interact with it and constitute it – is vital for explanation (1992, p248).

A qualitative phase is then used to explain the quantitative results. This second phase explores how managers consider the future accounting possibilities provided by a new standard, the values held by managers which affect accounting decisions and the relationships and interactions which exist between CFOs, GFCs, auditors and the IASB, and how these various factors influence the decision whether to adopt a new standard early or to adopt it from the mandatory effective date.

2.6.3 A mixed methods explanatory sequential quan→QUAL design

This thesis uses the emerging 'standard' for mixed methods notion of 'quan' for quantitative methods and 'QUAL' for qualitative methods (Bryman and Bell, 2011; Creswell and Plano Clark, 2007; Teddlie and Tashakkori, 2009). An arrow '→' is used to show sequence where one method follows the other. Writing 'quan' in the lower case and 'QUAL' in the upper case indicates that QUAL is considered to be the dominant method in this study. This is because the thesis takes an inductive approach (see Section 2.6.4.1) and develops theory using the interpretive analysis of interview data (Morse, 2008). (See Section 8.5 for a concluding reflection on the integration of quantitative and qualitative methods in this project.)

Suddaby (2010) criticises the research methodology for many institutional studies. He argues that it is usually quantitative in nature and therefore researchers are unable to investigate ideas and motives. (Table 4.3 identifies examples of quantitative studies which have been used in existing institutional research in a financial accounting context.) Ideas and motives are considered in the current study by using mixed research methods which incorporate the qualitative analysis of interviews with institutional actors so that motives and meanings can be explored.

There have been calls for both quantitative and qualitative approaches to be used together in institutional studies (Greenwood *et al*., 2008; Lounsbury, 2008). Dunn and Jones (2010) and Grafton *et al*. (2011a) are two such studies and the specific mixed methods designs used in these investigations have been considered. Dunn and Jones (2010) use mixed methods to explore the plural institutional logics within North American medical schools. The type of mixed methods design is not explicitly stated by the authors but it appears to be an exploratory sequential QUAL→QUAN design where the qualitative analysis of text led to the selection of variables for the quantitative phase. Qualitative and quantitative findings were then brought together to answer the research questions. Grafton *et al*. (2011a) investigate the design and control of Australian hospital networks using Oliver's (1991) predictive model of strategic responses to institutional pressures, a theoretical framework in common with the current study. (See Section 5.3.4.) Again, the type of mixed methods design is not stipulated but it appears to be a concurrent triangulation QUAL+quan design which compares quantitative results to qualitative (interview) data with interviews comprising the main part of the study. The current investigation therefore provides a point of departure from these institutional studies by employing an explanatory sequential quan→QUAL design. Here, the analysis of interviews is used to develop institutional arguments which explain the observed quantitative results. Section 8.5 describes how the QUAL phase is dominant in this research because the thesis' theoretical contribution is derived mainly from the qualitative analysis of interview data.

Another point of departure from existing studies is that neither Dunn and Jones (2010) nor Grafton *et al*. (2011a) are set in an accounting context. Grafton *et al*. (2011b) review the mixed methods literature and note the sparsity of mixed methods research in accounting, and especially in financial accounting. Consequently Grafton *et al*.'s (2011b) review focusses on management accounting research but they include a review of one financial accounting paper by Graham *et al*. (2005). Graham *et al*. (2005) use a survey and interviews with American CFOs in what appears to be a concurrent triangulation QUAL+QUAN design. Their findings are that CFOs believe earnings rather than cash flows to be important to investors and therefore CFOs sometimes sacrifice economic gain for the firm in order to achieve earnings targets. Graham *et al*.'s (2005) paper makes an important contribution to the accounting literature by exploring the views and motives of CFOs in relation to voluntary disclosures and earnings management in the financial statements. (Another mixed methods study is Crawford *et al*.'s (2012) investigation into the usefulness of IFRS 8 which is reviewed in Section 4.4.2.)

Following their review of Graham *et al.*'s (2005) paper, Grafton *et al*. conclude that:

> There is little qualitative work in financial accounting … . Graham *et al*. (2005) do, however, demonstrate very well how much is to be gained by supplementing traditional archival data sources with forays into both surveys and qualitative data collection in financial accounting (2011b, p16).

The current study takes such a foray into the quantitative analysis of archived data and also the qualitative analysis of interviews to explain the quantitative results.

2.6.4 The use of theory and the order of research

2.6.4.1 The process of induction

Traditionally, the relationship between theory and data has been described as either inductive or deductive (Bryman and Bell, 2011; Gray, 2014). The process of induction begins with a researcher's observations and findings which are then related to theory by making generalisations based on specific observed instances. Taking an inductive approach, a researcher may use his or her observations either to develop an existing theory or to provide the basis for generating a new theory. In contrast, the process of deduction begins with a theory and on the basis of that theory a hypothesis is put forward for testing. Then empirical data is collected which are used either to confirm or to reject the hypothesis. Based on the results of the tests, the original theory may be accepted, rejected or modified. In the latter case the process of testing might then begin again based on the new modified version of the theory.

Whilst inductive and deductive research may be distinguished in this way, areas of overlap between the two approaches have been noted (Bryman and Bell, 2011). Inductive methods have been criticised because all tests and observations are set against some form of theoretical framework. They have therefore been described as 'theory laden' and reliant on deductive methods to a degree (Popper, 1991). On the other hand, deductive methods have also been criticised because it is expectation based on past experience which enables scientists to identify and set up tests of theory (O'Hear, 1989). Further, Bryman and Bell (2011) point out that within a piece of 'deductive' research, a researcher may introduce new theoretical ideas after data has been collected in order to explain unexpected findings.

This project takes an inductive approach to answer the RQ: *What factors can explain the timing of the adoption of accounting standards by large firms?.* The thesis develops theory on the basis of the analysed results from both the quantitative and qualitative phases of a mixed method project with the qualitative phase dominating (Morse, 2008; Teddlie and Tashakkori, 2009). Section 1.2 has explained why institutional theory is considered to have the potential to provide a theoretical framework for this project and guide the study (Creswell, 2009). However, the literature review in Section 4.2 shows how accounting studies have used a number of different theories (agency, institutional, positive accounting, signalling and stakeholder) to explain the decision by some firms to early adopt IFRS as regulatory GAAP (generally accepted accounting principles). Therefore before data was analysed, institutional theory was only one out of a number of possible theories which might be used to explain observed data. The use of institutional theory as a theoretical framework was not firmly decided *a priori* but emerged from the study even though the Introduction (Chapter 1) and the Literature review (Chapters 4 and 5) reflect the theoretical arguments which arose throughout the analysis of data. Therefore these early chapters show institutional theory to be the theoretical framework before the later chapters are presented in the thesis.

This research is inductive because it did not begin with the intention of either corroborating or falsifying institutional theory. An explanatory sequential quan→QUAL mixed methods design has been used starting with the quantitative analysis of firms' annual reports in order to look for patterns of early adoption of accounting standards. No particular theoretical framework was applied during this phase. In addition, Section 6.4.3 describes how interview questions were designed so that they were not 'institutional theory laden'. For example, the first question put to CFOs and GFCs asked for their views on the advantages and disadvantages of early adoption of new accounting standards. This question did not reflect any institutional arguments or lead participants to answer the question in a particular way.

The initial analysis of the pilot interviews suggested that institutional arguments might provide a suitable framework for this research. However, Section 6.5 describes how, during the process of coding interview data, the researcher was open to using a theory other than institutional theory to explain the choice whether to adopt a new standard from the mandatory date or to adopt it early. Thus the researcher guarded against missing detail in the data or ignoring the views of participants (Bryman, 2004).

Institutional theory is complex and multi-faceted so that the focus of the institutional arguments used was not identified until the interviews had been coded and data analysed. Specifically, the use of a theoretical framework which includes Oliver's (1991) model of strategic responses to institutional processes was not decided *a priori* but emerged out of the analysis of data reflecting the inductive approach. Therefore the focus of the review of the institutional literature set out in Chapter 5 to meet RO1: *To review the literature in order to gain an understanding of institutional theory's power to explain a particular accounting choice made by firms in a time of transition between regulatory environments* evolved throughout the study.

The year end process of preparing the annual financial statements and presenting those financial statements for audit involves a firm and its auditor and so the researcher considered it possible that a CFO or GFC might discuss with the auditor the decision whether to adopt a new standard early. With their focus on the relationship and communication between an organisation and its professional advisors (for example, an auditor), at the outset of the project it was thought that DiMaggio and Powell's (1983) arguments relating to normative pressure might have the power to illuminate observed findings in order to answer the research question. During the coding process, it became apparent that auditors do not always advise the early adoption of a new accounting standard; auditors also advise their clients to wait until the mandatory effective date. This observation was not anticipated at the outset of the project. Further, whilst some participants introduced data relating to strategic considerations, after giving due consideration to alternative theories, the researcher retained an institutional framework for the study because Oliver's (1991) model of strategic responses to institutional processes was able to include these types of strategic arguments. Oliver's model was also able to reflect efficiency considerations whilst at the same time including ideas relating to the effect of the environmental setting on firms' choices. Hence it was the analysis of interview data as part of the inductive approach which led to the selection of the theoretical framework presented in this thesis.

2.6.4.2 The order of the project

The initial quantitative phase of the study comprises the collection of secondary data from the annual reports of non-financial FTSE 350 firms. This data is summarised in tabular form (Table 7.1) in order to look for patterns of early adoption of accounting standards. Table 7.1 indicates that the extent of early adoption tends to vary according to the individual standard involved. For this reason, and because of the low numbers of early adopters, it has not been possible to use advanced statistical analysis to identify significant relationships with independent variables arising out of institutional arguments (for example, size of firm, business sector and audit firm as proxies for coercive, mimetic and normative pressures) (Collin *et al*. 2009; Mezias, 1990). Therefore percentages are used in Table 7.1 to summarise and display the choices made by firms regarding when to adopt new accounting standards. The low number of incidences of early adoption observed in the quantitative phase also reinforce the need for a qualitative phase to explain the reasons for these choices.

Whilst the qualitative phase of the project was introduced in Section 1.2, this phase emerged out of the results of the quantitative phase. It was considered necessary to interview the CFOs and GFCs who make the accounting choices in order to explore their views on early adoption and to identify the factors which they consider when deciding whether to adopt a new standard from the mandatory effective date or to adopt it early. The quantitative results informed the design of the questions to be included in these interviews. The questions were also designed so as to give participants the potential to reflect institutional arguments in their answers (Kvale and Brinkmann, 2009). This specifically included the influence of the auditor in accounting decisions (normative institutional pressure), the extent to which firms attempt to influence the development of new standards through the consultation process (institutional agency) and whether the IASB's Framework provides a value system which managers comply with and therefore base their accounting decisions on (a cognitive pillar of the environment). However, whilst open to an institutional perspective, questions were not designed in such a way as to prevent an alternative theoretical perspective emerging as a framework for the investigation. (See Section 6.4.3.3.) Therefore the approach is inductive.

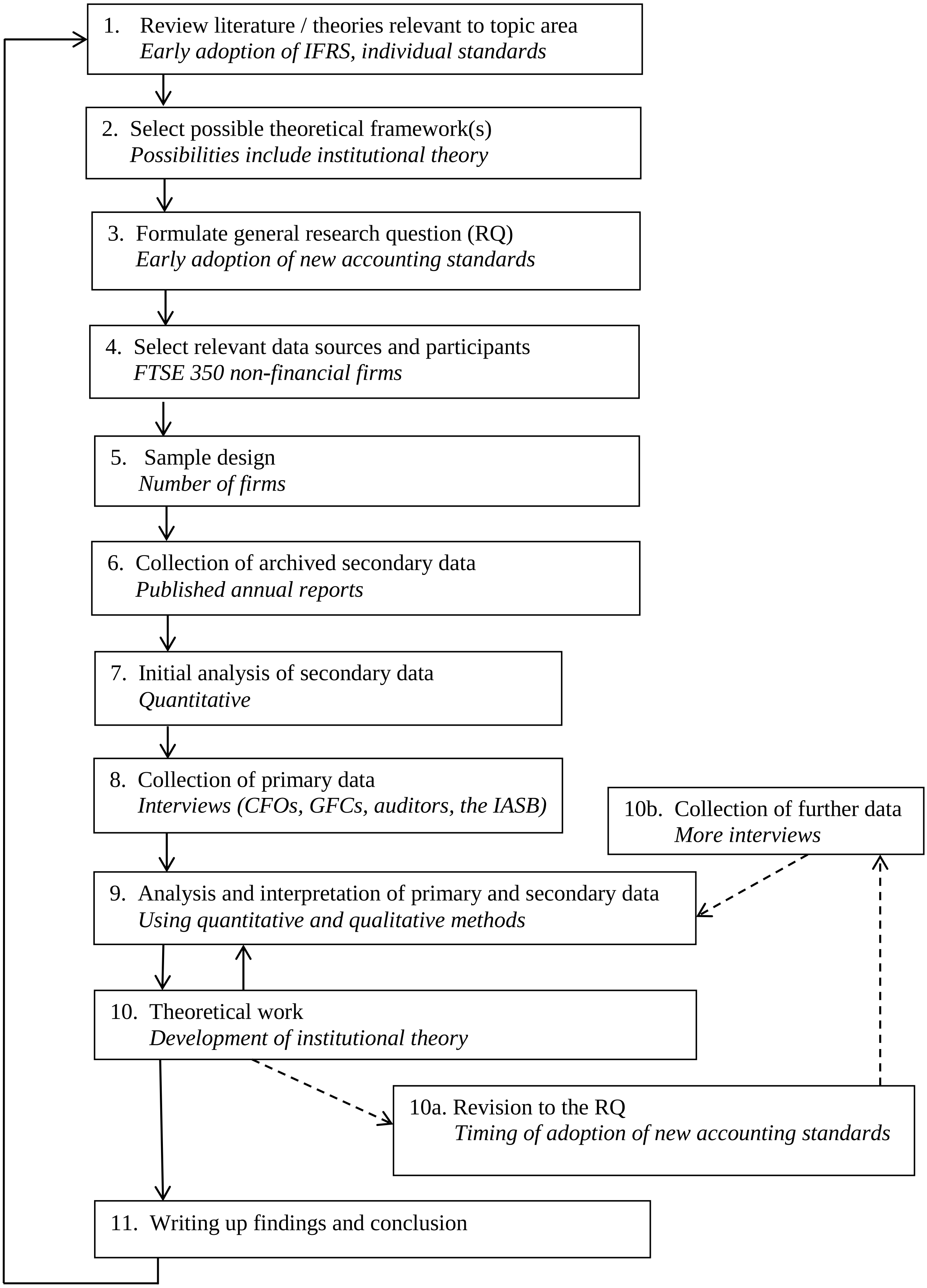
A preliminary analysis of the data produced by the pilot interviews suggested that institutional theory might be able to provide an appropriate theoretical lens through which to view the phenomenon under consideration (that is, the timing of the adoption of new accounting standards). Further codes emerged during the detailed analysis of interview data. The provisional use of institutional arguments within the thesis' theoretical framework led to the broad *a priori* codes shown in Table 6.2 relating to the coercive, mimetic and normative institutional pressures identified by DiMaggio and Powell (1983) and responses to those pressures. (See Section 6.5.)

Figure 2.1 is based on Bryman and Bell (2011) and illustrates the steps taken in this mixed methods research project including the use of theory. Section 2.5.2 has compared and contrasted quantitative and qualitative approaches. The analysis in Section 2.5.2 includes a discussion of the use of theory in inductive research where researchers move back and forth between theory and data as research proceeds as part of an iterative process (Steps 9 to 10b in Figure 2.1). Within mixed methods research it is particularly important that quantitative and qualitative findings are brought together as shown in Step 9. The journey between data and theory also led to a slight modification of the research question as shown in Step 10a (Bryman and Bell, 2011).

Figure 2.1

Outline of a mixed methods research project

Source: Adapted from Bryman and Bell (2011, pp 151 and 390)



Bryman and Bell (2011) stress that the generation of theory should be the result of qualitative research. Therefore this study's contribution to the development of institutional theory is set out in Section 5.7. This meets RO5: *To use the insight gained through the qualitative analysis of interview data and the integration of the results of the quantitative and qualitative phases to develop institutional theory*. Similarly, within quantitative research, findings are published and become part of the stock of knowledge regarding a particular theoretical perspective. The contribution to theory is illustrated by the feedback loop from Step 11 back to Step 1.

2.7 Chapter summary

Chapter 2 has set out the reasons why a pragmatic constructivist methodology has been adopted in this study. In particular, this is because Nørreklit *et al*.'s (2006) pragmatic constructivism considers the multiple dimensions of facts, possibilities, values and communication, and therefore provides a pluralistic approach which resonates with the complex nature of the institutional environment. Further, because of the pragmatic constructivist ontology which underpins this investigation, mixed methods research has been argued to be more valid than a solely quantitative or qualitative institutional study because a mixed approach allows for the opportunity to attempt to observe and describe the facts (a particular accounting choice actually made by firms) whilst considering alternative possibilities, the organisational and institutional values which lie behind those accounting choices and the related communication between the actors themselves, and also between the actors and the researcher. Chapter 2 has also explained the way in which this research has used and developed institutional theory to provide insight into the behaviours of firms as part of an inductive approach.

This project is set in the context of the choice made by non-financial FTSE 350 firms regarding whether to adopt new accounting standards early or from the mandatory effective dates. Consequently the new and revised standards issued by the IASB with effective dates after 2005 are now described in Chapter 3. Chapter 3 also gives a brief description of the authority and enforcement of IFRS, and discusses the purpose of the IASB's (2010a) Framework in order to provide an overview of the accounting environment for FTSE 350 firms.

3. TECHNICAL BACKGROUND

3.1 Chapter overview

Chapter 3 sets out the technical background for this project. Section 3.2 begins with an overview of the authority of IFRS and then discusses the role of the Big 4 audit firms in the accounting environment. Section 3.3 analyses some of the purposes of, and the concepts in, the IASB's (2010a) Framework. In particular the neutral aspect of a faithful representation of an accounting phenomenon is discussed in order to consider its meaning and to reflect on whether neutrality might sometimes be compromised when a new standard is early adopted in order to meet a strategic reporting goal in the financial statements. This type of goal may include a manager's attempt to report improved performance to investors. Section 3.4 then considers views on early adoption expressed by FTSE firms and their auditors in archived comment letters to the IASB.

The setting for this study is the choice made by firms whether to adopt a new or revised accounting standard from the mandatory date or to adopt early. Section 3.5 therefore identifies the new IFRSs and revised IASs which became effective for accounting periods from 2006 to 2014 and are included in this study. This thesis uses new institutional arguments within its theoretical framework. New institutional theory argues that organisations adopt 'irrational' practices (or fail to adopt 'rational' practices which are sensible in that they are consistent with logical reasoning) in response to institutional pressures. (See Section 5.3.2.) Section 3.6 therefore considers the rationality or otherwise of early adoption.

3.2 The authority of IFRS

In 2000, the EC announced that all companies listed on a European stock exchange would be required to comply with the IAS issued by the International Accounting Standards Committee (IASC) in their consolidated financial statements effective from 2005 (EC, 2002). In 2001 the IASC was replaced by the IASB whose purpose was to develop high quality international accounting standards and its objective remains unchanged today, being *"… to develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards …"* (IASB, 2015b). Compliance with IFRS then became mandatory for

EU-listed firms. However, before a new standard may be adopted by these firms, it must be endorsed by the EC.

In its 2014 annual report the IFRS Foundation (2015) states that IFRS is now mandatory in over one hundred jurisdictions including many outside the EU. Firms in non-EU jurisdictions do not need to wait for a new standard to be endorsed by the EC. For these firms, a new IFRS is effective from the date stated by the IASB in the published standard which may be before the EC endorsement date. (See Section 3.5.3.)

3.2.1 The role of the auditor in the accounting environment

Any material deviation from IFRS requires an auditor to issue a qualified audit opinion. The audit firm therefore acts as a kind of 'pseudo-regulator' as it monitors the extent to which its clients comply with IFRS. The auditors of the FTSE 350 are themselves monitored by the Financial Reporting Council (FRC) and are subject to annual inspection by the FRC's Audit Quality Review team (formerly the Audit Inspection Unit) (FRC, 2015). This process is intended to encourage audit firms to conduct quality audits, *inter alia* to ensure that auditors report whether client companies apply the requirements of IFRS adequately in all material respects.

Despite this inspection regime, concern has been expressed over the Big 4 accounting firms' domination of the FTSE 350 audit market (Competition Commission, 2013). There is doubt over the ability of the Big 4 to carry out independent audits as relationships develop between auditors and firms' senior managers over a number of years. Further, the audit fees of FTSE 350 firms can be substantial[3] which suggests that large firms may have considerable financial power over their auditors if it is assumed that the Big 4 are reluctant to lose large clients. The levels of audit fees and additional fees for non-audit services may mean that commercial considerations make it unfeasible for the audit firm to retain its independence in order to play the role of an effective pseudo-regulator (Sikka, 2009). Being aware of their own economic power, CFOs and GFCs might therefore feel confident to resist pressure from auditors to make

[3] As an indication of the level of audit fees and fees for other services payable by large firms to the Big 4, for 2014 Royal Dutch Shell plc's (oil) fees payable to its auditors were $53 million, BHP Billiton plc's (mining) were $28 million and J Sainsbury plc's (consumer retail) were £1 million.

adjustments to their financial statements. However, the relationships between the senior managers of FTSE firms and their auditors, and the balance of power, may change in future since the EC (2014) have ruled that the mandatory rotation of audit firms will be introduced for EU-listed and certain other public interest firms. However, it remains to be seen how this affects relationships between firms and their auditors, particularly if the mandatory rotation period in the UK is set at twenty years as is expected to be the case (PricewaterhouseCoopers, 2015).

The current study considers the accounting practices of 158 sample firms. (See Table 6.3.) For EU-listed firms with December year ends, adoption of IFRS first became mandatory in the year ended 31 December 2005. For companies with non-December year ends, adoption of IFRS first became mandatory in the year ended 2006 (for example, the year ended 31 March 2006). For simplicity the notation 2005/6 will be used throughout this thesis to refer to the first period of mandatory adoption for both December (2005) and non-December (2006) year ends. For each firm nine years of accounts (2005/6 to 2013/14 inclusive) have been examined giving 1,264 opportunities for change of audit firm. Table 2.1 summarises the numbers of incidences of change in the period and shows that in total there were only 26 changes. This suggests that there may be close working relationships between firms and their auditors which have built up over time.

Table 3.1

Changes in audit firm in reporting periods from 2006/7 to 2013/14 for sample firms

Year	**Number of changes**	**N**	**%**
2006/7	4	158	2.5
2007/8	4	158	2.5
2008/9	0	158	0.0
2009/10	6	158	3.8
2010/11	3	158	1.9
2011/12	4	158	2.5
2012/13	2	158	1.3
2013/14	3	158	1.9
Total number of cases	**26**	**1,264**	**2.1**

Beattie *et al*. (2000) use a mixed analysis of questionnaire data to investigate the process of discussion and negotiation between CFOs and audit partners. Their findings are that when auditors raise areas of disagreement these interactions sometimes, but not always, result in changes to the numbers and/or disclosures in the financial statements. Beattie *et al*.'s (2000) conclusion is that confrontation may be avoided where the audit partner and CFO maintain a good relationship. This provides insight into the auditor-client interaction in the context of accounting issues where there is disagreement and potential non-compliance with IFRS. The current study considers the auditor-client relationship as it affects the early adoption decision where both early adoption and adoption from the mandatory effective date are permissible options under IFRS. (See Sections 7.4.2 and 7.4.3.)

3.3 The conceptual framework for financial reporting

The original *Framework for the Preparation and Presentation of Financial Statements* was issued by the IASC in 1989 in order to explain the conceptual underpinnings of IAS. The conceptual framework was revised in 2010 when, as part of its convergence programme with the Financial Accounting Standards Board (FASB), the IASB amended the objective of general purpose financial reporting and the qualitative characteristics of useful financial information as stated in the Framework. More recently, in May 2015, the IASB (2015d) has issued an exposure draft (ED) for a revised *Conceptual Framework for Financial Reporting*. Unless expressly stated otherwise, throughout this thesis references to the Framework are to the 2010 version which was in issue during the period of interviews with CFOs and other institutional actors.

'IFRS' is used as a term which encapsulates all of the IASs and IFRSs in force on any particular date. Stolowy *et al*. describe GAAP more widely than just accounting standards, stating that GAAP is *"a coherent set … of behavioural rules and guidelines that range from pure concepts to very operational guidelines about practice"* (2013, p121). This suggests that any firm which prepares its financial statements under IFRS should be complying with the concepts set out in the Framework as well as the guidelines and principles described by individual accounting standards.

The primary theoretical framework for this research is institutional theory which is analysed critically in Chapter 5. As part of that analysis Section 5.3 considers Scott's (2008a; 2008b) argument that institutions are built on regulatory, normative and cultural-cognitive pillars. In the current study the accounting standards are viewed as regulatory pillars of a listed firm's institutional environment. IASs and IFRSs set out principles to be followed in respect of particular accounting phenomena when firms prepare their financial statements. These standards often contain specific 'rules'. For example, IAS 2: *Inventories* prescribes that inventory should not be valued on a last-in-first-out basis (IAS 2, para IN13), IAS 16: *Property, plant and equipment* (PPE) prescribes that all PPE with a finite useful life should be depreciated (IAS 16, paras 50 and 58) and IAS 36: *Impairment of assets* prescribes how an impairment loss is measured (IAS 36, para 59). Hence in this research IASs and IFRSs are viewed as sources of institutional 'regulations' and the specific focus of this thesis is the choice made by firms in a time of transition between standards and how firms choose which regulation to comply with.

The Framework explicitly states that its authority is less than that of the standards so that it may not be seen as containing 'regulations' (IASB, 2010a). Hence in this thesis the concepts within the Framework are considered to provide a cultural-cognitive pillar of the accounting environment for large firms. Scott defines this cultural-cognitive element within an institution as comprising *"the shared conceptions that constitute the nature of social reality and create the frames through which meaning is made"* (2008a, p67). The Framework therefore guides accountants on how to think and act in relation to identifying and measuring accounting phenomena but its power to affect accounting practice rests on whether accountants believe its guidance to be relevant and important.

The Framework states that the objective of a general purpose financial report such as the financial statements of a FTSE firm is to provide information to investors, lenders and other creditors (described by the Framework as the primary users) which is useful to these primary users as they make their decisions about the provision of finance to a firm (IASB, 2010a, para OB2). This objective provides the foundation upon which the rest of the Framework is built (IASB, 2010a, para OB1). The Framework goes on to describe the qualitative characteristics which make financial information useful to investors and other primary users. Two of these characteristics, faithful representation and relevance, are described as fundamental. It might therefore be reasonable to expect that the financial statements of FTSE firms represent accounting phenomena faithfully. In this respect the Framework states that information which is faithfully represented is *"complete, neutral and free from error"* (IASB, 2010a, para QC12) where:

> [a] neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users (IASB, 2010a, para QC14).

Inter alia, this thesis considers the extent to which the availability of the choice to adopt a new or revised accounting standard from the mandatory date or to adopt early is exploited by firms so that they adopt early when there is a strategic benefit in doing so. For example, an opportunity might be provided by a particular standard to report higher earnings to investors. This may be contrasted with the neutrality which is included within the Framework's fundamental characteristic of faithful representation whereby information should not be manipulated in order to influence the way in which it is received by users (IASB, 2010a, para QC14). The results presented in Chapter 7 of this thesis show that there are a number of reasons why a firm might adopt a new standard early. These reasons include, but are not restricted to, a desire to increase the level of reported earnings.

Whilst the first purpose of the Framework is stated as assisting the IASB as it develops new and revised accounting standards (IASB, 2010a, p6), two of its other purposes are *"to assist preparers of financial statements in applying IFRSs ... [and] ... to assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with IFRSs"* (IASB, 2010a, p6). Consequently it should be reasonable for a user of financial statements to assume that managers have prepared those financial statements to depict a faithful representation of accounting phenomena, and to be neutral in particular. The context for this research provides the opportunity to explore the extent to which the Framework assists the CFOs and GFCs of large firms as they prepare their firms' financial statements and if the concepts outlined in the Framework influence accounting choices such as whether to adopt a new standard early.

3.4 Views on early adoption

The IASB issues its new and revised accounting standards after an international consultation process. This gives interested individuals and organisations the opportunity to provide input into the standard setting process. The IASB then uses the feedback and comments received to develop new and revised standards. The comment letters are put on public record (on the IASB's website) in order to enhance the transparency of the standard setting process. The consultation period provides FTSE 350 firms and their auditors with the opportunity to influence the requirements of future standards and this influence on the IASB can be part of the normal standard setting process. It is important to hear the views of firms and their auditors if the IASB's intention is to arrive at sensible and practicable accounting practice.

Whilst this is how the process is supposed to work, there is an emerging literature which focusses on the 'black box' of standard setting and the influence of powerful organisations via covert discussions and negotiations (Burlaud and Colasse, 2011; Cortese and Irvine, 2010; Cortese *et al*., 2010). At the extreme, it may be that the influence of FTSE firms and the Big 4 accounting firms is such that their behaviour can sometimes be explained using regulatory capture arguments which suggest that the IASB is so heavily influenced by large commercial firms that it has effectively become 'captured' by them and acts on their behalf rather than as a superordinate standard setter (Posner, 1974; Stigler, 1971). This issue will be addressed in the literature review in Section 4.4.1 in the specific context of the pressure brought to bear on the IASB by the economically powerful oil and mining companies regarding the content of IFRS 6: *Exploration for and evaluation of mineral assets*.

In October 2010 the IASB issued a *Request for views* which gave interested parties the opportunity to communicate their views on, *inter alia*, whether early adoption should be permitted for future standards (IASB, 2010b). In this *Request for views* the IASB suggested that the potential benefits (advantages) of permitting early adoption include the possibility for firms to report improved information earlier and also the flexibility for firms to adopt a new standard to fit in with other business changes. The primary disadvantage identified by the IASB was reduced comparability.

In order to explore respondents' views on the option to early adopt being included in future standards, the responses submitted to the IASB by quan sample firms and their auditors have been analysed. The IASB (2011a) received 146 letters in response to its *Request for views*. The (slight) majority of respondents were in favour of permitting early adoption, sometimes arguing that a new standard is believed to represent an improvement in accounting practice by providing a more faithful representation of accounting phenomena (IASB, 2011a; 2011b). However, knowing that their response letters would be publicly available, firms may have fallen back on the language of the Framework in order to appear to promote best accounting practice. It may be that the primary reason for wanting to retain the option was to give firms opportunity to adopt a future standard early if managers were to see a strategic benefit in doing so. The outcome of the consultation process was that the IASB continues to permit early adoption of new and revised standards.

The responses received by the IASB from the entities included in this research project (non-financial FTSE 350 firms and their auditors) were reviewed in order to consider the views of respondents about the advantages and disadvantages of early adoption. This review provided a background to the issue of early adoption in preparation for the interviews, particularly where an interviewee's firm had submitted a response letter. Appendix A summarises the responses from quan sample firms and their auditors as well as users of financial statements.

Appendix A shows that only five FTSE 350 firms responded to the IASB's (2010b) *Request for views.* Shell and Vodafone were in favour of continuing to permit the early adoption of new and revised accounting standards. Neither of these firms referred to improved accounting practice as a benefit of early adoption but they appear to have approached the issue pragmatically in their response letters, stating that their reasons included a desire to retain flexibility by keeping the option to early adopt since that would sometimes make the reporting process more efficient:

> "All entities should have the ability to choose to early adopt the new standards selectively. This will enable entities flexibility to determine the best way to communicate changes to users and to efficiently manage their reporting processes and costs. The benefits are likely to outweigh any disadvantages arising in respect of comparability." (IASB, 2011c, CL71, Vodafone)

On the other hand, easyJet took a less flexible approach to early adoption, recognising that firms might report opportunistically in the financial statements by early adopting only those standards which increase reported profits:

> "… early adoption … should be applied across the entire suite of standards … so that an entity cannot 'cherry-pick' those it feels improves results at the expense of delaying those that might impact results negatively…" (IASB, 2011c, CL78, easyJet)

BT and Unilever stated that early adoption should not be permitted in future standards because of lost comparability between entities which might be confusing for the users of financial statements.

All of the United Kingdom's (UK's) Big 4 accounting firms commented that the IASB should continue with the existing practice of permitting early adoption for all new or revised standards (provided related standards are adopted at the same time)[4]. The Big 4 tended to explain their reasoning as the improved accounting practice required by a new standard and also the flexibility in reporting practice that the option to early adopt gives companies (IASB, 2011c) mirroring the suggested benefits outlined by the IASB in its *Request for views*. Ernst & Young's comment letter highlighted the mimetic aspect of the environment and the helpful role of early adopters as they take the lead and therefore make their accounts available for others to copy:

> "Early adoption helps to identify practice issues as auditors, users, investors and preparers can all benefit from the lessons learned from the experiences of the early adopters." (IASB, 2011c, CL83, Ernst & Young)

As representatives of numerous firms, the Confederation of British Business (CBI)[5] and Hundred Group of CFOs (Hundred Group)[6] were also in favour of permitting early adoption. Consistent with the views of the Big 4 UK accounting firms, the ICAEW supported the option of early adoption emphasising that all new standards should result in improved financial reporting. However, the Association of Chartered Certified Accountants (ACCA) supported a ban on early adoption because of lost comparability. The extracts from comment letters shown

---

[4] An example is the package of five consolidation standards (IAS 27 (Revised): *Separate financial statements (2011)*, IAS 28 (Revised): *Investments in associates and joint ventures (2011)*, IFRS 10: *Consolidated financial statements*, IFRS 11: *Joint arrangements* and IFRS 12: *Disclosure of interests in other entities*) which must be adopted at the same time.

[5] The CBI "*speak for companies of every size, including many in the FTSE 100 and FTSE 350, mid-caps, SMEs, micro businesses, private and family owned businesses, start ups, and trade associations ...*" (CBI, 2015)

[6] *"The Hundred Group is made up of the chief financial officers of FTSE 100 and several large UK private companies."* (The Hundred Group, 2015).

in Appendix A indicate that users might also not support early adoption because of the importance this group places on comparability.

This analysis demonstrates that there are mixed views on the benefits or otherwise of early adoption. However, the option continues to be available as new and revised standards are issued by the IASB and become part of the regulatory environment for FTSE firms. This research aims to explore this choice which is available to firms in a time of transition between regulations. Therefore Section 3.5 will now discuss the new IFRSs and revised IASs which provide the accounting context for this project.

3.5 Accounting standards with effective dates after 2005

The IASB is continually reviewing and amending the IASs and IFRSs which are in force. This process either is initiated by IASB staff or begins because of a third party request (usually from a regulator or user) that a particular issue be addressed. For example, whilst the IASB had placed a consolidations project on its work agenda in 2003, it was the global financial crisis which accelerated the publication of ED 10: *Consolidated financial statements* in 2008, partly in response to a recommendation by the Financial Stability Forum of G7 Finance Ministers and Central Bank Governors (IASB, 2012d). Subsequently in 2011 IFRS 10: *Consolidated financial statements* was published with a new definition of control, one of the intentions behind the standard being that there would be less opportunity for group entities with high borrowings to remain outside of the consolidated financial statements.

Many amendments to existing standards are implemented through the IASB's annual improvements process. In order to qualify as an annual improvement, a potential amendment would need to be relatively minor in nature, perhaps just clarifying the wording in an existing standard or addressing a small oversight in a standard's requirements. An annual improvement would not propose a new principle (IASB, 2012a). No new IFRSs are issued as part of the IASB's annual improvements project and any existing standard which is amended is not renamed as "Revised".

Significant amendments which do not meet the IASB's annual improvement criteria result in a new IFRS or a Revised IAS/IFRS being issued. Whenever a new or revised standard is issued, it includes an effective date from which point adoption becomes mandatory. However, once formally sanctioned by the EC, a new standard may be adopted early by EU-listed firms, before the mandatory date. The revised IASs and new IFRSs issued by the IASB with effective dates on or after 1 January 2006 are shown in Table 3.2[7]. These standards were all available for early adoption in periods commencing on or after 1 January 2005.

In order to meet the required timeframe for this research, the latest effective date for the standards included in Table 3.2 is 1 January 2014. This effective date means that the first period of mandatory adoption for all companies would be 2014/15 and early adoption would be in 2013/14 at the latest. For this reason early adoption of the following eight 'standards' will be considered in this study: IAS 1 (Revised): *Presentation of financial statements (2007)*; IAS 19 (Revised); *Employee benefits (2011)*; IAS 24 (Revised): *Related party disclosures (2009)*; IFRS 6: *Exploration for and evaluation of mineral assets*; IFRS 7: *Financial instruments: disclosures 2005*; IFRS 8: *Operating segments*; IFRS 13: *Fair value measurement*; and the package of five consolidation standards which must be adopted concurrently.

The Securities and Exchange Commission (SEC) does not currently accept IFRS for US companies although it does for foreign firms. However, in recent years the FASB and IASB have been working together to achieve the increasing convergence of US and international standards. Many of the new and revised standards shown in Table 3.2 were therefore issued as part of the IASB-FASB convergence project, for example the revisions to IAS 1 and segmental reporting under IFRS 8. (See Section 3.5.2.) The consolidation standards (see Section 3.5.3) and IFRS 7 also arose out of the IASB-FASB convergence project and form part of a comprehensive review of off balance sheet activities by both boards. Again, as part of the convergence project, IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by other IFRSs in order to reduce the complexity, and to improve the consistency, of financial reporting (IFRS 13, paragraphs IN 5 to IN7).

[7] IFRS 9: *Financial instruments* was first issued by the IASB in 2009 with an effective date of 1 January 2013 which was subsequently postponed. IFRS 9 was then revised in 2014 with an effective date of 1 January 2018. IFRS 9 has not yet been endorsed by the EC and therefore is not available for early adoption by EU-listed firms.

Table 3.2

New IFRSs and revised IASs available for early adoption in periods commencing on or after 1 January 2005

Standard[8]	**Title**	**Date of issue**	**Date of EU adoption**[9]	**Effective date**[10]	**Early adoption encouraged / permitted**	**Months between EU adoption and effective date**
IAS 1 (Revised)	Presentation of financial statements (2007)	6.9.07	17.12.08	1.1.09	Permitted	< 1
IAS 19 (Revised)	Employee benefits (2011)	16.6.11	5.6.12	1.1.13	Permitted	7
IAS 24 (Revised)	Related party disclosures (2009)	4.11.09	19.7.10	1.1.11	Permitted	5
IAS 27 (Revised) [11]	Separate financial statements (2011)	12.5.11	11.12.12	1.1.14	Permitted	13
IAS 28 (Revised) [11]	Investments in associates and joint ventures (2011)	12.5.11	11.12.12	1.1.14	Permitted	13
IFRS 6	Exploration for and evaluation of mineral assets	10.1.04	8.11.05	1.1.06	Encouraged	2

[8] Full texts of all IFRSs and IASs are available from the IASB at www.ifrs.org (accessed 31 March 2015).

[9] Source: European Financial Reporting Advisory Group (EFRAG) (2014)

[10] Effective for all accounting periods commencing on or after the effective date shown.

Standard	Title	Date of issue	Date of EU adoption	Effective date	Early adoption encouraged / permitted	Months between EU adoption and effective date
IFRS 7	Financial instruments: disclosures 2005	18.8.05	11.1.06	1.1.07	Encouraged	12
IFRS 8	Operating segments	30.11.06	21.11.07	1.1.09	Permitted	13
IFRS 10[11]	Consolidated financial statements	12.5.11	11.12.12	1.1.14	Permitted	13
IFRS 11[11]	Joint arrangements	12.5.11	11.12.12	1.1.14	Permitted	13
IFRS 12[11]	Disclosure of interests in other entities	12.5.11	11.12.12	1.1.14	Permitted	13
IFRS 13	Fair value measurement	12.5.11	29.12.12	1.1.13	Permitted	< 1

[11] IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised) and IAS 28 (Revised) are a package of five standards relating to consolidation. If one is adopted, so must the other four be. These standards were originally issued by the IASB with an effective date of 1 January 2013 but this was postponed to 1 January 2014 for EU-listed firms by the EC in response to a request from the European Financial Reporting Advisory Group (EFRAG).

Revisions to IAS 19 were intended to enhance the comparability and understandability of accounting for defined benefit pension schemes, *inter alia* by prescribing the method of accounting for actuarial gains and losses. Revisions to IAS 24 arose in order to clarify the meaning of the existing standard and to amend the definition of a related party in order to simplify the required disclosures. IFRS 6 was issued in order to provide a way for extractive firms in the oil and gas, and mining industries to continue with their existing accounting practice on adoption of IFRS. (See Section 3.5.1.)

The potential impacts of these standards differ considerably. The impact may be purely presentational (for example, IAS 1 (Revised)). Alternatively, amendments may relate solely to disclosures (for example, IFRS 8). Other standards may affect reported earnings (for example, the consolidation standards for groups with subsidiaries which were not previously consolidated). IAS 19 (Revised) makes changes to all three areas of presentation, disclosure and measurement of items, and, specifically, its adoption had a negative effect on reported earnings (and therefore on the key ratio of earnings per share) for those firms which provide defined benefit schemes for their employees. The main changes introduced by the new and revised standards included in this project are summarised in Appendix B.

Table 7.1 shows that the adoption of these standards has generally been from the mandatory dates but that IFRS 6, IFRS 8 and the consolidation standards were adopted early by a number of firms. Therefore the development and requirements of these particular standards are discussed in the following sections.

3.5.1 IFRS 6: Exploration for and evaluation of mineral assets

IFRS 6 applies to extractive companies which explore for minerals (mining, and some oil and gas companies) and therefore only to a relatively small number of FTSE 350 firms. IFRS 6 was issued in 2004 and became effective for accounting periods commencing on or after 1 January 2006. Before IFRS 6 there was no international standard which dealt with this specialised area of accounting. Consequently it was necessary for the IASB to issue an IFRS dealing with this topic in anticipation of the mandatory introduction of IFRS for EU-listed firms in 2005/6 (EFRAG, 2013). IFRS 6 was therefore issued as an interim standard to provide a temporary solution to the accounting issues arising under IFRS for the extractive industries pending a comprehensive review of this area of accounting. (The review of IFRS 6 was effectively discontinued in 2012 when accounting for extraction activities became part of a wider review of accounting for intangibles (IASB, 2012c).) The early adoption of IFRS 6 was encouraged by the IASB[12].

IFRS 6 relates to accounting requirements and disclosures in respect of exploration and evaluation assets before technical feasibility and commercial viability of mineral extraction become demonstrable. IFRS 6 also describes the circumstances when exploration and evaluation assets should be tested for impairment. IFRS 6 does not prescribe a specific accounting treatment for exploration activities. Instead it requires that on adoption of IFRS, a company continues to use its existing accounting policy and justifies any change with reference to improved relevance and reliability (IFRS 6, paras IN5(a) and 13). In that respect IFRS 6 is unique among new IFRSs because its adoption required no change in accounting practice. It was firms which adopted IFRS 6 from the mandatory 2006/7 date which were potentially required to make significant changes on their transition to IFRS in 2005/6.

IFRS 6 allows a choice of accounting treatment for extraction expenditure between the full cost and successful efforts methods. Under the full cost method, all the costs of extractive activities are capitalised whether or not the activity is successful. These costs are written off against future revenues from successful projects. Under the successful efforts method, only those costs which relate to a successful (commercially viable) project are capitalised. These capitalised costs are then written off against the future revenues from the same project. Under IFRS 6 exploration and evaluation costs can be capitalised earlier than would be permitted by the requirements of *IAS 38: Intangible assets*.

Reporting under IFRS 6 also exempts firms from some of the requirements of other standards in relation to their extraction activities. For example, IFRS 6 ‘softens’ the requirements relating to impairment of assets by giving extraction companies specific guidance on when an impairment review is required, thereby exempting these companies from the more general requirements of IAS 36: *Impairment of assets* in that regard.

---

[12] The extractive industries project was begun by the IASC and it was the IASC (2000) which issued an original issues paper for the extractive industries. ED 6 and IFRS 6 were subsequently issued by the IASB.

The requirements of IFRS 6 outlined in this section show that the standard provided a favourable accounting regime for the extractive firms in relation to their exploration and evaluation expenditure. In order to consider firms' views on the proposed standard and the possible benefits of reporting under the new standard which might lead to its early adoption, the letters sent to the IASB in response to ED 6: *Exploration for and evaluation of mineral assets* were reviewed. Appendix C summarises the views of quan sample firms and their auditors submitted to the IASB in 2004 in response to the ED. This shows how IFRS 6 provided extractive firms with a favourable accounting regime by containing requirements in line with firms' recommendations for the new standard.

Appendix C shows that constituents supported the retention of existing practice which was proposed by the IASB in the ED 6. *Inter alia*, respondents also made the following arguments regarding desired changes to the accounting requirements contained within the ED: the cash-generating units (CGUs) considered when testing for impairment should be bigger than an individual asset; the ED's exhaustive list of the specific exploration and evaluation expenses which may be capitalised should be presented as a non-exhaustive list of examples; and the ED's prohibition on the inclusion of administration and general overheads within capitalised expenditure should be removed. All of these suggestions were incorporated into IFRS 6. It can therefore be seen that on the adoption of IFRS in 2005/6, reporting straight away under IFRS 6 provided reporting benefits to firms. (Academic literature relating to the issue of IFRS 6 is reviewed in Section 4.4.1 where the way in which the powerful extractive firms are believed to have influenced the content of IFRS 6 is discussed.)

3.5.2 IFRS 8: Operating segments

IFRS 8 replaced IAS 14 (Revised): *Segment reporting.* A major difference between IFRS 8 and its predecessor is that IAS 14 required both business and geographical segments to be reported whereas IFRS 8 now gives firms the flexibility to report segments according to the way they are reported internally. This means that the geographical information which must be disclosed may be reduced in some cases. Only two[13] of this study's 158 quan sample firms

[13] British American Tobacco and Shell International (available from http://www.ifrs.org/Current-Projects/IASB-Projects/Segment-Reporting/Exposure-Draft-and-Comment-Letters/Comment-Letters/Pages/Comment.aspx, CL 178 and CL 134 respectively)

submitted comment letters on ED 8: *Operating segments* to the IASB. Both firms agreed with the ED's proposal that it would be useful for users to have the same segmental information as managers (IASB, 2006). However, both companies disagreed with the ED's proposed requirement for geographical analyses of revenue and non-current assets to be split between the company's country of domicile and foreign jurisdictions. Despite such objections, the requirement for this geographical analysis was retained in the new standard. However, this area of disagreement suggests that firms might generally be reluctant to disclose geographical information. The ability for managers to define their firms' segments and therefore reduce the geographical information disclosed in the accounts may provide one reason why IFRS 8 was early adopted by some firms.

Another difference between IAS 14 and IFRS 8 is that whilst IAS 14 required segmental information to be calculated using a firm's financial reporting accounting policies, IFRS 8 contains no such requirement. Consequently segmental information may now be prepared using non-IFRS measures which may give firms the opportunity to provide incomplete or misleading segmental information. In 2012 the IASB undertook a post implementation review of IFRS 8. One question on which comments were invited was *"How has the use of non-IFRS measurements affected the reporting of operating segments?"* (IASB, 2012b). Two accounting firms provided the following responses to this question:

> "…the measurement basis for segment profit has shifted to a non-IFRS measure … Most non-IFRS measures … start from an IFRS base but adjust for the impact of certain transactions." (IASB, 2012b, PricewaterhouseCoopers)

> "… it may be that non-IFRS measures are playing a more significant role than it appears from the segment information disclosures." (IASB, 2012b, Ernst & Young)

The ability for managers to manipulate the measurements of segmental profits may therefore provide another reason why some firms adopted IFRS 8 early. (Academic literature relating to IFRS 8 is reviewed in Section 4.4.2.)

3.5.3 Consolidation standards

The package of five consolidation standards (IAS 27 (Revised): *Separate financial statements (2011)*, IAS 28 (Revised): *Investments in associates and joint ventures (2011)*, IFRS 10:

Consolidated financial statements, IFRS 11: *Joint arrangements* and IFRS 12: *Disclosure of interests in other entities*) were issued by the IASB in 2011 with an effective date of 1 January 2013. *Inter alia*, IFRS 10 provides a new definition of control which may restrict the ability of firms to carry debt in entities which need not be consolidated and IFRS 11 removes the option for proportional consolidation of joint ventures so that these must now be accounted for using the equity method.

Because of the amount of work which is potentially involved in adopting the five new standards, EFRAG (2011) asked the IASB to move the effective date back to 2014. EFRAG argued that this would facilitate a more orderly transition to the new standards and improve the quality of reported information. The IASB did not amend the 2013 effective date as stated in the published standards but the EC followed EFRAG's advice and approved these standards with a 1 January 2014 mandatory effective date. For many FTSE firms therefore the consolidation standards need not have been adopted until 2014/15. However, if a firm had an overseas listing in a territory which requires compliance with published IFRS (for example, in Australia or South Africa), adoption was mandatory a year earlier in 2013/14. This mismatch of effective dates is considered further in the discussion of results in Section 7.5.3.

3.6 The rationality of early adoption

It is the requirement for increased disclosures which is the focus for much of the existing research into early adoption of IFRS as a system of GAAP. (See Table 4.1 for examples.) However, Dunne *et al*. (2008) investigate the changes required by 175 UK, Italian and Irish companies on moving to IFRS and not only find that international standards require more disclosures than the national standards in these jurisdictions but also that reported profits increase under IFRS. They also find that equity increased under IFRS for UK and Irish companies (but not Italian firms). Their findings provide a rational explanation for the early adoption of IFRS. This suggests that it is necessary to analyse the nature of the changes required by the standards shown in Table 3.2 to consider how their early adoption might benefit firms. (This analysis is presented in Appendix B.)

A new standard such as IFRS 6 might provide the opportunity to report the desired level of earnings to investors because of its impact in the areas of the capitalisation of expenditure and impairment testing. Alternatively, a standard such as IFRS 8 might provide the opportunity to reduce commercially sensitive disclosures to competitors. In such cases early adoption may be viewed as a rational choice reflecting one or more of a firm's strategic goals in relation to its financial reporting. This indicates that an explanation for adoption from the mandatory effective date might sometimes be the influence of institutional pressures.

When a standard requires increased disclosures, its early adoption may also be considered efficient (rational) if managers believe that the cost of capital may decrease because of reduced informational asymmetry between investors and managers. (See Section 4.2.1.) However, if managers consider that increased disclosures entail high competition costs, early adoption might be viewed as irrational. Further, it may appear rational to adopt a new standard early where changes are purely presentational because a firm could be protecting its legitimacy through the perceived quality of its financial statements (and by implication the quality of other aspects of its operations) whilst making no additional disclosures to competitors. However, there may be preparation costs involved and/or an adverse effect on key financial ratios in which case adoption from the mandatory date might be seen as the rational response.

On the basis of the foregoing discussion it is argued that it is not possible to generalise and state definitively whether early adoption is a rational or irrational practice. This varies on a case-by-case basis across both firms and standards.

3.7 Chapter summary

Chapter 3 has analysed views on early adoption as expressed in comment letters submitted by FTSE firms and their auditors to the IASB. Chapter 3 has also described the objective of financial reporting and the characteristics of useful information according to the IASB's (2010a) Framework in order to consider how early adoption might sometimes conflict with the neutrality (and therefore the faithful representation of accounting phenomena) within financial statements.

Chapter 3 has identified the new and revised standards issued by the IASB with effective dates after 2005 which will be used in this study. The emerging literature relating to these standards will now be reviewed in Chapter 4 together with the existing literature relating to early adoption studies.

4. LITERATURE REVIEW 1: ACCOUNTING STUDIES

4.1 Chapter overview

The accounting choice which provides the setting for this project was introduced in Chapter 1 as the decision whether to continue with existing practice or to adopt a new IFRS or revised IAS early. No literature has been identified which relates directly to the early adoption of the eight individual 'accounting standards' discussed in Section 3.5 and which provide the context for this research. This means that there is opportunity for this study to make a contribution to the knowledge of financial accounting practice by large firms. This gap in the literature also means that alternative, and yet related, literature must be referred to in order to provide a basis for this research.

In order to ascertain the theoretical frameworks used by other researchers and to justify the application of institutional theory in the current study, Chapter 4 begins by reviewing three types of empirical literature which are considered to be relevant to this thesis. Section 3.2 has explained how IFRS first became mandatory for EU-listed firms in their 2005/6 consolidated financial statements. However, many of these firms were permitted to adopt IFRS early by their governments (Jermakowicz and Gornik-Tomaszewski, 2006). Therefore the first type of literature included in this review relates to the early adoption of IFRS as regulatory GAAP. This is discussed in Section 4.2. Second, the literature relating to early adoption of individual SFASs in the US is reviewed in Section 4.3. Third, the emerging literature relating to the standards which form the setting for the current study is analysed in Section 4.4.

Finally, existing institutional studies in financial accounting are analysed in Section 4.5 in order to consider the methodologies used by institutional researchers and to identify where there is the potential for this study to make contributions to knowledge of financial accounting and research methodology.

4.2 Early adoption of IFRS

There is a body of research which investigates early adoption of IFRS as regulatory GAAP. (See Table 4.1.) This literature tends to cover the decisions by firms listed in EU states to adopt IFRS before the 2005/6 mandatory date. Table 4.1 has been compiled in chronological order so that it maps the development of this area of research.

Table 4.1 shows that existing studies have largely used theoretical arguments other than those based on institutionalism to explain the decision by managers to adopt IFRS before the mandatory date and so the following analysis considers how the results of these existing studies might also be viewed from an institutional perspective. The alternative theoretical perspectives used in these studies indicate that this thesis has the potential to contribute to the institutional literature by applying institutional arguments in an early adoption context. Further, no studies have been identified which focus on the early adoption of an individual standard once IFRS is being complied with so that there is opportunity for this study to make a contribution to the financial accounting literature.

Table 4.1

Quantitative investigations into early adoption of IFRS

Author	**Country**	**Theoretical basis for study**
Cuijpers and Buijink (2005)	EU states (12)	Agency Political cost Stakeholder
Renders and Gaeremynck (2007)	EU states (7)	Agency Institutional
Francis *et al.* (2008)	Various (56)	Agency Signalling
Kim and Shi (2012)	Various (29)	Signalling
Guerreiro *et al.* (2012a; 2012b)	Portugal	Institutional

4.2.1 Agency theory

Cuijpers and Buijink (2005) use a quantitative study to examine the characteristics of listed EU firms which voluntarily adopted IFRS before the mandatory date. Table 4.1 shows that Cuijpers and Buijink (2005) consider a variety of theoretical perspectives in their study including agency theory. Agency theory is based on the apparent conflict which arises whenever one party (the principal) relies on another party (the agent) to act in the principal's best interests. For FTSE 350 firms the potential conflict arises because a shareholder (as principal) does not have perfect information to know if the directors (as agents) are acting in the shareholder's best interests. There is a potential cost to shareholders (agency cost) because of the need to rely on the directors who may be attempting to maximise their own personal wealth at the expense of the shareholders (Jensen and Meckling, 1976).

In their review of the academic literature relating to the use of information by capital providers, Cascino *et al*. (2013) highlight the importance of the information contained within the financial statements to investors and lenders. In this respect, Cuijpers and Buijink (2005) argue that because IFRS requires more disclosures than local GAAP, there is a reduced information gap (decreased agency cost) between managers and investors resulting in a lower cost of capital (Botosan, 1997; Lambert *et al*., 2007; Verrecchia, 2001). However, Zimmerman (2013) contends that a regulatory GAAP such as IFRS (or US GAAP) provides a high level of financial reporting quality and that there are only marginal (at best) benefits to improving financial reporting, for example by increased disclosures or adopting a new standard (early). Therefore for firms which report under IFRS, Zimmerman's (2013) view is that financial reporting quality does not have a big effect on firm value (and therefore cost of capital).

Because the compulsory move to IFRS was announced in 2001, Cuijpers and Buijink (2005) examine firms' 1999 annual reports so that they consider voluntary adoption rather than early adoption in preparation for a future mandatory practice. In contrast, Renders and Gaeremynck (2007) look at early (rather than purely voluntary) adopters. Their study considers the legal and corporate governance regimes within seven EU states and thereby introduces an institutional perspective by focussing on the wider regulatory environments of firms. Renders and Gaeremynck (2007) observe that firms with an overseas listing were more likely to adopt IFRS early. This is explained by Renders and Gaeremynck (2007) as consistent with agency arguments which suggest that firms provide increased information to meet the needs of more investors in order to have access to (cheaper) capital.

On the other hand, this effect may also be consistent with explanations arising from institutional theory whereby accounting choices are influenced by what is expected within a particular regulatory environment. Table 4.1 shows that Renders and Gaeremynck (2007) apply institutional arguments as well as agency in their study. They explain their findings that the clients of 'Big' audit firms were more likely to adopt IFRS early using institutional theory which describes this phenomenon as a response to the normative pressure from professional advisors for a firm to conform to the values of the market (provided those audit firms advised early adoption). (Normative institutional pressures are discussed further in Section 5.3.3.3.)

Table 4.1 shows that agency theory has provided a popular theoretical framework for investigations into early adoption of IFRS. However, this thesis does not use agency arguments as its primary theoretical framework because agency theory does not always appear to explain early adoption of individual accounting standards for the following reasons. First, if managers are motivated to provide additional information to owners in order to reduce the information gap, they might be expected to early adopt all new and revised standards which require increased disclosures rather than only selected standards as is observed to be the case. (See Table 7.1.) Second, when a new standard requires increased disclosures, agency arguments also, in contrast, suggest that adoption might sometimes be from the mandatory date. This is because where managers see their first duty as being to investors, they may not want to adopt early because of the additional work (expense) required to comply with the new requirements and also because more information would be available not just to shareholders but to competitors as well. Third, managers may consider that what shareholders want to see is information which is comparable with what was reported in the past rather than something new.

4.2.2 Stakeholder theory

Agency theory focusses on a firm's shareholders as the main users of financial reports which resonates with the IASB's (2010a, para OB2) view that financial statements prepared under IFRS should primarily be useful to investors, lenders and other creditors. On the other hand, the IASB (2010a, para OB10) also acknowledge that other parties (for example, regulators and the public) use financial reports. The acknowledgement of the IASB, that it is not just shareholders who have an interest in the firm, reflects the argument at the heart of stakeholder theory (Freeman, 2010). This theory argues that managers are concerned with how a firm can best meet the interests of the range of stakeholders who have been defined as *"any group or individual who can affect or is affected by the achievement of the organi[s]ation's objectives"* (Freeman, 2010, p46).

Using Freeman's (2010) arguments, the purpose of a FTSE 350 firm is not just to meet the needs, or reflect the views, of managers and owners, but also to benefit customers, suppliers, employees and the local community, and to involve these stakeholders in decisions taken by a firm's managers. Further, stakeholder theory assumes that an 'agency relationship' exists not just between managers and owners but also between managers and the wider range of stakeholders. Therefore managers should act in stakeholders' best interests and also safeguard the continuing existence of the firm in order to protect trading relationships with customers and suppliers, and employees' jobs. In addition, Freeman (2010) argues that a firm should have strategies in place which reflect its relationships with stakeholders. This extends to opening up channels of communication which would encompass the provision of information in the annual report and accounts. It might also include early adoption of accounting standards where early adoption increases those disclosures which are believed to be of interest to stakeholders.

Cuijpers and Buijink (2005) is the only study in Table 4.1 which uses stakeholder arguments to explain early adoption of IFRS. Cuijpers and Buijink (2005) observe that EU firms were more likely to adopt IFRS early when those firms were listed on an overseas exchange or had more geographically dispersed operations. They attribute this observation to managers' awareness of the needs of a wide range of stakeholders who would not otherwise have access to information of the quality required by IFRS. By being aware of stakeholder interests, the longevity and profitability of the firm (and managers' jobs) should be protected. This approach to stakeholder theory has been described as *"instrumental"* (or *"strategic"*) (Friedman and Miles, 2006, p73) and reflects the view that a firm is likely to be more successful if it treats stakeholders well, recognising their existence and their interest in the firm. This aspect of Cuijpers and Buijink's (2005) result could also be viewed through an institutional lens whereby managers' accounting choices are influenced by what is expected within a particular regulatory environment rather than solely by what is best (most technically efficient) for the individual firm.

4.2.3 Signalling theory

Table 4.1 shows that signalling theory has been used to explain early adoption of IFRS. Signalling theory recognises the principal-agent relationship between owners and managers and recognises the different levels of information which owners and managers have regarding the firm. Because directors have more information than shareholders, the directors relay information (or 'send a signal') to the shareholders to reduce this informational asymmetry. However, Spence (2001) argues that the signal does not comprise just any information (positive or negative) which the principal does not have but will usually be 'good news' because it is something the agent wants the principal to know. Whilst Spence's (2001) work is based on labour markets and the signals sent to employers by 'good' employees to distinguish themselves from 'bad' employees, this aspect of signalling theory has been developed and applied more generally to companies, particularly in their interaction with the market (Tsalavoutas, 2011).

Signalling theory explains that the managers of 'good' firms want to send signals to shareholders which indicate their firms' strengths so that they can set themselves apart from other managers. However, one question which arises in relation to signalling is how much cost the agent should incur in sending the desired signal. The amount of time and effort required by financial managers and their staff (and therefore the cost) required in order to comply with a new IFRS or revised IAS can be significant but varies between standards. Early adoption may cause two further costs to be incurred. First, by being early adopters, there may be an increased risk that the auditor will increase the audit fee because of the 'special' nature of considering early adoption. Second, there will be reduced opportunity to see how other firms are adopting a new standard and therefore increased risk of error (with ensuing damage to reputation). The desire to send the signal would also need to be weighed against making any additional information available to competitors earlier than necessary because it is not just the shareholders who have access to a firm's annual report and accounts.

Signalling theory predicts that a 'good' firm may adopt all new accounting standards early to signal its quality to shareholders and this would, in fact, appear to be the conventional application of signalling arguments to early adoption decisions (Francis *et al*., 2008; Kim and Shi, 2012). The additional information in the accounts and/or being at the forefront of new accounting practice may send a signal to shareholders regarding the quality of a firm and that it is a leader, not just regarding its products or services but in every way, including financial reporting practice. Therefore Cuijpers and Buijink's (2005) observation that firms with overseas listings are more likely to adopt IFRS early could be explained by the argument that reporting under IFRS is believed by managers to send a signal of accounting quality and financial transparency to investors (Francis *et al*., 2008; Karamanou and Nishiotis, 2009; Kim and Shi, 2012). However, Table 7.1 shows that no sample firm adopted all new or revised standards early and therefore this use of signalling arguments does not appear to apply in this study.

Signalling theory also explains the early adoption decision by arguing that the new disclosures or recognition and measurement bases of a particular standard may distinguish a 'good' firm from a 'bad' one; poorly performing firms may not want to adopt early if reporting under the requirements of a new standard would send a negative signal to shareholders. In this respect it might be expected that a firm would 'cherry pick' the particular standards which it wants to adopt before the mandatory dates rather than always adopting early.

Francis *et al.* (2008) extend the examination of early adoption practices from listed to private firms. Consistent with the findings of Cuijpers and Buijink (2005) and Renders and Gaeremynck (2007), Francis *et al.* (2008) find that private firms with higher levels of external finance, greater numbers of foreign owners or higher exports were more likely to adopt early. They explain their observations using agency and signalling arguments (the latter because managers have a wider audience of investors to communicate their successes to). However, these findings might also be viewed from an institutional perspective because they indicate managers' awareness of the other organisations with which a firm interacts, that is, its network of business relationships (or institutional environment).

4.2.4 Political cost and positive accounting theory

Cuijpers and Buijink (2005) apply arguments arising out of Watts and Zimmerman's (1986) political cost hypothesis to explain early adoption. The political cost hypothesis is built on the premise that managers do not want to attract negative 'political' attention because they believe that this may lead to higher taxes, increased regulation or loss of public support. Using political cost arguments, voluntary adoption of IFRS as a system of GAAP or early adoption of an individual standard may demonstrate that a firm is 'accountable' so that the regulatory authorities do not need to increase monitoring procedures and the public continue to support a firm by buying its goods and services. However, this desire to retain society's good opinion also underpins legitimacy theory. It is therefore argued that the political cost considerations which have been used to explain early adoption in the studies shown in Table 4.1 could be replaced by legitimacy considerations. Suchman (1995) argues that legitimacy and institutionalisation are closely related so that the use of institutional arguments in this thesis should provide the opportunity to consider the support for, and opinion held about, a firm by the other members of its environment. (See Section 5.3.1.)

Another reason why the political cost hypothesis is not used to provide the main theoretical arguments to explain the timing of the adoption of individual standards is that the political cost hypothesis put forward by Watts and Zimmerman (1986) does not deal with disclosure or presentational issues but predicts that large firms tend to make accounting choices which reduce reported profits (Milne, 2002). However, Section 4.3 explains that four out of the eight new or revised 'standards' which provide the context for this research do not affect the measurement of profits.

4.2.5 Institutional theory

In 2009 it was announced that large unlisted Portuguese firms would be required to follow IFRS with effect from January 2010. Before that date compliance with IFRS was voluntary for these firms. Guerreiro *et al.* (2012a) use primary data collected from financial managers via questionnaires in order to investigate managers' attitudes to early adoption. The questions in their study are phrased so as to reflect the arguments of institutional theory regarding institutional pressures and responses to those pressures. Guerreiro *et al.* (2012a) analyse these questionnaire data quantitatively and observe that conforming to institutional values can be a strategic response as organisations recognise the importance of their institutional environment. (See Section 5.3.4.)

Guerreiro *et al.* (2012b) draw on institutional arguments to explain managers' views on preparing to move to IFRS. Guerreiro *et al.* (2012b) find a low amount of preparation by Portuguese firms which they attribute to firms' resistance to change in the institutional environment. (Firms preparing to change to IFRS in 2010 did not tend to adopt it voluntarily but were waiting until the mandatory date.) Guerreiro *et al.* (2012b) also argue that the low level of preparation was because, in 2009, Portuguese audit firms appeared not to have accepted the legitimacy of IFRS for private companies and therefore they did not encourage their clients to start to prepare for its implementation.

Based on the foregoing literature review it would appear that institutional theory provides a suitable framework to apply to early adoption of new IFRSs and revised IASs. Given that many of the existing studies utilise agency and signalling theories, an early adoption study which uses institutional arguments within its theoretical framework would appear to have the potential to add to knowledge of large firms' financial reporting behaviours by taking a different perspective and considering the effect of the social setting on a particular accounting choice. However, the strategic motives of firms within the institutional environment as they pursue their organisational goals are acknowledged and so the institutional arguments presented in Chapter 5 reflect this viewpoint by drawing on Oliver's (1991) model of strategic responses to institutional processes. (See Section 5.3.4.3.)

4.3 Early adoption of individual US standards and earnings management

Several studies have been identified which examine the timing of the adoption of individual US standards where the FASB have permitted an extended early adoption period (Amir and Livnat, 1996; Amir and Ziv, 1997; Ayres, 1986, cited in Amir and Livnat, 1996; Benjamin *et al*., 1986; Gujarathi and Hoskin, 1992; 2003; Langer and Lev, 1993). This body of literature has been reviewed in order to ascertain the theoretical perspectives used by these authors and to identify existing knowledge of this area of financial accounting in order to consider the potential for the current study to make a contribution.

These US studies all use a quantitative method of data analysis and tend to investigate whether earnings management motivated the timing of the adoption of individual standards[14]. This type of earnings management may be consistent with the 'income smoothing hypothesis' (which predicts that a new standard may be adopted early where it enables the desired level of profit to be reported) or the 'big bath hypothesis' (which predicts that a firm may take the opportunity

[14] The standards which provide the settings for these US studies include SFAS 52: *Foreign currency translation* (Ayres, 1986, cited in Amir and Livnat, 1996), SFAS 86: *Accounting for the costs of computer software to be sold, leased or otherwise marketed* (Trombley, 1989), SFAS 87: *Employers' accounting for pensions* (Langer and Lev, 1993), SFAS 96: *Accounting for income taxes* (Gujarathi and Hoskin, 1992; 2003) and SFAS 106: *Employers' accounting for postretirement benefits other than pensions* (Amir and Livnat, 1996).

to include even more losses and write offs in a year when performance is already poor in order to 'clean up' the financial statements and to be able to report improved performance in future periods) (Gujarathi and Hoskin, 1992). Because of the economic nature of these arguments, Watts and Zimmerman's (1978; 1986) positive accounting theory provides a theoretical underpinning for some of these studies (Ayres, 1986, cited in Amir and Livnat, 1996; Gujarathi and Hoskin, 2003; Trombley, 1989). (Positive accounting theory has been discussed in Section 4.2.4.)

Appendix B shows that only four (IAS 19 (Revised), IFRS 6, IFRS 13 and the package of consolidation standards) out of the eight 'standards' which provide the context for the current study have the potential to affect measurement of earnings. In other words, IAS 1 (Revised), IAS 24 (Revised), IFRS 7 and IFRS 8 affect presentational and/or disclosure issues only, and, specifically, have no impact on the level of reported earnings. Consequently, earnings management does not provide the primary focus for the current study. However, Section 5.3.4 explains how the theoretical framework used includes Oliver's (1991) model of strategic responses to institutional processes which considers, *inter alia*, the pursuit of economic and other organisational goals within an institutional environment. These goals may include the desire to report increasing profits to shareholders.

This review of the US early adoption literature shows that by taking an institutional perspective, there is the potential for the current study to add a new dimension to knowledge. The current study also differs from the US literature because it considers the timing of adoption of multiple standards in accounting periods from 2005/6 to 2013/14 and therefore takes a longitudinal view. Another point of departure is that these US studies all use a quantitative method comprising the statistical analysis of secondary data to investigate relationships between early adoption and firms' characteristics including size, earnings, debt and management compensation contracts (Ayres, 1986, cited in Amir and Livnat, 1996; Gujarathi and Hoskin, 2003; Langer and Lev, 1993; Trombley, 1989). As part of a mixed method approach, the current study uses qualitative analysis of interviews with the CFOs and GFCs who decide when to adopt new standards in order to explore the reasons and motives behind these decisions.

4.4 *Accounting standards with effective dates after 2005*

Section 4.4 will now analyse the existing research which is set in the context of the new IFRSs and revised IASs which provide the setting for this study. (See Table 3.2.) One of the aims of this analysis is to identify the theoretical frameworks used by other authors and also to identify whether early adoption is an area which is considered in the existing research. Because the new and revised standards shown in Table 3.2 have been in issue for a relatively short period of time, the literature relating to these standards is sparse and mainly relates to IFRS 6: *Exploration for and evaluation of mineral resources* and IFRS 8: *Operating segments*[15]. The literature relating to IFRS 6 and IFRS 8 is therefore analysed in the following sections.

4.4.1 *IFRS 6: Exploration for and evaluation of mineral resources*

Section 3.5.1 has described how firms and their auditors participated in the standard setting process which led to the issue of IFRS 6. Cortese and Irvine (2010) argue that the oil companies and Big 4 accounting firms together had significant influence over the IASB when IFRS 6 was being prepared. Cortese and Irvine (2010) note the financial support received by the IASC/IASB from firms in the extractive industries (principally the large oil companies) when IFRS 6 was issued and during the period of comment on ED 6. They also highlight the percentage of the IASB's revenue which came from the Big 4 accounting firms at that time. Table 4.2 updates Cortese and Irvine's (2010) summary of the percentage of the IASB's revenues which come from the Big 4 accounting firms to demonstrate that these firms still appear to have considerable financial power over the IASB. (From 2007 onward, UK companies contribute to the IASB via a levy system operated by the FRC and therefore Table 4.2 does not include data after 2006 in relation to individual FTSE firms.)

Using a critical discourse analysis of comment letters received in response to the IASC's (2000) *Summary of issues: extractive industries* paper, Cortese *et al*. (2010) explain the favourable accounting regime of IFRS 6 using regulatory capture arguments. Regulatory capture theory describes the scenario where a regulator is said to become dominated (captured) by interest groups made up of the very organisations or individuals it is intended to regulate.

---

[15] Other examples are studies by Bischof (2009) who investigates the effects of IFRS 7 on disclosures by banks (financial firms), and Palea and Maino (2013) who adopt a critical perspective on the valuation of private equity under IFRS 13.

Table 4.2

International accounting firms' financial support for the IASB[16]

Year ended 31 December	Total donations[17]	Donations from Big 4 accounting firms			Approximate % of IASB's funding from the Big 4	Sample extractive firms providing support to the IASB *Source: Cortese and Irvine (2010)*
		Per firm[17]	Total for four firms	Exchange rate US$:£[18]		
2005	£ 9.374m	US$ 1.0m	US$ 4.0m	US$1.82=£1	23.4%	AngloAmerican; BHP Billiton; BP; Shell
2006	£ 10.382m	US$ 1.5m	US$ 6.0m	US$1.84=£1	31.4%	BP; Rio Tinto; Shell
2007	£ 11.277m	US$ 1.5m	US$ 6.0m	US$2.00=£1	26.6%	n/a
2008	£ 12.747m	US$ 2.0m	US$ 8.0m	US$1.84=£1	34.1%	n/a
2009	£ 16.584m	US$ 2.0m	US$ 8.0m	US$1.56=£1	30.9%	n/a
2010	£ 16.641m	US$ 2.0m	US$ 8.0m	US$1.54=£1	31.2%	n/a
2011	£ 20.562m	US$ 2.25m	US$ 9.0m	US$1.60=£1	27.4%	n/a
2012	£ 20.747m	US$ 2.25m	US$ 9.0m	US$1.58=£1	27.5%	n/a
2013	£ 21.372m	US$ 2.5m	US$ 10.0m	US$1.56=£1	30.0%	n/a
2014	£ 22.591m	US$ 2.5m	US$ 10.0m	US$1.61=£1	27.5%	n/a

[16] This table updates Cortese and Irvine's (2010) summary. Since 2007, UK companies have contributed to the IASB via a levy system operated by the FRC.

[17] Source: IFRS Foundation annual reports, available from http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Annual-reports/Pages/2014-Annual-Report.aspx (accessed 16 May 2015)

[18] Average exchange rate for the year ended 31 December

Its power as a regulator (and effectiveness as an agent for the public good) is therefore weakened (Posner, 1974; Stigler, 1971).

Cortese *et al*. (2010) consider the social setting, that is the relationships between the constituents, particularly the IASC's/IASB's financial dependence on the Big 4 accounting firms and the financial power of the oil companies. Their conclusion is that *"self-interested constituents and constituent coalitions could contribute to capture the standard setting process in order to secure favourable regulation"* (Cortese *et al*., 2010, p85). Whilst this conclusion is framed using regulatory capture arguments, it also reflects old institutional arguments that firms attempt to influence the regulations within their environment so that those regulations become more aligned with firms' own strategies (Bozanic *et al*., 2012; Selznick, 1957). (See Section 5.3.)

Noël *et al.* (2010) also use the development of IFRS 6 to highlight the role of powerful actors in the standard setting process. Noël *et al.* (2010) argue that the IASB did not consider the needs of the range of stakeholders but instead attributed too much importance to views of the large mining and oil firms in the development of the new standard. Noël *et al.* (2010) recognise that because of the value of mining and oil resources and therefore the economic interests of the extractive firms, the development of IFRS 6 might not be viewed as that of a typical standard. Nevertheless they use the context of IFRS 6 to warn that *"... there exists a real risk of reducing accounting to the level of a mere instrument serving economic competition between specific sectors or actors"* (Noël *et al*., 2010, p339). Therefore in some situations firms might be expected to exert pressure on a regulator or standard setter in order to shape the regulatory (institutional) environment. (The influence of FTSE 350 firms over the IASB is discussed in Section 7.6.2.1.)

4.4.2 IFRS 8: Operating segments

Leuz (2003) suggests that along with the cash flow statement, segmental information is one of the most important parts of the annual report in the eyes of investors. This is because a large firm is usually engaged in multiple businesses which renders the overall profitability of the firm shown in the statement of profit or loss of limited use so that this information needs to be disaggregated. IFRS 8 is therefore an important standard.

IFRS 8 was issued in 2006 and became effective for accounting periods commencing on or after 1 January 2009. It was issued as part of the IASB's convergence project with the FASB and therefore closely follows the management approach of the US equivalent SFAS 131: *Disclosures about segments of an enterprise and related information.* IFRS 8 introduced a management approach to the determination of segments whereby a reportable segment is one which is reported internally to the chief operating decision maker (CODM). Further, certain segmental information is only reportable in the financial statements if it is regularly provided to the CODM. The standard provides flexibility to firms because it does not prescribe who the CODM should be. Therefore for some firms the CODM may be an individual (usually the Chief Executive) and for other firms the CODM may be a group of individuals (for example, the board of directors or the executive committee). Adoption of IFRS 8 may also benefit firms via reduced costs in relation to the preparation of the financial statements because it should no longer be necessary to prepare a segmental analysis solely for external reporting purposes.

Crawford *et al.* (2012) is a descriptive study into the usefulness of IFRS 8. This mixed methods study uses a quantitative analysis of the annual reports of 150 financial and non-financial FTSE 350 firms and also a qualitative analysis of interviews with six preparers, seven auditors and seven users of accounts. (See Section 5.6.3.) Crawford *et al.*'s (2012) aim is to investigate views on the usefulness of segmental reporting under IFRS 8. They find that the average number of reported segments increased under IFRS 8 when compared to the number reported under the preceding standard, IAS 14 (Revised). They also find that although IFRS 8 no longer requires a mandatory geographical analysis of segments, there is a tendency for more geographical information to be provided under IFRS 8 because of the entity-wide disclosures required relating to the geographical locations of revenue and non-current assets.

Another change introduced by IFRS 8 was the removal of the requirement for segmental profits to be measured using IFRS. Crawford *et al.* (2012) find that four out of the six preparers whom they interviewed said that the availability of non-IFRS measures was useful to preparers of financial statements. As one interviewed preparer explained to Crawford *et al.*, *"I would say that non-GAAP measures have the greatest performance when people want to give you earnings before bad news"* (2012, p37).

Crawford *et al.* (2012) observe that only 6% of their 150 sample UK firms disclosed the use of a non-GAAP measure of profitability. However, the FRC (2010) has queried the reconciliations to IFRS by some firms and suggested that non-GAAP measures may, in fact, may be more commonly used than are fully disclosed. Nichols *et al.* (2012) is a similar descriptive study for 335 non-UK EU firms which finds that only 17% of sample firms disclosed an IFRS measure of profitability. However, Nichols *et al.* (2012) agree with other findings in Crawford *et al.*'s (2012) study (increased numbers of segments and increased geographical disclosures under IFRS 8 when compared to IAS 14).

Crawford *et al*. (2014) highlight some of IFRS 8's requirements which are believed to provide a favourable reporting regime for firms. These requirements include the management approach to the determination of segments, the removal of mandatory geographical segments, the lack of direction regarding who the CODM should be and the use of non-IFRS measures. These favourable regulations suggest that managers might have seen a strategic benefit to reporting under the new standard and might therefore have chosen to adopt it early.

Both Crawford *et al*. (2012) and Nichols *et al.* (2012) contributed to the IASB's (2012b) post-implementation review of IFRS 8. Neither study refers to a theoretical framework although they both identify the number of early adopters in their samples: Crawford *et al*. (2012) find that 26 out of 150 FTSE 350 financial and non-financial firms (17.3%) adopted IFRS 8 early; and Nichols *et al.* (2012) find that 32 out of 335 EU firms (9.6%) did so. Nichols *et al.* (2012) suggest that there is sometimes a rational explanation for early adoption of IFRS 8 (including new acquisitions and changes in management structure) although they also note that eleven of the 32 early adopters in their study continued to report the same segments under IFRS 8 as they did under IAS 14 (Revised). (The findings of the current study regarding possible reasons for early adoption of IFRS 8 are discussed in Section 7.5.2.)

4.4.2.1 Proprietary cost theory

Section 4.2.1 has explained how arguments based on agency theory suggest that firms may provide additional disclosures in their financial statements in order to reduce the informational asymmetry between a firm's managers and its owners. However, such disclosures are not only available to owners or those stakeholders to whom the firm wants to provide certain information because disclosures in the financial statements can also be seen by a firm's competitors. Proprietary cost theory explains that firms do not make certain disclosures because of the potential harm which might be suffered if this information were to be available to its competitors. Proprietary cost arguments therefore provide a possible explanation as to why a firm might adopt a new standard from the mandatory date where that standard requires increased disclosures; early adoption would mean that a firm would have to make information available before it had to and before other firms did so. On the other hand, when a new standard removes a particular disclosure relating to information which firms would prefer not to make available to their competitors, early adoption might be popular.

In their review of the literature relating to IFRS 8 and the US equivalent standard, SFAS 131, Nichols *et al.* (2013) show how proprietary cost and agency arguments have been used to explain the segments reported under IFRS 8. Both the proprietary cost and agency perspectives indicate that firms may use segment disclosures strategically (Nichols *et al.*, 2013). Leuz (2003) observes that German firms are less likely to report segmental information where segment profits are more heterogeneous, a finding attributed to explanations offered by proprietary cost theory as firms are reluctant to disclose details of the profitability of individual segments. Bugeja *et al.* (2012, cited in Nichols *et al.*, 2013) also find evidence that proprietary cost theory provides some explanation for the segments reported under IFRS 8 and for the observation that fewer line items are disclosed per segment under IFRS 8 than under IAS 14. They argue that managers do not tend to disclose segments with abnormally high profits because of threats from competitors. (On the other hand, using an agency argument, managers would also tend to conceal those segments with lower profitability in order to hide poor performance from owners.)

Whilst this study uses institutional arguments to provide its theoretical framework and considers an accounting choice made by firms in their environmental setting, inclusion of Oliver's (1991) model of strategic responses to institutional processes provides the opportunity to consider how an organisational goal to conceal information from competitors might explain the timing of the adoption of a new standard in some cases.

4.5 Institutional studies in financial accounting

Based on the literature review in Sections 4.2 (early adoption of IFRS as regulatory GAAP), 4.3 (early adoption of individual US SFASs) and 4.4 (individual international standards), institutional theory is believed to provide a suitable theoretical framework for this investigation into the early adoption of accounting standards. Table 4.3 therefore summarises existing institutional studies in financial accounting settings in order to consider the research methodology used in these studies and also to identify where there is the potential for the current study to add to knowledge of accounting.

Mezias (1990) is an institutional study which investigates a particular financial reporting practice (the way in which US firms accounted for an investment tax credit in the period 1962 to 1984 when two alternative accounting treatments were allowed (deferral in the statement of financial position with subsequent annual amortisation or credit in full to income)). This study is of particular significance within the institutional literature because it extends institutional studies from not-for-profit organisations in the public sector to profit-making commercial firms. Mezias (1990) also expands the reach of institutional arguments out from organisational structures to focus on accounting practice. The paper employs a quantitative method and compares the predictive power of hypotheses built out of an economic model with hypotheses arising out of institutional arguments.

Mezias finds that economic arguments provide some explanation for observed practice but that institutional arguments appear to have more explanatory power in the context of accounting for a particular item. *Inter alia*, Mezias (1990) finds that firms with a high turnover of top managers were more likely to adopt the prevailing accounting practice. He suggests that this is due to managers' desire to conform to the practices of other firms in their social network. (Institutional theory describes this as a mimetic pressure and this type of institutional pressure is discussed further in Section 5.3.3.2.) Mezias (1990) also finds evidence of institutional imprinting so that when the accounting regulation changed, firms did not readily adopt the new practice, preferring instead to remain with the old practice.

Carpenter and Feroz (2001) use a not-for-profit setting in their qualitative study of voluntary adoption of GAAP by US state governments. Like Mezias (1990), Carpenter and Feroz (2001) find evidence of institutional imprinting so that the state governments observed in their investigation tended to retain procedures which were adopted when those governments were first founded. Carpenter and Feroz (2001) apply Oliver's (1991) model of strategic responses to institutional processes and observe a range of responses to regulatory and normative institutional pressures to adopt GAAP including compromise, defiance and manipulation. (Oliver's (1991) model is discussed further in Section 5.3.4.)

Table 4.3

Institutional studies in financial accounting

Author	**Country**	**Type of organisation**	**Primary / Secondary data**	**Qualitative / Quantitative method**	**Area of investigation**
Mezias (1990)	US	Large listed non-financial companies	Secondary	Quantitative	Choice of accounting method for an investment tax credit Comparison of economic and institutional arguments
Carpenter and Feroz (2001)[19]	US	US state governments	Primary and secondary	Qualitative	Voluntary adoption of GAAP Strength of coercive and normative pressures
Collin *et al.* (2009)	Sweden	Municipal corporations	Secondary	Quantitative	Choice of accounting standard regime Comparison of positive accounting theory and institutional theory
Kvaal and Nobes (2010)[20]	Australia France Germany Spain UK	Large listed companies	Secondary	Quantitative	Choice of accounting policies National practice remaining under permitted IFRS options
Guerreiro *et al.* (2012a)[19] Guerreiro *et al.* (2012b)	Portugal	Large unlisted companies	Primary	Quantitative	Voluntary adoption of IFRS Acquiescence as a strategic response Preparedness to adopt IFRS Imprinting and resistance

[19] Carpenter and Feroz (2001) and Guerreiro *et al.* (2012a) use Oliver's (1991) model as a theoretical framework. (See Section 5.3.4.)

[20] Kvaal and Nobes (2010) do not specifically refer to institutional theory but they find differences in accounting policies for firms from different jurisdictions so that national accounting practices tend to remain where these are allowed by IFRS. This may be viewed as a reaction to cultural pressure so that there is a measure of isomorphism among the firms within a particular jurisdiction.

Similar to Carpenter and Feroz (2001), Collin *et al*. (2009) also consider the accounting choices of not-for-profit organisations (Swedish municipal corporations). Collin *et al*. (2009) attempt to apply concurrently the theoretical frameworks provided by both positive accounting theory and institutional theory (comparable with Mezias' (1990) economic and institutional arguments) in order to argue for an eclectic theory of accounting. Collin *et al*. find evidence of compliance with normative institutional pressures exerted by audit firms and also conclude that institutional theory is *"more successful"* (2009, p163) than positive accounting theory in predicting accounting choice in the context of their study.

Kvaal and Nobes (2010) identify the overt accounting choices which remain available to firms which use IFRS. Their paper has been included in Table 4.3 although it does not specifically refer to institutional theory. However, since their paper compares the accounting policies of firms in five countries and focusses on the differences between them, this may be argued, *inter alia*, to be an investigation into the effect of cultural institutional pressure. Taking an institutional perspective, Kvaal and Nobes (2010) could be said to have observed a measure of institutional imprinting with local GAAP among a particular country's firms.

The final studies in Table 4.3 are authored by Guerreiro *et al.* (2012a; 2012b). These papers were discussed in Section 4.2.

The papers included in Table 4.3 show that institutional theory has been used to provide the theoretical framework for research in financial accounting. Further, it can be seen that institutional studies in a financial accounting setting remain relatively rare and therefore there is potential for the current study to contribute to theory and knowledge by attempting to ascertain how institutional theory can explain a particular accounting choice made by firms. Whilst most of the institutional accounting studies shown in Table 4.3 use quantitative analyses of data, Carpenter and Feroz (2001) use a qualitative method. Therefore both quantitative and qualitative methods have the potential to provide insight into the reasons for the accounting choices made by firms, including decisions when to adopt new and revised standards. This research will therefore use mixed research methods.

4.6 Chapter summary

Chapter 4 has ascertained that a number of different theories (agency, institutional, political cost, signalling and stakeholder) have been used in existing studies relating to early adoption of IFRS before it became the mandatory system of GAAP for the consolidated financial statements of EU-listed firms in 2005/6. The authors' interpretations of their observed results in these early adoption studies have been reviewed and considered from an institutional perspective. The outcome of this review is the opinion that institutional theory provides a suitable framework to use in the current investigation into the reasons for (and against) adopting individual accounting standards early. Chapter 4 has not identified any existing studies which focus on reasons for early adoption of individual international standards but it has shown how US early adoption studies focus on managers' choices which are motivated by earnings management considerations. Therefore by taking an institutional perspective there is the potential for the current investigation to add to knowledge of the process of financial accounting across a range of standards, including where the implementation of a new standard has no impact on earnings.

This chapter has reviewed existing institutional studies in financial accounting and shown that such studies are relatively rare so that there is opportunity for the current study to make contributions to knowledge of accounting and also institutional theory. Therefore the development of institutional theory and its potential to explain firms' behaviours (including financial accounting choices made by managers) are now critically reviewed in Chapter 5.

5. LITERATURE REVIEW 2: THEORETICAL FRAMEWORK

5.1 Chapter overview

This research aims to identify and to explain the factors which influence a particular accounting choice made by firms, which is whether to adopt a new or revised accounting standard from the mandatory date or to adopt it early. The analysis of data in Chapter 7 shows that these factors include those which can be explained using institutional arguments. Chapter 5 will therefore critically review the literature relating to institutional theory and apply institutional arguments to the timing of the adoption of new standards.

This thesis describes the decision when to adopt a new standard as an accounting choice which arises during a time of transition between two institutional environments with different regulatory requirements. The purpose of the opening sections in Chapter 5 is therefore to meet RO1: *To review the literature in order to gain an understanding of institutional theory's power to explain a particular accounting choice made by firms in a time of transition between regulatory environments.*

Section 5.2 begins by considering the subjective nature of accounting and explains why institutional theory is judged to provide a suitable theoretical framework for accounting research. Section 5.3 then sets out a review of the development of institutional theory starting with the old institutional perspective which focusses on the regulatory environment (Selznick, 1957) and then moving on to the new institutional perspective as set out in the seminal paper by Meyer and Rowan (1977) which focusses on organisations' pursuit of legitimacy in a particular environment through compliance with institutional processes. The discussion then progresses to the coercive, mimetic and normative institutional pressures which DiMaggio and Powell (1983) argue will result in isomorphism among organisations. This is followed by an analysis of Oliver's (1991) model of possible strategic responses to institutional processes which explains why firms do not always conform to institutional pressures but may resist them.

Section 5.4 considers the nature of the accounting environment for large firms. This environment is presented as a network of institutional pressures and counter pressures between the IASB as the standard setter (and therefore playing a part in the regulatory infrastructure), the audit firms as professional advisors and the FTSE firms themselves. Section 5.5 then explains the way in which this thesis uses institutional arguments to explain a particular accounting choice in a time of transition to a new standard. Section 5.6 reiterates how institutional theory provides a suitable framework for this study because of its capacity to include both sociological and strategic arguments.

Section 5.7 sets out the theoretical, empirical and methodological contributions which this thesis is believed to make to the institutional literature. Chapter 5 develops institutional theory by presenting the institutional environment for large firms as a complex network of relationships and dependencies, analysing the conflicting pressures which arise both within an existing 'institution' and also from a new 'institution', and considering the ways in which firms respond to those pressures. The development of institutional theory in Section 5.7 meets RO5: *To use the insight gained via the qualitative analysis of interview data and the integration of the results of the quantitative and qualitative phases to develop institutional theory*.

5.2 The nature of accounting

A dictionary definition of accounting is *"the ... activity of keeping records of the money ... a[n] organi[s]ation earns and spends"* (Cambridge Dictionaries Online, 2014). This definition presents the practice of accounting as the recording of historical, cash-based transactions. There would appear to be little subjective judgement involved and no room for making accounting choices. However, accounting is by no means restricted to recording historical receipts and payments but encompasses areas where estimates and judgements (often about the future) are involved (for example, the estimated useful lives of assets, the recoverable amounts of assets and the provisions required for expected future costs). Further, the accounting standards themselves provide firms with choices regarding permissible accounting policies (Nobes, 2006). There is also the option to adopt a new or revised accounting standard early, or to adopt from the mandatory date, the decision which forms the context for this research project.

The theoretical framework for this study is institutional theory. Chapman *et al.* (2009a) and Guerreiro *et al.* (2012a) argue that accounting is one of the practices which organisations use to enhance and maintain their legitimacy, a concept which lies at the heart of the new institutional arguments which follow in Section 5.3. The values and norms within an institutional environment which are not based on efficiency but are believed by organisations to be best practice and therefore able to confer legitimacy are known as institutional 'myths'. (The concept of an institutional myth is considered further in Section 5.3.2.) Carruthers (1995, p326) argues that *"[a]ccounts are the quintessential rationalised myth"*. He suggests that accounts may be viewed as 'mythical' because they are believed to represent accurately what an organisation is and what it does. This assumes that it is possible to portray qualitative characteristics quantitatively and objectively. Therefore, managers who themselves know the scope and freedom they have in preparing their own firm's accounts may still believe that the accounts of other firms provide a faithful representation of accounting phenomena.

Broadbent and Unerman (2011) highlight the social construction of accounts. IFRS is currently accepted as providing the principles which UK-listed firms should use to prepare consolidated accounts which are useful as a basis for decision-making by investors. This is widely accepted in the UK market despite the fact that there are other acceptable frameworks for accounting practice (for example, US GAAP). In addition, the details of the accounting standards contained within IFRS change from time-to-time as existing standards are revised and new standards are issued in accordance with the latest views of accountants. Further, IFRS is acknowledged to contain ambiguities:

> "It is remarkable that our standards can cause one and the same asset to have two different measurement outcomes … In the exact sciences, such a dual outcome would certainly not be acceptable… It is not only the balance sheet that is fraught with imprecision and uncertainty. We also have a problem defining what income is and how to measure it" (Hoogervorst[21], 2012).

Another myth is that a new IFRS always improves accounting practice (IASB, 2010b) even though many managers may be aware of the queries and disagreements which arose during the IASB's consultation process which preceded the issue of the new standard. Managers also know that previously the old standard was believed to represent best practice. Further, despite the IASB's argument that comparability is a characteristic of useful information, and therefore the implication that accounts prepared under IFRS are comparable with each other, the choices of accounting policy which remain available to firms might make 'perfect' comparability a mythical and elusive concept.

Based on the foregoing arguments accounting would appear to provide a suitable setting in which to place an institutional study. Specifically, the choice which is available to managers in a time of transition between standards provides an appropriate context in which to set this

[21] Hans Hoogervorst is Chairman of the IASB (2011 to current).

investigation into the explanations offered by institutional theory regarding the behaviours of firms.

5.3 Institutional theory

Institutional theory attempts to explain the behaviours and practices of individuals and organisations inasmuch as those behaviours originate from belonging to particular environments (institutions). Institutional theory has its origins in what has become known as the 'old' institutionalism (Selznick, 1957). Old institutional theory argues that the managers of organisations are driven by efficiency considerations and that they make rational decisions and adopt particular behaviours, structures and practices when they are required to do so by circumstances. The environment is believed to affect those practices to the extent that it influences the 'circumstances' and managers have to take governmental and other legal requirements into consideration when they make decisions, particularly in relation to securing resources. The old institutional perspective recognises that whilst laws and regulations are created outside a firm by superordinate organisations, managers have an interest in trying to influence the rules which their organisations will have to comply with (Hirsch, 2008; Parsons, 1956a; 1956b; Selznick, 1957).

Institutional theory has now evolved to take on a 'new' perspective which is not restricted to explaining behaviours arising in response to the laws and regulations within a particular environment. Taking the new perspective, institutions are understood to arise not only out of a common regulatory framework which may affect a number of organisations but also from the informal relationships between those organisations and their common understanding of what constitutes appropriate behaviour (Meyer and Rowan, 1977; Zucker, 1977). An early definition of an institutional setting is therefore given by Warren (1967, cited in Wooten and Hoffman, 2008, p131) as an environment *"where an organi[s]ation's actions [are] structured by the networks of relationships within which it [is] embedded …"*. This suggests that an organisation's actions are influenced not only by technical and efficiency considerations, or laws and regulations, but also by the values and practices of the other members of its institution. However, regulations such as IFRS continue to play an important role in institutional theory because:

> [i]t … appears that the institutional environment does indeed affect those regulated, and that those regulated play an active role in defining, creating, and shaping that very environment (Bozanic *et al*., 2012, p475).

Scott (2008a; 2008b) argues that there are 'three pillars' of institutionalism because institutions comprise regulative, normative (social norms which specify how things should be done) and cultural-cognitive (shared understandings and concepts) elements. Scott (2008a) suggests that in many situations one of these three pillars may assume primacy. This can be the regulative pillar. Therefore a regulatory regime such as IFRS provides a suitable context for an institutional study.

5.3.1 New institutional theory and legitimacy within an environment

Legitimacy considerations are found at the core of new institutional theory. Compliance with institutional norms is believed by managers to be necessary in order to gain or retain the support of an institution. Therefore compliance can be used to enhance legitimacy:

> Within this tradition, legitimacy and institutionali[s]ation are virtually synonymous. Both phenomena empower organi[s]ations primarily by making them seem natural and meaningful (Suchman, 1995, p 576).

Underlying legitimacy theory is the idea of a social contract whereby in a civil society people must obey laws and therefore cannot do as they please. In return for sacrificing a level of personal freedom, the state protects its citizens and so their existence and welfare are preserved. There is no 'formal' written contract but one is implied when someone is born into or otherwise becomes part of a particular society. This idea of an implied social contract has been developed to extend to organisations and therefore to businesses; if a firm recognises its duty to contribute to society, it can expect to receive benefits from the state (including a reduction in regulations and avoidance of penalties such as fines). In this way society helps to protect a business' future existence.

An early definition of legitimacy is provided by Maurer:

> [Legitimacy] is the process whereby an organisation justifies to a peer or a superordinate system its right to exist (1971, p361, cited in Suchman, 1995, p573).

This definition suggests that, for example, the managers of a FTSE 350 firm would be content for society (perhaps represented by, *inter alia*, the government or the financial market) to be willing to allow the firm to continue operating. However, Suchman (1995) has developed the definition of legitimacy to go beyond a firm's aim merely to continue so that it includes a desire to communicate to society that it benefits from a firm's existence and contribution. This is reflected in the following definition:

> Legitimacy is a generali[s]ed perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995, p574).

This definition encompasses that aspect of legitimacy which reflects the societal or institutional setting in which a firm is located so that the 'norms' with which the firm complies are imposed on it from outside itself. In addition, legitimacy might also arise at a strategic level from inside the firm. In that respect legitimation strategies reflect a firm's specific goals so that a firm tries to promote the view that its actions are desirable (Hybels, 1995, cited in Tilling, 2004; Suchman, 1995).

One way in which a firm can communicate with stakeholders that it is acting as a responsible member of society (or the business community) is by providing information via reporting and accounting disclosures. Some of the accounting choices made by firms may therefore arise out of a desire for increased legitimacy. Consequently if a new IFRS is assumed to represent the IASB's (and arguably therefore the financial community's) idea of best (or at least improved) accounting practice, a firm which adopts early might be viewed as demonstrating that it is a worthwhile member of the financial community. In particular, the increased accounting disclosures which might be required by a new IFRS could potentially influence how the government acts toward a firm (via taxes or regulations) as well as secure the public's support (by working for the firm or buying its products).

It may be that managers do not believe that compliance with a new standard increases a firm's legitimacy but what is important is that whichever standard is followed, it is followed correctly. In that case a firm in pursuit of legitimacy might not be expected to adopt a new standard early unless managers saw an efficiency or strategic benefit in doing so which might then justify a change in accounting practice.

5.3.2 The institutional environment

DiMaggio and Powell provide a detailed description of the institutional environment as follows:

> … key suppliers, resource and product consumers, regulatory agencies, and other organi[s]ations that produce similar services or products… the totality of relevant actors… (1983, p148).

This description is comprehensive in that it encompasses suppliers, customers and competitors and all of the other actors with which an organisation interacts. These interactions might be based on formal contracts or informal associations between personnel (for example, through the non-executive directors or senior managers, or via communication with sector peers) (DiMaggio and Powell, 1983; Mezias, 1990; Westphal and Zajac, 2001). DiMaggio and Powell's (1983) definition also specifies that 'regulatory' agencies are part of the institutional environment. This thesis therefore treats the IASB as the standard setter, and part of the regulatory infrastructure, as an institutional actor.

Taking a new institutional perspective, the actors (whether organisations or individuals) are not totally free to follow their own strategies and desired courses of action because, like actors in a play, they must follow the *"institutional script"* (Meyer, 2008, p792). Consequently Wooten and Hoffman (2008, p130) argue that *"[a]ction is not a choice among unlimited possibilities but rather among a narrowly defined set of legitimate options."* Meyer and Rowan (1977) suggest that if a particular environment influences the organisations within it to adopt certain structures and practices, it might be expected that, over time, these organisations will become increasingly similar and there will be isomorphism or *"institutional conformity"* (Greenwood *et al.*, 2008, p3). It is this conformity to an institution's values and norms which gains an organisation legitimacy and legitimacy is necessary in order to ensure an organisation's survival (Meyer and Rowan, 1977).

Meyer and Rowan (1977) describe institutional values and norms as myths (that is, widely held ideas or opinions which are, in fact, untrue). Compliance with institutional norms is argued by Meyer and Rowan (1977) to be irrational behaviour because compliance by the late adopters of a particular practice or structure arises out of a desire for legitimacy within a particular environment and therefore outside of technical or efficiency considerations. However, if a strategy of legitimacy is viewed as rational, then conformity to institutional norms may be viewed as rational. Further, Eisenhardt argues that institutional behaviour can benefit firms because *"… standard ways of doing things allow people to focus on new problems and to rely on experience for issues that are not pressing"* (1988, p493). This reason for a particular behaviour may be viewed as rational. The workload of FTSE 350 accountants may therefore explain why firms adopt new standards from the mandatory effective dates.

In early expressions of new institutional theory, it is the initial adopters of a new practice who are said to adopt solely for efficiency reasons; later adopters do so in order to maintain their legitimacy within their environment (Tolbert and Zucker, 1983). Kennedy and Fiss (2009) develop this argument and suggest that early adopters may also be concerned with the social gains that come from increased legitimacy, including, *inter alia*, the desire to appear to be a leader. In the context of the current study this argument suggests that firms may adopt a new standard early not only when managers see possible efficiency gains but also in order that they are seen to lead accounting practice. On the other hand, later adopters may also be concerned with technical and efficiency gains reflecting Oliver's (1991) strategic approach to explaining compliance with institutional norms. (See Section 5.3.4.)

FTSE 350 firms are required to comply with IFRS. At the same time they are able to influence the content of new standards via the IASB's consultation process. This means that, *inter alia*, firms can argue in support of the retention of permissible options such as the option to adopt a new accounting standard early. (See Section 3.4.) Institutional theory recognises that actors are able to influence the values and norms in their environments as well as being influenced by those same environments:

> Many organi[s]ations actively seek charters from collective authorities and manage to institutionali[s]e their goals and structures in the rules of such authorities. … powerful organi[s]ations force their immediate relational networks to adapt to their structures and relations [and] powerful organi[s]ations attempt to build their goals and procedures directly into society as institutional rules (Meyer and Rowan, 1977, p348).

As well as introducing new ideas on the 'irrational actorhood' of organisations, Meyer and Rowan (1977) therefore appear to be revisiting old arguments that organisations are 'rational agents' who attempt to shape their environments. This concept of agency means that within the institutional environment the managers of organisations are able to make decisions based on their own strategic aims (Lounsbury, 2008; Oliver, 1991). Yet, at the same time, by belonging to a particular environment, organisations are under pressure to adopt institutional behaviours and structures.

5.3.3 *Institutional pressures to conform*

DiMaggio and Powell (1983) identify three different pressures (described as coercive, mimetic and normative) which influence organisations to conform to an institution's preferred 'norms' and, in the process, cause organisations to become more similar to each other. The three types of institutional pressure will now be analysed and specifically applied to FTSE 350 firms as constituents of the institution which is the financial market (Thornton and Ocasio, 2008).

Following DiMaggio and Powell's (1983) typology, Section 5.3.3.1 *et sequentia* present the three pressures of coercion, mimicry and normalisation separately. However, this thesis makes an empirical contribution to the institutional literature by demonstrating that these pressures can sometimes be difficult to distinguish. This is discussed in Section 5.3.3.5.

5.3.3.1 *Coercive pressure*

The common legal and regulatory environment in which firms operate puts similar requirements on them and non-compliance often results in penalties. This pressure is labelled as *"coercive"* by DiMaggio and Powell (1983, p150) and it describes the pressure brought to bear by powerful organisations or individuals who are in a position to force compliance with institutional norms. Old institutional theory focusses on an organisation's response to its government's requirements, and the legal and regulatory environment. Therefore by considering these types of regulatory pressures, DiMaggio and Powell (1983) appear to be developing, rather than replacing, old institutional arguments.

Scott (1987) suggests that coercive pressures are, in fact, of two types and the level of compliance expected varies between them. The distinction drawn is that of *"imposition by means of authority vs. imposition by means of coercive power"* (Scott, 1987, p501). Impositions by means of authority include laws and regulations which must be complied with in order to avoid penalties and sanctions (including fines and perhaps imprisonment). Impositions by means of coercive power include practices desired by the state or a regulator but which are not mandatory. The reason for compliance with these 'soft' regulations is that compliance is argued to confer legitimacy (Djelic and Sahlin-Andersson, 2006, cited in Greenwood *et al*., 2008). Compliance may be encouraged by grants or the expectation of some other reward from superordinate organisations. Changes in structures and practices which are imposed by means of authority would, generally, be complied with more readily by institutional constituents because of the penalty regime.

For FTSE 350 firms, legislation requires that they must all prepare financial statements and have those financial statements audited (an authoritative pressure using Scott's (1987) categorisation). Further, the financial statements must be prepared in accordance with the mandatory requirements of IFRS so that there is similarity between the financial statements of FTSE firms. Non-compliance with this requirement may result in a modified audit opinion which might damage a firm's reputation (or have an adverse effect on legitimacy). These negative effects may in turn lead to reduced investment in the firm or increased regulation and inspection (for example, by the tax authorities). Laws and regulations such as IFRS may therefore put constraints on firms which are difficult (or impossible) to avoid. Consistent with old institutional arguments, firms therefore have an interest in trying to make those regulations as favourable as possible.

5.3.3.2 Mimetic pressure

Within the institutional environment firms are not only under pressure to comply with regulations. Managers also experience pressure to copy the practices of other firms. This pressure is labelled as *"mimetic"* by DiMaggio and Powell (1983, p151) and they argue that it is most effective in conditions of uncertainty. Early adopters of specific organisational structures or behaviours are argued to do so for commercial or efficiency reasons whilst other firms merely copy or 'mimic'. This may be applied to accounting as well as business practices. Therefore Firm A might begin to adopt a particular accounting practice if that is something which Firm B does and Firm A's managers believe that Firm B's accounting practice contributes to its legitimacy and success.

Abrahamson (1991) argues that organisations do not just experience mimetic pressure to adopt inefficient practices but they may also reject practices which would give improved efficiency where those practices are not adopted by other organisations. Boxenbaum and Jonsson (2008) support this argument by questioning how organisations should be seen as similar. If isomorphism is a decrease in differences between organisations, this is not just achieved through firms adopting new innovations together. It could also be the case that firms decline to adopt new innovations in order to retain similarity. This reflects Di Maggio and Powell's description of isomorphism as *"… a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions"* (1983, p149). The current study will look for empirical evidence that firms are constrained in their accounting choices so that there is isomorphism. By considering whether a reluctance to adopt new standards early is a form of isomorphism whereby firms do not want to be seen as different from other firms, there is opportunity for this study to add to the existing body of research.

The process of mimicry (whether it constrains firms to change or to stay the same) does not necessarily improve a firm's efficiency or performance, or with reference to accounting, the 'quality' of a firm's financial reporting. In that sense it is argued to be irrational. However, mimicry is not necessarily irrational, and therefore it may not be viewed solely as a reaction to an institutional pressure (Scott, 2008a). This is because it is reasonable to assume that managers believe each other to be rational. Therefore organisations may copy each other's practices, or accounting policies, not just to achieve legitimacy but because they believe that practice to be beneficial since another organisation must have superior information which drove their original decision to adopt it (Greenwood *et al*., 2008). Consequently mimicry is believed by managers to enhance efficiency (Greenwood *et al*., 2002).

In order to copy the practice of another organisation, that other organisation has to 'go first'. DiMaggio and Powell's (1983) argument is based on the assumption that these 'pioneers' do so for efficiency reasons and other organisations then mimic them. However, the act of 'going first', such as the early adoption of an accounting standard, could exhibit a measure of irrationality because of the risk associated with something which is new and untested. Consequently an organisation might want to adopt a particular structure or behaviour for technical reasons but it may decide to 'wait and see' the lessons to be learned from early adopters. This may be viewed as a rational decision based on efficiency considerations rather than irrational mimicry motivated by a desire for increased legitimacy.

5.3.3.3 Normative pressure

DiMaggio and Powell (1983) suggest that a firm's professional advisors act as institutional agents who influence that firm to adopt the institution's preferred practices, a pressure which is described as *"normative"* (DiMaggio and Powell, 1983, p152). They argue that professional advisors often undergo similar training, have similar qualifications and belong to similar professional bodies, institutes and associations. These aspects are often 'approved' by the institution. Consequently the advice received from professionals with expertise in the various areas of an organisation's operations (including accounting) is expected to be similar and this adds to the institutional pressure on organisations to conform. This normative pressure may not come exclusively from outside an organisation because managers are often professionally qualified and bring their profession's values and what they have learnt in their (often similar) training programmes with them.

For FTSE 350 firms, a factor leading toward isomorphism might be that most are audited by a Big 4 accounting firm. The audit departments of these firms employ accountants with similar qualifications who may therefore be expected to give similar advice to FTSE firms regarding their accounts preparation, accounting policies and the timing of the adoption of new and revised accounting standards. Scott (2008b) argues that professionals (for example, accountants) are very influential in the formation of institutions and in the introduction of rules and norms. Professionals do not just pass on institutional values but, along with the state, they are powerful actors who are empowered to confer legitimacy, as when a Big 4 accounting firm issues an unqualified audit report.

Scott (2008b) argues that the power of professionals comes from three main sources reflecting his 'three pillars' of institutionalism. First, the power of professionals is cultural-cognitive because clients believe that professionals have superior knowledge and apply that knowledge to act in their clients' best interests. Second, professionals act as normative agents by telling their clients how to behave. Third, there are some professions whose power is enhanced because they have a measure of regulatory power. It is this third type of power which appears particularly relevant to the Big 4 accounting firms as institutional agents who are required to report whether their clients comply with the requirements of IFRS. (See Section 3.2.1.) On the other hand, whilst the accounting firms may have superior technical resources, many CFOs are themselves qualified accountants (sometimes former audit partners or managers with Big 4 firms) and they may not always follow advice from their auditors, depending on the importance or complexity of the issue. CFOs may also be reluctant to incur the increased audit fees which may be necessary if the auditor provides advice and guidance on a particular issue so that there exist motivations for CFOs and GFCs to resist normative pressure.

5.3.3.4 Plural institutional logics of professionals

Leicht and Fennell (2008) challenge DiMaggio and Powell's (1983) view that normative pressures arise because professionals retain common values and similar practices as a result of their training programmes. Instead Leicht and Fennell (2008) argue that professional firms are becoming increasingly diversified and profit-focussed which means that they have their own individual preferences regarding practices and behaviours as they pursue their strategic objectives within an institutional environment. Leicht and Fennell (2008) also suggest that financial scandals have caused questions to be raised about the ethics and values of professional firms, the large accountancy firms in particular. If an increasing number of professional firms are sacrificing independence in pursuit of client retention and profit, the motivation and effectiveness of professionals as a source of institutional pressure may be called into question. In the context of financial reporting, the Big 4 accounting firms may not want to exert any sort of influence on their clients to adopt a particular accounting treatment (for example, early adoption) where IFRS permits a choice.

Friedland and Alford (1991) analyse the conflicting 'logics' which exist within any institutional environment. They identify five core institutions (the capitalist market, the bureaucratic state, democracy, the nuclear family and Christianity) and suggest that each has its own values and norms ('logics') which affect the logics of all other institutions. Since this early work the list has been modified to include not only the market, the state, the family and religions but also the corporation and the professions, and the precise list continues to be debated (Greenwood *et al*., 2014). Consequently any institution may be composed of not just one but multiple logics which stem from these *"core societal level institutions"* (Greenwood *et al*., 2014, p1215). These multiple logics have an impact on the professions as well as the organisations they serve and advise (Dunn and Jones, 2010; Greenwood *et al*., 2014). Greenwood *et al*. (2014) therefore highlight how a professional firm such as a Big 4 accounting firm is subject to the multiple logics arising from their professional status in the field of accounting, and also from the commercial considerations and economic self-interest which arise within the field of large multinational firms.

Within institutional theory auditors have traditionally been viewed as agents who support developments in accounting standards in order to promote and encourage best practice, and to improve the quality of financial reporting within the accounting environment (Mezias, 1990). As members of the field of accounting auditors would be expected to encourage their clients to adopt new and revised accounting standards early. However, auditors might not always promote early adoption, particularly where the requirements of a new standard are particularly complex and there is the possibility of incorrect implementation (and ensuing damage to an audit firm's reputation and income stream). In this case a professional auditor would act as a source of inertia rather than an agent for change. Meyer's (2008) description of a realist view of institutions, with each constituent pursuing its own strategic objectives, would also depict a Big 4 accounting firm as self-interested and with the aim of protecting and increasing its own importance in the financial market rather than acting as an institutional tool to induce compliance.

This thesis makes an empirical contribution by providing evidence that professional advisors do not always promote the latest institutional practice. Specifically, the thesis shows how the Big 4 accounting firms tend to exert pressure on their clients to continue with existing practice by adopting new accounting standards from the mandatory dates. (See Section 7.4.2.)

5.3.3.5 Categorisation of institutional pressures

This thesis makes a further empirical contribution by providing evidence that DiMaggio and Powell's (1983) coercive, mimetic and normative pressures can sometimes be difficult to distinguish. This reflects the complexity of the institutional environment and the relationships between the actors. For example, it is the state which prescribes who may act as an auditor although an organisation may then choose from a restricted range of allowed firms with the required qualifications (indicating a normative pressure with coercive elements). Further, DiMaggio and Powell (1983) point out that professionals are themselves subject to coercive and mimetic institutional pressures so that an auditor might recommend an accounting practice because of 'pressure' from the IASB to do so (via the requirements of a new standard), or the auditor might suggest that a firm copies the reporting practices of another firm in its sector.

Mimetic institutional pressure provides the focus for many of the early US papers based on DiMaggio and Powell's (1983) arguments (Mizruchi and Fein, 1999). However, Mizruchi and Fein (1999) argue that by concentrating on mimetic pressure, a bias has been introduced into institutional research. This ignores the balance of DiMaggio and Powell's (1983) arguments regarding the existence of three types of pressure so that where empirical evidence appears to show the operation of mimetic pressure, observed results may also be explained by coercive and/or normative pressures. The current project therefore makes a contribution to the institutional literature by exploring coercive and normative pressures alongside mimetic pressure.

Boxenbaum and Jonsson (2008) stress that identifying the mere presence of one or more of the pressures does not provide support for institutional theory. They emphasise that a pressure should only be labelled as institutional if it results in institutional (irrational) isomorphism, so that organisations become more similar for reasons which are not based on efficiency. In the current study the expectation might be to say that isomorphism is only observed where firms adopt a new standard because other firms in their peer group adopt early or because they are advised to do so by their auditors. However, adoption from the mandatory date by multiple firms may also provide evidence of isomorphism if a firm considers a new IFRS to be an improvement over its predecessor and yet it does not adopt early because other firms are not going to adopt until the mandatory date, or the auditors advise that firm to wait.

On the other hand, Scott proposes that isomorphic conformity is just one possible response to institutional pressures *"because institutional processes are themselves conflicted or because they combine with other forces to shape structure and action"* (2008a, p153). This means that the firms in this study might not be expected always to remain in the mainstream by adopting all new IFRSs and revised IASs from the mandatory dates. Instead, a firm may adopt a new standard early in response to an internal pressure to report strategically in the financial statements or to make the accounting process more efficient.

5.3.4 Responses to institutional pressures

Within their institutional environments, managers try to pursue their own strategies and they also want organisations to function efficiently. Therefore there are conflicting pressures on organisations because *"[t]o survive and prosper ... organisations need to achieve not only technical, operational efficiency but also social legitimacy"* (Abernethy and Chua, 1996, p571). Oliver (1991) considers the conflicting demands on organisations and argues that one of the reasons why isomorphism is not always the result of institutional pressures to conform with particular structures and behaviours is that there are five alternative responses to such pressures. Acquiescence (resulting in isomorphism) is a possible response but so too are compromise, avoidance, defiance and manipulation.

Oliver (1991) suggests that there are three alternative forms of *"acquiescence"* (Oliver, 1991, p152). First, consistent with Meyer and Rowan's (1977) presentation of the constraining nature of the institutional environment, acquiescence may result from habit so that organisations unconsciously adhere to taken-for-granted structures and behaviours. Second, consistent with DiMaggio and Powell's (1983) concept of mimetic isomorphism, organisations may imitate other organisations, particularly successful ones. This is sometimes on the basis of advice received by professional consultants so that mimetic and normative pressures can be difficult to distinguish (DiMaggio and Powell, 1983; Mizruchi and Fein, 1999). Third, organisations may actively choose to comply with institutional norms in order to achieve some benefit. Guerreiro *et al.* (2012a) (see Table 4.1) illustrate Oliver's response of compliance in their investigation into early adoption of IFRS as a system of GAAP. Using a survey of the financial managers of large Portuguese firms, Guerreiro *et al*. (2012a) find evidence that early adoption of IFRS was a legitimising response to institutional pressures. The perceived advantage of complying with the new 'norm' outweighed the disadvantage of the loss of autonomy (and increased disclosure requirements) brought in by IFRS. Guerreiro *et al.*'s (2012a) findings reflect Oliver's argument that an acquiescent response can be an active one where *"an organi[s]ation consciously and strategically chooses to comply with institutional pressures in anticipation of self-serving benefits …"* (1991, p153).

At the other end of the scale from acquiescence on her continuum of responses, Oliver (1991, p157) places "*manipulation".* This is where organisations actively attempt to co-opt environmental norms by bringing in new and influential institutional constituents, and also to influence and even to control the values and practices of the institution. In the context of IFRS, large firms and their auditors may take the opportunity to submit comment letters to the IASB before the issue of a new standard. Firms might also join together as collectives (either sector-related or a group such as the Hundred group of CFOs as referred to in Section 3.4) in order to increase their influence over the IASB. These approaches may be undertaken as part of the IASB's normal and 'transparent' consultation process or, consistent with regulatory capture arguments, they may be done in such a way as to influence unduly the requirements of a new standard. (See Section 4.4.1.)

Between the two extremes of habitual (passive) acquiescence with institutional pressures where organisations conform unquestioningly to taken-for-granted norms, and active attempts to manipulate the institutional environment through control and domination, Oliver (1991) places the responses of compromise, avoidance and defiance. Table 5.1 sets out the range of response strategies identified by Oliver (1991) and includes her examples of the tactics used by organisations within each response category. A number of accounting studies have been identified which apply Oliver's model and so the strategic responses and the particular tactics explored by these studies are shown in Table 5.1. With the exception of Guerreiro *et al*. (2012a), the authors included in Table 5.1 all consider public sector organisations. Consequently there is the potential for this thesis to make a contribution to the institutional literature by applying Oliver's model to explain a particular financial accounting choice made by large listed firms.

Abernethy and Chua (1996) find evidence of acquiescent and manipulative (through control tactics) responses to institutional pressures to introduce improved accounting control systems at an Australian hospital. Modell (2001) finds evidence of acquiescent responses and also compromise (through balancing behaviour) at a Norwegian hospital in the context of public sector reform. Grafton *et al.* (2011a) also find evidence of acquiescence and compromise (through pacifying behaviour) in their study of Australian hospital networks. Away from a healthcare setting, Carpenter and Feroz (2001) find evidence of compromise, defiance and manipulation as initial responses to institutional pressures on four US states to move from cash accounting to GAAP for their external financial reporting. However, these initial non-conforming responses eventually gave way to acquiescence as GAAP was adopted in order to earn legitimacy in the institutional environment. (Carpenter and Feroz (2001) do not state which particular tactics their study observes and so the classifications in Table 5.1 have been identified by the current author based on a review of their paper.) In a historical study, Carmona and Macías (2001) describe how a state-owned factory exhibited both compliant and dismissive behaviour in response to regulator's request for cost data, the precise response being dependent on the level of coercion used by the regulator.

The current study focusses on the non-conforming response of avoidance. Oliver (1991, p154) defines avoidance as *"the ... attempt to preclude the necessity of conformity".* Guerreiro *et al*. (2012a), Hyvönen *et al.* (2009) and Jamali (2010) consider how an avoidant response can be achieved through buffering tactics as organisations try to decouple their operations from institutional demands. The avoidance tactic which is of particular interest in the current study is the tactic of escape from an institutional pressure by leaving a specific environment. Escape is not a focus of any of the authors referenced in Table 5.1 and so there is opportunity to make an empirical contribution to the institutional literature. This project considers the conflicting requirements of two institutions I_1 (arising from the regulations of an existing accounting standard) and I_2 (arising from the regulations of a new standard). (See Section 5.5.) It is therefore possible to explore the reasons why a firm might escape from I_1 to I_2 and to consider the reasons for such an escape. This includes the reasons for escaping to I_2 as well as the reasons for escaping from the pressures of I_1, a point which is not highlighted by Oliver (1991).

In order to predict the probability of an organisation conforming to or resisting institutional pressures, Oliver's model considers ten antecedent factors. These are shown in Table 5.2. Jamali (2010) uses the interpretive analysis of interviews to explore corporate social responsibility (CSR) managers' views on all ten factors. However, Table 5.2 shows that other authors focus on a smaller number of factors. Three of Oliver's antecedent factors (legitimacy, efficiency and organisational goals) are judged to be particularly relevant to the current study and are discussed in the following sections.

Consistent with the approach adopted by Abernethy and Chua (1996), Carmona and Macías (2001), Carpenter and Feroz (2001) and Modell (2001), the current study does not 'test' Oliver's hypotheses. Rather, the institutional factors and the strategic responses suggested in Oliver's model provide part of the theoretical framework which is used to explain the behaviours of firms in relation to a particular accounting choice in the financial statements.

5.3.4.1 Legitimacy

The first of Oliver's hypotheses relates to the social legitimacy which may arise from adopting a particular structure or behaviour:

> The lower the degree of social legitimacy perceived to be attainable from conformity to institutional pressures, the greater the likelihood of organi[s]ational resistance to institutional pressures (Oliver, 1991, p160).

Although Oliver's hypothesis is phrased in terms of multiple pressures, her arguments actually relate to individual pressures so that using her model, the legitimacy of each pressure is assessed to predict the probability of a conforming or non-conforming response.

Table 5.1

Strategic responses to institutional processes Sources: Adapted from Oliver (1991, p152) and Modell (2001, p440)

Level of active resistance	Strategies	Tactics	Examples	Authors who have focussed on this tactic	Focus of this thesis
Low	Acquiesce	Habit	Following invisible, taken-for-granted norms		✓
		Imitate	Mimicking institutional models	Abernethy and Chua (1996); Modell (2001)	✓
		Comply	Obeying rules and accepting norms	Carmona and Macías (2001); Carpenter and Feroz (2001); Grafton *et al*. (2011a); Guerreiro *et al*. (2012a); Modell (2001)	✓
	Compromise	Balance	Balancing the expectations of multiple constituents	Modell (2001)	
		Pacify	Placating and accommodating institutional elements	Grafton *et al*. (2011a); Hyvönen *et al*. (2009)	
		Bargain	Negotiating with institutional stakeholders	Carpenter and Feroz (2001)	
	Avoid	Conceal	Disguising nonconformity		
		Buffer	Loosening institutional attachments through decoupling	Guerreiro *et al*. (2012a); Hyvönen *et al*. (2009); Jamali (2010)	
		Escape	Changing goals, activities or domains		✓
	Defy	Dismiss	Ignoring explicit norms and values	Carmona and Macías (2001); Carpenter and Feroz (2001); Hyvönen *et al*. (2009)	
		Challenge	Contesting rules and requirements		
		Attack	Assaulting sources of institutional pressure		
	Manipulate	Co-opt	Importing influential constituents	Carpenter and Feroz (2001)	
		Influence	Shaping values and criteria		
High		Control	Dominating institutional constituents and processes	Abernethy and Chua (1996)	

Table 5.2

Antecedents of strategic responses Source: Adapted from Oliver (1991, p160)

Institutional factor	**Research question**	**Predictive dimensions**	**Authors who have focussed on this dimension**	**Focus of this thesis**
Cause	Why is the organisation being pressured to conform to institutional rules or expectations?	Legitimacy or social fitness	Abernethy and Chua (1996); Carpenter and Feroz (2001); Grafton *et al*. (2011a); Guerreiro *et al*. (2012a); Jamali (2010); Modell (2001)	✓
		Efficiency or economic fitness	Abernethy and Chua (1996); Grafton *et al*. (2011a); Jamali (2010); Modell (2001)	✓
Constituents	Who is exerting institutional pressures on the organisation?	Multiplicity of constituent demands	Abernethy and Chua (1996); Grafton *et al*. (2011a); Jamali (2010); Modell (2001)	
		Dependence on institutional constituents	Abernethy and Chua (1996); Grafton *et al*. (2011a); Guerreiro *et al*. (2012a); Jamali (2010); Modell (2001)	
Content	To what norms or requirements is the organisation being pressured to conform?	Consistency with organisational goals	Carmona and Macías (2001); Grafton *et al*. (2011a); Guerreiro *et al*. (2012a); Hyvönen *et al*. (2009); Jamali (2010)	✓
		Discretionary constraints imposed on the organisation	Jamali (2010)	
Control	How or by what means are the institutional pressures being exerted?	Legal coercion or enforcement	Carmona and Macías (2001); Hyvönen *et al*. (2009); Jamali (2010); Modell (2001)	
		Voluntary diffusion of norms	Jamali (2010); Modell (2001)	
Context	What is the environmental context within which institutional pressures are being exerted?	Environmental uncertainty	Carmona and Macías (2001); Guerreiro *et al*. (2012a); Jamali (2010)	
		Environmental interconnectedness	Guerreiro *et al*. (2012a); Jamali (2010)	

This study focusses on eight 'standards' which have become effective since 2005. (See Section 3.5.) By considering the recurring scenario of changing to a new or revised standard throughout the nine accounting periods from 2005/6 to 2013/14 inclusive, it is possible to adopt a longitudinal perspective, to look for patterns of adoption across different standards and to develop theory.

The setting for this project therefore provides the opportunity to develop Oliver's 'legitimacy hypothesis' by showing how some organisations try to protect or to gain legitimacy by only occasionally adopting some institutional practices. Managers may believe that every so often they should comply with institutional norms. In that case, in order to maintain legitimacy within a particular environment, it would not be necessary to comply with each new 'institutional' structure and behaviour. What matters is that an organisation is not seen continually to resist institutional pressures to conform. When a strategy of legitimacy is pursued over a period of time in this way, it is not the particular content or nature of an individual practice which earns social legitimacy and therefore it is not important which practice is adopted. A firm might therefore adopt a new accounting standard early just so that it is seen to do so from time to time. It is expected that where this is the main motivation for adoption, the new standard would be simple to implement and would require very little (or no) change in accounting practice.

5.3.4.2 Economic gain and efficiency

Oliver's second hypothesis relates to the economic gains which might be made by conforming to institutional pressures:

> The lower the degree of economic gain perceived to be attainable from conformity to institutional pressures, the greater the likelihood of organi[s]ational resistance to institutional pressures (Oliver, 1991, pp160-161).

Oliver links this type of gain with improved efficiency. For the purpose of the current study it is necessary to consider the application of the concepts of economic gain and efficiency in a financial reporting context. First, a change in reporting practice may produce an economic gain. For example, if a change would produce an increase in reported profits which affects a manager's bonus, this may increase the probability of adoption (Watts and Zimmerman, 1986).

Alternatively, the economic gain may be earned by the firm, for example, by attracting improved terms for raising finance.

Within financial accounting the concept of efficiency may be distinguished from an economic gain. Oxford Dictionaries (2014) define an efficient practice as *"achieving maximum productivity with minimum wasted effort or expense"* or *"preventing the wasteful use of a particular resource"*. This moves the focus away from the output in the financial statements and onto the process of accounting itself. In this case the probability of early adoption is argued to be highest when a new standard requires very little change in the financial statements or alternatively when a new standard simplifies the required disclosures. Setting this study in a financial reporting context therefore provides the opportunity to expand on the concepts of economic gain and efficiency, and to develop Oliver's (1991) typology.

5.3.4.3 Organisational goals

Oliver (1991) argues that her model of strategic responses to institutional processes provides a solution to the criticism that earlier institutional arguments do not accommodate the self-interest of organisations and their managers (Covaleski and Dirsmith, 1988; Perrow, 1985). Oliver (1991) recognises that the organisations within a particular environment have their own strategies and goals, and therefore her model presents the following hypothesis which is described as *"particularly important"* (Oliver, 1991, p165) when attempting to predict whether there will be a conforming or non-conforming response to institutional pressures:

> The lower the degree of consistency of institutional norms or requirements with organi[s]ational goals, the greater the likelihood of organi[s]ational resistance to institutional pressures (Oliver, 1991, p164).

Oliver's (1991) model is therefore able to help to explain self-interested behaviour within an institutional setting. In the context of financial reporting by large firms this may include the goals of reporting improved performance to investors, making increased disclosures to the wider range of users of financial statements or, in contrast, hiding commercially sensitive information from competitors. These behaviours include, but are not restricted to, those motivated by a desire for increased legitimacy within the environment and/or economic gain providing points of overlap with Oliver's 'legitimacy hypothesis' (see Section 5.3.4.1) and 'economic gain hypothesis' (see Section 5.3.4.2).

When a new standard provides the opportunity to pursue a particular reporting strategy which is consistent with a firm's objectives, Oliver's 'organisational goals hypothesis' suggests that firms are more likely to adopt early. This scenario includes the opportunity provided by IFRS 6: *Exploration for and evaluation of mineral assets* for extractive firms to retain their accounting policy for extraction activities and thereby protect the level of reported earnings. (See Section 3.5.1.) It also includes the opportunity provided by IFRS 8: *Reporting segments* to reduce the geographical information available to competitors or to conceal information about poorly performing segments from shareholders (Nichols *et al*., 2013). (See Section 3.5.2.)

5.3.5 Rationality within the institutional environment

Oliver's (1991) view of institutionalism is a strategic one where institutional constituents not only conform to an institution's desired structures and behaviours but those same constituents also seek compromise, avoid unpopular practices which are developing in their environments, and defy and manipulate institutional norms.

Lounsbury (2007; 2008) too has moved new institutional arguments on from the early focus on the convergence of practice and embraces a broad view of institutionalism which recognises not only the power of the institution but also that individual firms have their own identities and strategies, and that managers desire improved performance. Lounsbury highlights that new institutionalism explains how organisations try to change both themselves and their environments and argues that:

> … old emphases on arational [*sic*] mimicry and stability have been replaced with new emphases on institutional rationality and ongoing struggle and change (2008, p349).

This means that although firms are subject to institutional pressures to adopt particular structures and/or practices, managers are able to make rational accounting choices reflecting their own strategic aims. This reflects the arguments which support Oliver's (1991) 'organisational goals hypothesis'. Thus firms retain some power within their environment.

5.3.6 *Power and institutional politics*

Lawrence (2008) puts power at the heart of institutional arguments. He describes the power which the actors have to change, influence or manipulate institutional norms as *"institutional agency"* (Lawrence, 2008, p173). Lawrence (2008) suggests that institutional agency tends to arise in response to specific issues and is therefore sporadic in nature as has been observed with the influence of the large extractive firms and their auditors over the IASB in the context of IFRS 6. (See Section 4.4.1.)

Whilst a regulator may be viewed as a superordinate actor in the institutional hierarchy (DiMaggio and Powell, 1983; Zucker, 1987), Burlaud and Colasse (2011) distinguish between those regulators with governmental power and those without. Burlaud and Colasse (2011) suggest that the latter can lack power and legitimacy within their institutional environment. Therefore an organisation such as the IASB requires the support of the other actors to meet its own goals with the result that the IASB both contributes to, and is affected by, the current GAAP because *"for its standards to have a chance of being accepted, they should not clash head-on with current practices"* (Burlaud and Colasse, 2011, p28). Hence firms may be able to influence the IASB whilst at the same time being under pressure to comply with the requirements of the IASB's standards.

Although institutions may be viewed as socially constructed throughout their entire membership, some of the individuals (or organisations) within an institution may share a special relationship or common interest and join together in order to exhibit a 'collective identity' (Thornton and Ocasio, 2008). By joining together, individual actors may become more powerful and use that power in order to affect or 'manipulate' a larger institutional environment (Oliver, 1991). In the context of financial reporting it is suggested that perhaps an alliance such as the Hundred Group, or the CFOs and GFCs of the firms from a particular sector, might be viewed as a collective identity. Together its members may have a 'louder voice' when commenting on the exposure draft of a new IFRS and they may be more likely to influence the IASB's deliberations over the requirements of a new standard.

Lawrence's (2008) focus on the power of the actors reflects the old institutional perspective which recognises that whilst laws and regulations are created outside a firm by superior organisations, the process is *"two-way, with each side mutually influencing the other"* (Hirsch, 2008, p783). Environments are constantly changing as different institutional constituents use their power to influence the regulators (and in the context of financial reporting, a standard setter such as the IASB) to introduce rules which organisations want to comply with (and want others to comply with too):

> … the central phenomenon of organi[s]ations is the mobili[s]ation of power for the attainment of the goals of the organi[s]ation. … Every organi[s]ation … is part of the polity[22] and a generator of power, but is also a recipient of the power generated at higher echelons in the polity (Parsons, 1956b, pp225-226).

In their study into the way in which US organisations have attempted to influence insider trading regulations, Bozanic *et al.* (2012) argue that those regulated seek to influence regulations to such an extent that those regulations may effectively become *"endogenous"* and originate from within the organisations themselves in line with their strategic objectives (Bozanic *et al.,* 2012, p465). Bozanic *et al.* describe this as an *"emerging strand of institutional theory research"* (2012, p461) but at the same time acknowledge that these arguments are closely related to the old institutionalism. Their arguments also reflect the strategic manipulation of institutional norms identified by Oliver (1991).

Lawrence (2008) also highlights the power which the actors have to resist institutional pressures. If resistance exists, then it is necessary for there to be mechanisms in place so that an institution's existence is protected and order maintained. Within the financial markets auditors might be viewed as institutional agents who ensure compliance with IFRS. However, the Big 4 audit firms may not adequately fulfil this role if they put their strategic objectives to protect their own reputations and to gain and to retain large clients above the promotion of best accounting practice as set out in the latest versions of the accounting standards and the Framework. (See Section 5.3.3.4.)

5.3.7 Institutional theory: a summary

Section 5.3 has analysed the development of the key arguments within institutional theory starting with the old perspective's focus on how the regulatory environment both affects and is affected by organisations (Selznick, 1957). The analysis then moved on to the new institutional perspective which emphasises the importance of organisational legitimacy within

---

[22] Parsons (1956b, p226) defines polity as *"the system oriented to the generation and allocation of power"*.

an environment. This perspective explains that institutional behaviours do not just arise because of laws or regulations but also because some voluntary practices are believed to confer legitimacy within a particular environment (Meyer and Rowan, 1977).

Section 5.3.3 has discussed DiMaggio and Powell's (1983) suggestion that there are three institutional pressures (labelled as coercive, mimetic and normative) which may compel constituents to conform to institutional norms. This thesis makes an empirical contribution by providing evidence of the existence and nature of these pressures in a financial accounting context and, specifically, evidence that the pressures can sometimes be difficult to distinguish. (See Section 5.7.2.1.) In particular, this study makes a contribution to institutional theory by demonstrating that professional advisors such as auditors do not always act as institutional agents who promote best practice where this does not support their own strategic objectives.

Section 5.3.4 has analysed Oliver's (1991) model of strategic responses to institutional processes to explain why organisations do not always submit to institutional pressures to conform. This section has identified how Oliver's 'legitimacy', 'economic gain' and 'organisational goals' hypotheses are judged to be particularly relevant in this study and provide the opportunity to make theoretical contributions relating to a long term strategy for legitimacy within an environment, the distinction between economic gain and efficiency in some contexts, and the way in which the strategic goals of commercial firms can be incorporated into an institutional study which uses Oliver's model within its theoretical framework. (See Section 5.7.2.2.)

The use of DiMaggio and Powell's (1983) arguments relating to the existence and operation of institutional pressures along with Oliver's (1991) strategic model means that the theoretical framework for this research does not understate the significance of either institutional pressures or organisational strategy within a particular environment. Specifically, within an IFRS setting, this study considers the power which institutional actors have both to resist institutional pressures and also to influence the other actors. (See Section 5.7.1.) Therefore Section 5.4 now considers the nature of the accounting environment for large firms according to old and new institutional arguments.

5.4 The institutional environment for FTSE 350 firms

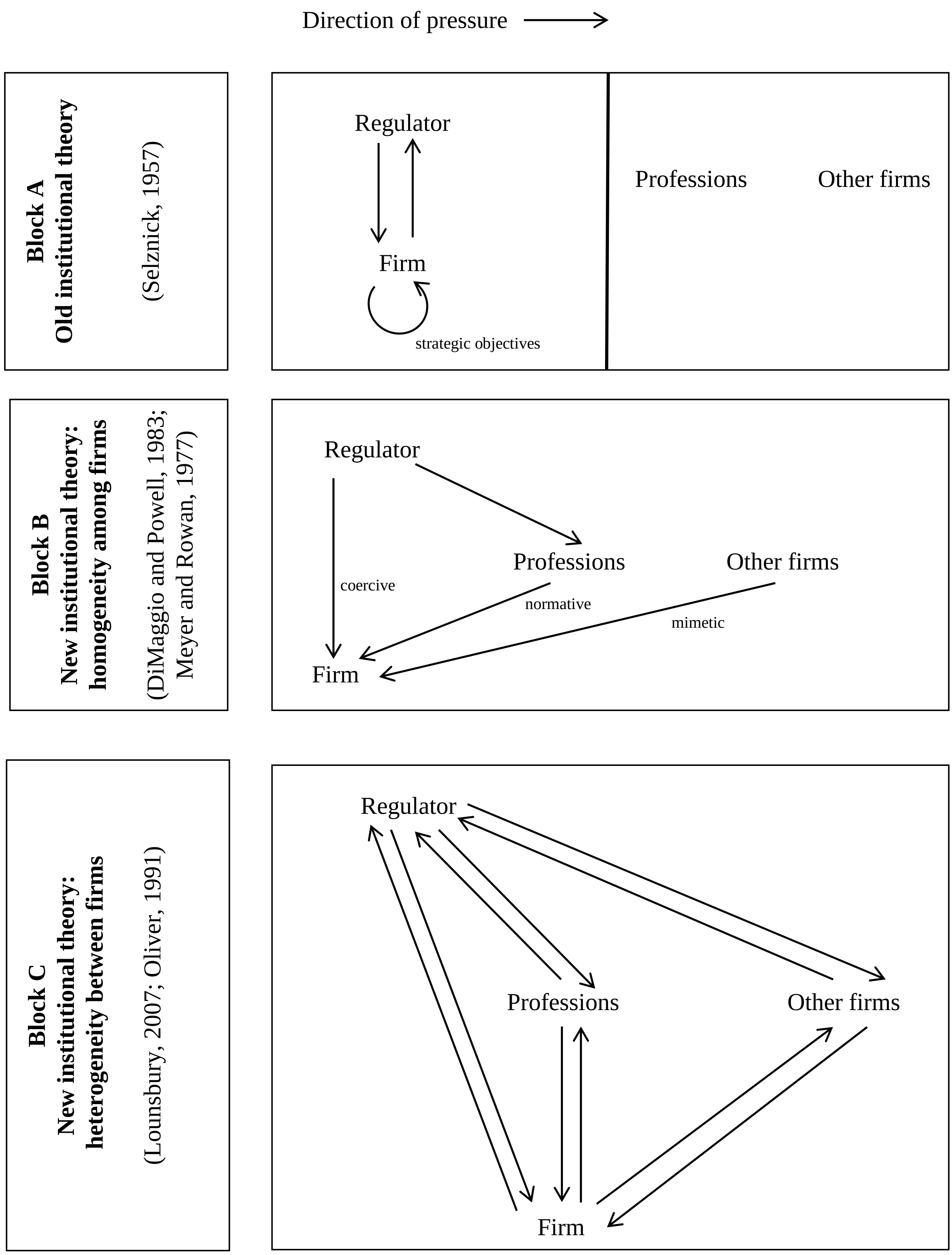
Section 5.3 has discussed how the old institutional perspective focusses on the regulations which an organisation is pressured to comply with (Selznick, 1957). This pressure and also a firm's potential influence over the regulations in its environment are illustrated in Block A of Figure 5.1. Hirsch and Lounsbury stress that the old institutionalism *"celebrates the uniqueness of local organi[s]ational institutions"* (1997, p411). Therefore Block A of Figure 5.1 also shows the internal pressure on a firm to meet its own strategic objectives.

In contrast to old institutional theory's focus on how firms are affected by, and try to affect, their regulatory environments, early expressions of new institutional theory focus on how firms are affected by the other members of their environments (Meyer and Rowan, 1977; Zucker, 1977). DiMaggio and Powell (1983) argue that coercive, mimetic and normative pressures result in a growing homogeneity between firms (isomorphism). This scenario is illustrated in Block B of Figure 5.1.

New institutional theory has developed to explain why isomorphism among organisations is not always observed (Lounsbury, 2007; Oliver, 1991). Oliver (1991) argues that acquiescence is not the only possible response to an institutional pressure so that firms may attempt to compromise with, avoid, defy or manipulate institutional norms. *Inter alia*, a conforming response is more probable when an institutional practice provides the possibility of increased efficiency or economic gains, or when that practice reflects a firm's own goals. This is consistent with Lounsbury's (2007) argument that there are conflicting logics within institutions because firms are attempting to pursue their own strategies within their institutional environments. Further, Leicht and Fennell (2008) highlight the increasing pressure on professional firms to pursue their own commercial strategies and they question the effectiveness of professionals as agents who enforce institutional regulations and practices. Research has also shown how a regulator can be influenced by 'subordinate' actors (Bozanic *et al*., 2012; Burlaud and Colasse, 2011; Cortese *et al*., 2010). These conflicting institutional pressures and responses are argued to lead to heterogeneity between firms and are illustrated in Block C of Figure 5.1.

Figure 5.1

Institutional pressures



Applying these arguments in an accounting context, large firms are expected to comply with mandatory IFRSs and IASs but also to exert pressure on the IASB regarding the requirements of new standards. Firms are expected to comply with, in part, an auditor's guidance but to resist that guidance on occasion which is possible because of the auditor's desire to retain large clients and therefore the auditor's reluctance to 'insist' on an unwelcome accounting practice. Firms are expected to copy the practices of other firms (which includes a reluctance to 'break rank' and adopt a new standard early before other firms) but also to adopt early if that is strategically desirable.

This thesis also recognises Burlaud and Colasse's (2011) argument that the IASB is dependent on firms and their auditors to comply with the accounting standards which it issues in order to retain its legitimacy as part of the regulatory framework. Consequently the IASB might not act as the all-powerful director of the institutional play but power is shared between the actors and each is able to participate in 'writing the institutional script'.

Institutional environments have traditionally been described as hierarchical with a regulatory organisation or standard setter such as the IASB positioned 'above' the other actors in its environment (DiMaggio and Powell, 1983; Zucker, 1987). Within this scenario institutional pressures come from the superordinate organisation at the top and are directed downwards to professionals and then on to firms as depicted in Block B of Figure 5.1. However, an alternative view is that the institutional environment is a complex and symbiotic network of relationships, influences and dependencies as each constituent relies on the others to meet its own strategic goals and to contribute toward its legitimacy. This alternative view is presented in Section 5.7.1 as a contribution of this thesis to the institutional literature.

5.5 Accounting choices in a time of transition between regulatory environments

All EU-listed firms are expected to comply with the accounting standards which are in force on a particular date and the regulatory (institutional) environment therefore changes whenever a new or revised standard is introduced. At that point Institution 1 (I_1) (built on a regulatory pillar which incorporates the requirements of the old standard) ends and Institution 2 (I_2) (built on a regulatory pillar which incorporates the requirements of the new standard) begins. Figure 5.2 shows this ('instant') transition between the two regulatory environments if early adoption were not permitted and all firms were required to adopt the new practice on the same date (T_2).

When the IASB allows the early adoption of a new standard, there is a time of transition (T_t) during which firms have the choice whether to comply with the requirements of I_1 or I_2. This scenario is represented by Figure 5.3. Whilst Figure 5.3 shows a high proportion of firms choosing to remain in I_1 during T_t (by not adopting the new regulation until it becomes mandatory), this may not necessarily be the case. Figure 5.4 therefore shows alternative scenarios.

Membership of I_1 and membership of I_2 tend to be mutually exclusive. The current study investigates how a firm chooses which institution to belong to in a time of transition between two regulatory environments when managers believe that membership of either I_1 or I_2 is able to confer legitimacy provided accounting standards are complied with 'correctly'. A firm is therefore able to remain in I_1 or to escape into I_2 before the mandatory date where managers see a benefit in adopting early. The benefits of escaping to I_2 potentially include a more efficient accounting process, economic gain and the opportunity to meet other organisational goals (including the desire for legitimacy in the eyes of other institutional constituents) which firms may have.

5.6 Using institutional arguments as a theoretical framework

Human behaviour and decision-making can arise out of mixed motivations and biases, and accounting practice is no exception. Accounting is therefore a complex behaviour to explain because of the diverse motives of managers who make accounting decisions (Williams, 2009). A theory such as institutional theory which takes a sociological approach, whilst at the same time allowing for the active agency of organisations within a particular environment, therefore appears to offer a suitable theoretical framework for accounting research.

New institutional theory applies sociological arguments in order to consider the choices made by managers in their relational environments. These choices include the decision when to implement a new or revised accounting standard. Using institutional arguments enables the researcher to focus on similarities among firms within the same environment, and at the same time on differences between firms, both perspectives being important in understanding organisations (Meyer and Höllerer, 2014).

Key to Figures 5.2 to 5.4

Institution 1 (I_1) Institution 2 (I_2)

T_1 = date from which adoption of new regulation is permitted
T_2 = date from which adoption of new regulation is required
T_t = the period of transition from I_1 to I_2 when adoption of new regulation is permitted but not mandatory

Figure 5.2

Institutionalisation curve for a new regulative environment with one mandatory adoption date

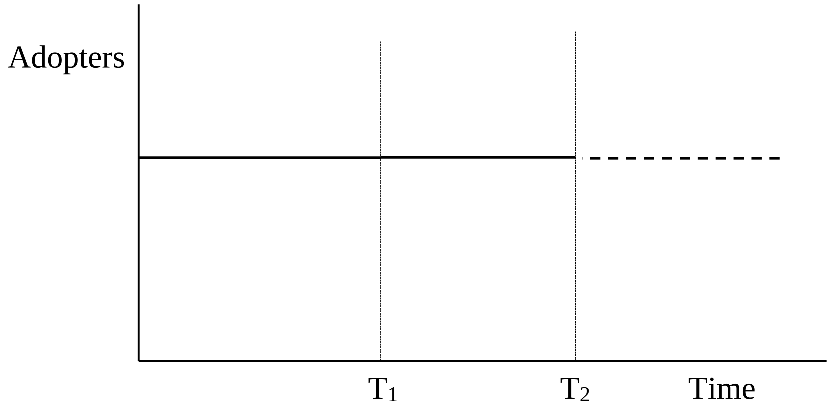


Figure 5.3

Institutionalisation curve for a new regulative environment with option to adopt early where early adoption is relatively unpopular

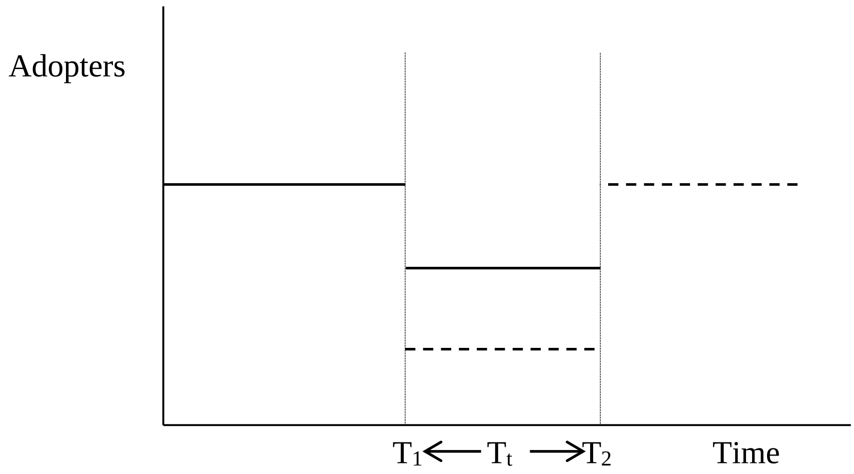
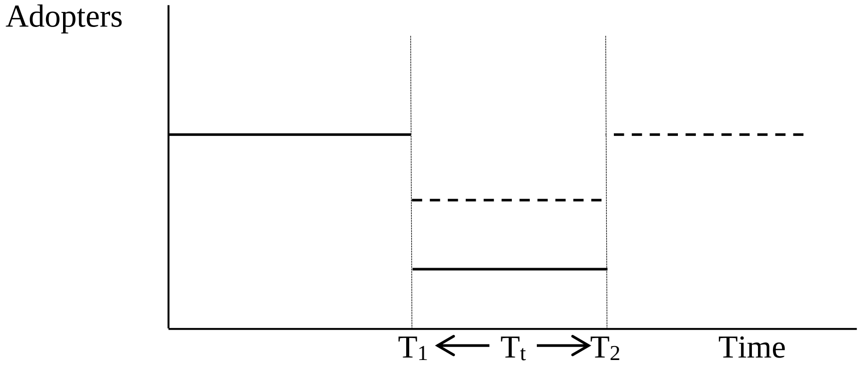


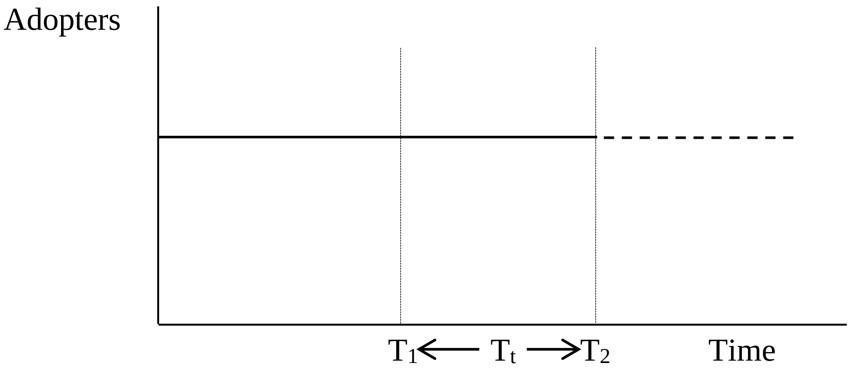
Figure 5.4

Institutionalisation curves for a new regulative environment with option to adopt early

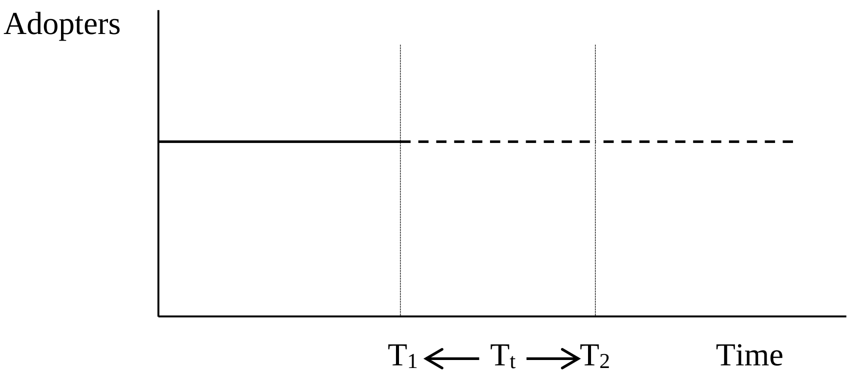
Block A: Early adoption relatively popular



Block B: Early adoption highly unpopular



Block C: Early adoption highly popular



In particular, Oliver's (1991) strategic institutional model recognises that organisations are not always passive and compliant with institutional norms so that new institutional theory *"can accommodate interest-seeking, active organi[s]ational behavio[u]r"* (Oliver, 1991, p146).

5.7 Contributions to institutional theory

The overarching aim of this study was introduced in Chapter 1 as attempting to answer the RQ: *What factors can explain the timing of the adoption of accounting standards by large firms?* Section 4.5 highlights the scarcity of institutional studies in the field of financial accounting and so there is opportunity for this research to add to knowledge by using institutional arguments in a financial reporting context. This research also has the potential to make a number of contributions to the institutional literature in relation to the nature of the institutional environment (Section 5.7.1), the institutional pressures on firms described by DiMaggio and Powell (1983) (Section 5.7.2.1) and firms' strategic responses to those pressures as theorised by Oliver (1991) (Section 5.7.2.2). In her paper, Oliver (1991) states that her model of strategic responses builds on, *inter alia*, DiMaggio and Powell's (1983) arguments regarding the existence and nature of institutional pressures. Therefore it is considered appropriate to use both DiMaggio and Powell's (1983) and Oliver's (1991) typologies in the theoretical framework for the current study and, using that framework, to explain the behaviours of firms and to develop theory.

5.7.1 The institutional environment

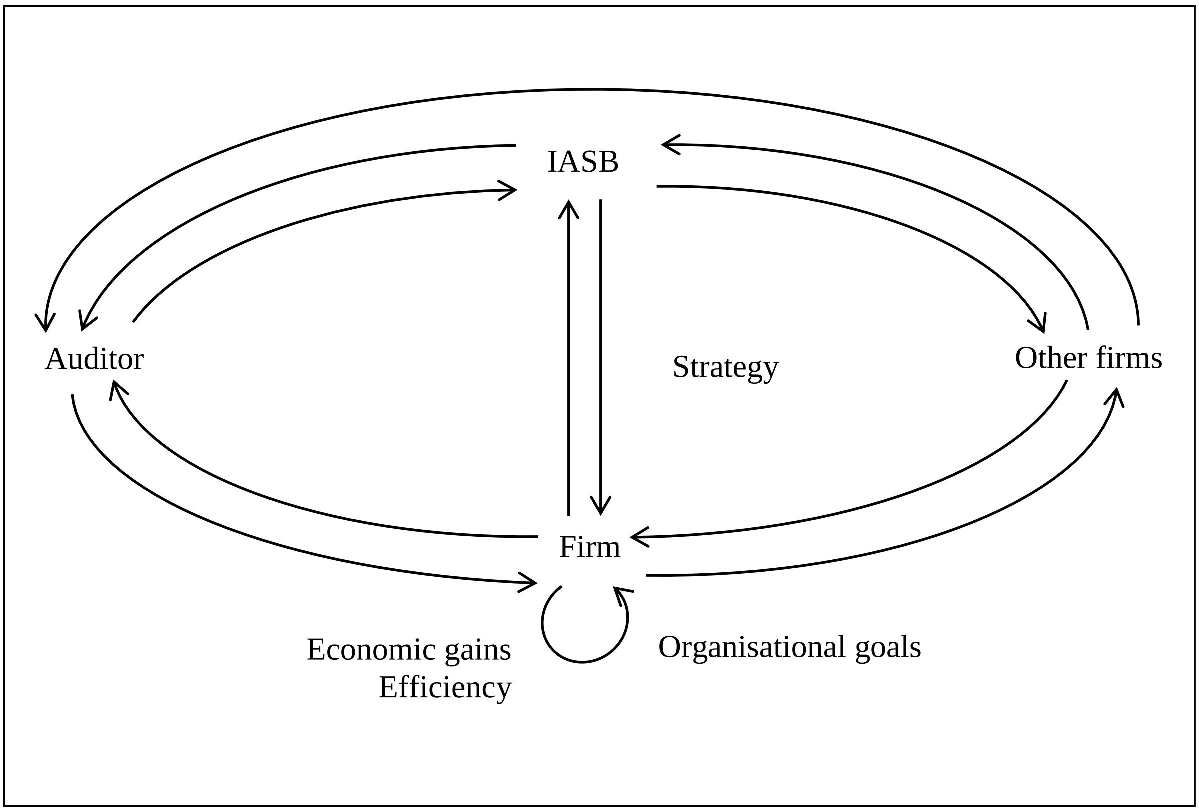
This thesis presents an alternative perspective on the nature of the institutional environment. The accounting environment for large firms is found to be a complex and symbiotic network of relationships, influences and dependencies. Firms, auditors and the IASB are all influenced by their own strategic aims and attempt to use the other actors in their environment to meet those aims. Managers are aware of efficiency considerations and the possibility of making economic gains and these influences also have an impact on firms. The various influences and dependencies within the institutional environment are illustrated in Figure 5.5. This perspective contrasts with the vertical hierarchy of superordinate and subordinate organisations which has traditionally been described in the institutional literature and so develops theory

(DiMaggio and Powell, 1983; Zucker, 1987). (In order to support this alternative view of the institutional environment, Figure 7.1 duplicates Figure 5.5 and includes references to where the various pressures and influences are included in the results and discussion presented in Chapter 7.)

Table 7.1 shows that firms have regularly adopted new and revised accounting standards from the mandatory dates and therefore early adoption might be described as an unpopular practice. However, the permissibility of early adoption gives firms the opportunity to choose between the two regulatory environments I_1 and I_2. Adherence to existing practice is viewed as legitimate (in I_1) but so too is early adoption of a new practice (in I_2). (See Section 5.5.) Therefore firms are able to choose to belong to either I_1 or I_2 as best suits their organisational goals.

Figure 5.5

Influences and dependencies within the environment



Broadbent *et al.* (2001) argue that new regulative pressures are sometimes resisted when they threaten the normative (existing practice). This suggests that there is a bias for firms to continue with existing practice which is consistent with new institutional arguments relating to the taken-for-granted and habitual nature of institutional practices. In the context of this study, there is a general tendency for firms not to adopt new standards before the mandatory dates. The pressures to copy other firms, to avoid the risk of error (from both the firm's and the auditor's perspectives) and to retain the *status quo* of I_1 would appear to dominate so that firms report under the existing regulation. This scenario is illustrated in Figure 5.6.

On the other hand, Oliver's (1991) model suggests that where managers see an opportunity to exploit the regulatory environment for their own strategic purposes, they will do so. In this case, the regulatory pressure of I_2 would appear to dominate because the opportunity afforded by a new standard to report strategically (for example, by hiding information from competitors), or to make efficiency or economic gains, provides the impetus to resist the institutional pressures of I_1 and escape into $I_{2.}$ This argument may particularly apply where a firm has used its influence to promote a favourable regulatory regime under the new standard as was the case with IFRS 6. (See Section 4.3.1.) This alternative scenario is illustrated in Figure 5.7.

5.7.2 Institutional pressures and strategic responses

5.7.2.1 DiMaggio and Powell's (1983) institutional pressures

This thesis provides empirical evidence in relation to the operation of coercive, mimetic and normative institutional pressures. First, this evidence supports DiMaggio and Powell's (1983) argument that the three pressures can be difficult to distinguish. (See Section 5.3.3.5.) In particular, findings in Section 7.4.2 show how auditors encourage their clients to copy the practice of other firms making the distinction between normative and mimetic pressures unclear. In addition, auditors act as pseudo-regulators who try to enforce the mandatory requirements of IFRS so that their influence also has a coercive element.

Figure 5.6

Institutional influences for adoption from the mandatory effective date

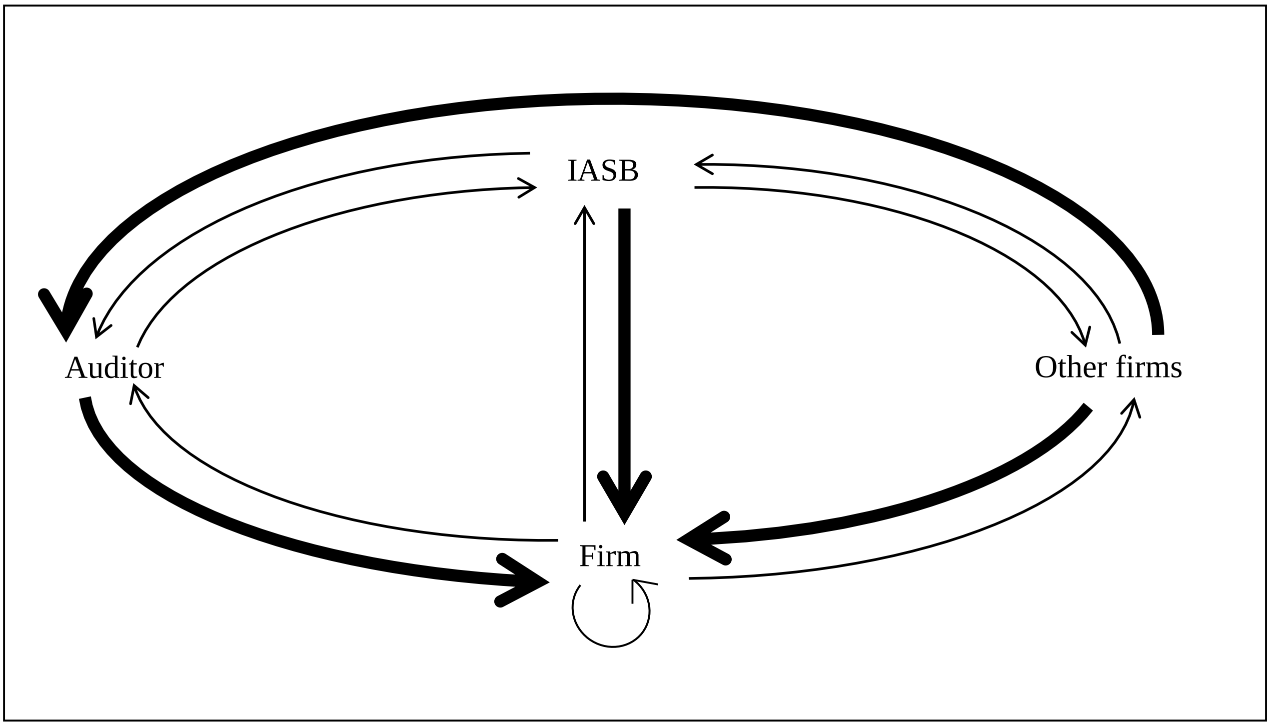
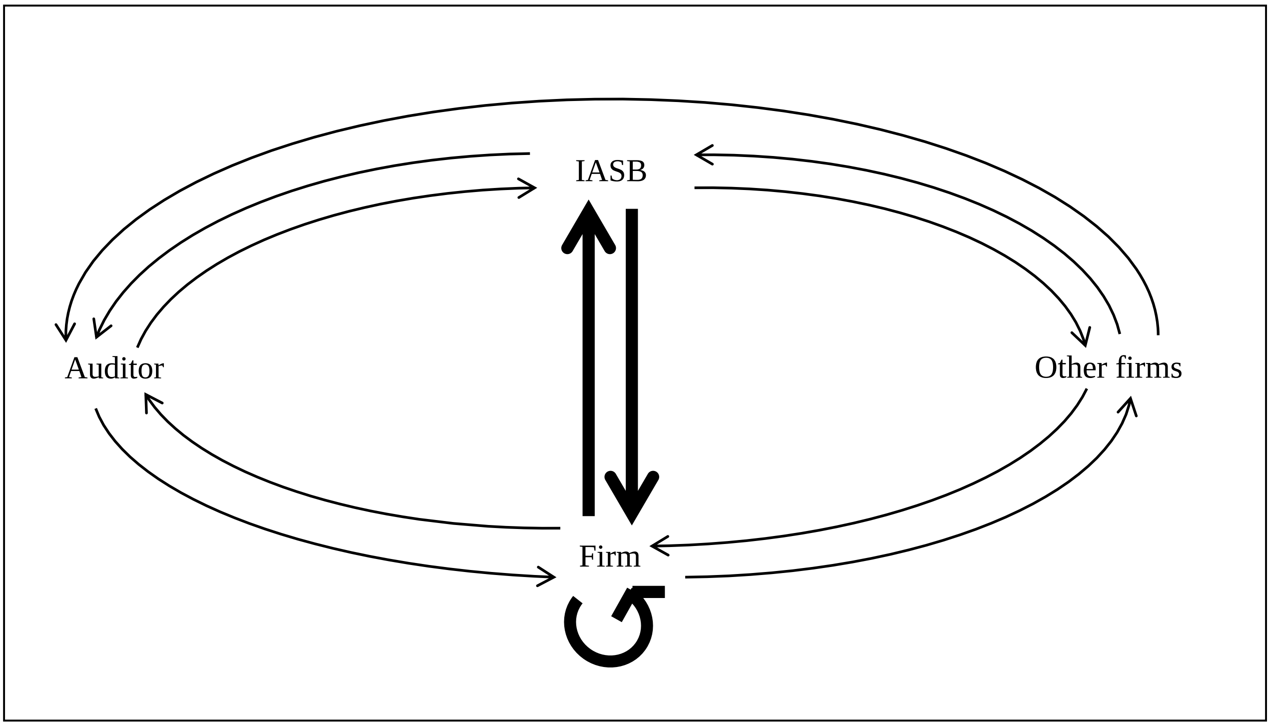


Figure 5.7

Institutional influences for early adoption before the mandatory date



Second, the study provides empirical evidence regarding the precise nature of normative pressure by professionals in a particular context and shows how audit firms tend to advise their clients to adopt from the mandatory dates. Figures 5.6 and 5.7 therefore depict the auditor as an agent of I_1, the current environment. It is argued that auditors as well as FTSE 350 firms respond to institutional pressure to retain existing accounting practice because auditors can be uncertain how to implement a new standard and prefer to 'wait and see' how the new accounting practice of I_2 emerges. The discussion in Sections 7.4.2 and 7.4.3 shows how auditors are reluctant to interpret a new standard in a way which their clients are unhappy with: neither the auditor nor its client wants the FRC's Review Panel to criticise the accounts; and a client firm does not want to provide excessive disclosures which go beyond what their peer firms will eventually disclose and thereby incur increased accounts preparation costs and perhaps suffer competitive harm as a result.

This observation contrasts with the view of professionals as promoters of new practice (agents of I_2) which has traditionally been presented in the institutional literature. (See Section 5.3.3.3.) The current study's focus on the role of the audit firms also makes a contribution to the institutional literature because the focus of empirical studies is usually the operation of mimetic pressure (Mizruchi and Fein, 1999).

5.7.2.2 Oliver's (1991) model of strategic responses

The question arises as to why a firm responds positively to certain pressures whilst resisting others. It may be that the 'default' is to retain the *status quo* and continue with existing accounting practice. This conforms to the influence of the mimetic and normative pressures within I_1. It is the efficiency and economic considerations identified by Oliver (1991), and also a firm's own goals, which cause a firm's managers to focus on the possibilities afforded by the incoming regulation and then, as a result, to resist the normative and mimetic pressures of I_1 and to submit to the coercive pressure of I_2. This study therefore shows how Oliver's (1991) model of strategic responses to institutional processes may be used to explain organisational behaviours which arise in response to institutional pressures as well as from strategic motives in the context of financial reporting by large commercial firms. (See Section 5.3.4.3.) This thesis also argues that Oliver's presentation of a single institutional factor of efficiency and economic gains benefits from a finer analysis in some settings. (See Section 5.3.4.2.) This argument arises out of the categorisation of the advantages of early adoption summarised in Table 7.4.

Reflecting the importance of legitimacy in new institutional arguments (see Section 5.3.1), Oliver (1991) hypothesises that organisations are more likely to conform with an institutional practice when that practice is believed to confer legitimacy. (See Section 5.3.4.1.) Oliver's arguments focus on each individual institutional practice in isolation. In this study which is set over the nine accounting years from 2005/6 to 2013/14 inclusive, the recurring periods of transition between multiple incarnations of environments I_1 and I_2 enable the researcher to take a longitudinal perspective. It is therefore possible to consider the way in which some firms might pursue legitimacy over the long term by strategically selecting which institutional pressures to comply with. This pursuit of legitimacy over the long term develops institutional theory and is discussed in Section 7.3.3.

Section 5.3.4 has shown how Oliver (1991) proposes that there are five different responses to institutional pressure: acquiescence; compromise; avoidance; defiance; and manipulation. Table 5.3 attempts to summarise the nature of the conflicting pressures arising within I_1 and I_2 and the response tactics used by firms. Firms which adopt from the mandatory date acquiesce to the coercive, mimetic and normative pressures of $I_{1.}$ When a firm chooses to remain in I_1, this choice may therefore be explained as habit (arising from the 'taken-for-granted' nature of institutional norms), imitation (either conscious or unconscious) or compliant obedience to institutional rules. At the same time, the motivation to remain in I_1 may be to avoid the requirements of $I_{2.}$ On the other hand, when a firm chooses to move into I_2 and adopt a new standard early, at first there are no 'taken-for-granted' practices or other firms to imitate and therefore acquiescence would appear to be largely explained by compliance with I_2's regulations (submission to coercive pressure).

This thesis provides empirical evidence of how firms use the tactic of escape as a way of avoiding institutional pressure. (See Table 5.1.) Firms are able to choose to escape from (avoid) the regulations of I_1 by moving into $I_{2.}$ Developing Oliver's model, this thesis highlights how leaving I_1 is not only motivated by a desire to escape from the old regulatory environment but also by an active choice to belong to the new environment, I_2. This view is supported by the results in Sections 7.5.1 and 7.5.2 which show how the benefits of reporting under IFRS 6 and IFRS 8 respectively provided firms with reasons to escape into I_2.

Table 5.3

Institutional pressures and firms' response tactics in I_1 and I_2

	Old institution (I_1)	**New institution (I_2)**
Regulatory pillar[23]	Old accounting standard	New or revised accounting standard
Dominant pressure(s) in the time of transition T_t	Coercive Mimetic Normative	Coercive
Response to I_1's dominant pressures (tactics)[24]	Acquiescence (habit, imitatation, compliance)	Avoidance (escape)
Response to I_2's dominant pressures (tactics)[24]	Avoidance (escape)	Acquiescence (compliance)
Accounting choice	Adoption of new or revised standard from mandatory date	Early adoption of new or revised standard

5.8 Chapter summary

Chapter 5 has provided a critical review of the literature relating to the development of institutional theory and institutional arguments have been justified as providing a suitable theoretical framework for a financial accounting study. Chapter 5 has also described how this study has the potential to contribute to both the theoretical and the empirical institutional literature. First, this thesis presents the accounting environment for large firms as a complex network of relationships and dependencies. This suggests that an institutional environment is not always based on a vertical hierarchy of superordinate and subordinate organisations as has been traditionally presented in the institutional literature (DiMaggio and Powell, 1983; Zucker, 1987). Second, this thesis makes an empirical contribution by providing evidence of the existence of DiMaggio and Powell's (1983) coercive, mimetic and normative institutional

[23] Scott (2008a) (See Section 4.3.3.)

[24] Oliver (1991, p152) (See Section 4.3.4.)

pressures on commercial firms along with evidence that these pressures can sometimes be difficult to distinguish. In particular, this study explores the nature of the 'normative' influence from auditors and suggests that professionals may not always base their advice on 'new and improved' practice but, instead, may be influenced by their own strategic goals.

Third, the use of Oliver's (1991) model in the theoretical framework for this research provides the potential to make theoretical contributions by developing an argument relating to a long term strategy for legitimacy within an environment, and by identifying the distinction between economic gain and efficiency in contexts such as financial reporting. This research project provides an empirical demonstration of the way in which an organisation's strategic goals influence firms' behaviours in an institutional context. The project's focus on escape as a tactic to avoid conforming to institutional pressure is also believed to be an empirical contribution which demonstrates another aspect of Oliver's model.

Chapter 6 will now set out the specific mixed methods design for this investigation and describe the tools employed to collect the data which will be analysed using quantitative and qualitative methods, integrated and used to develop institutional theory.

6. RESEARCH METHODS

6.1 Chapter overview

This project uses a mixed methods explanatory sequential quan→QUAL design. Section 6.2 sets out the precise design for the study and summarises the research tools which will be used to collect both secondary and primary data, the methods of data analysis, and the ways of integrating the quantitative (quan) and qualitative (QUAL) phases which will be employed.

Section 6.3 describes the quantitative phase. In order to provide the context for the following sections, Section 6.3 revisits the particular setting for this project, which is the timing of the adoption of new IFRSs and revised IASs. Section 6.3.2 reviews the analysis of archived secondary data as a research tool and highlights its strengths and weaknesses. Section 6.3.3 then goes on to describe the quantitative method used to analyse secondary data gathered from firms' archived annual reports in order to meet RO2: *To use quantitative analysis of archived data collected from annual reports to identify the timing of adoption of new and revised standards in the period from 2005 to 2014*.

Section 6.4 describes the qualitative phase. This section explains how interviews are used to collect primary data in order to meet RO3: *To use qualitative analysis of primary data gathered via interviews with senior financial managers, auditors, and the IASB in order to gain insight into how institutional pressures interact with organisational goals and thereby influence the decision whether to adopt a new standard from the mandatory effective date or to adopt early*. Section 6.5 sets out how the coding scheme evolved during the analysis of interview data using NVivo software. Section 6.6 discusses the ethical considerations which apply to this project.

Section 6.7 sets out the sample designs for the two phases of the study. First, Section 6.7.1 explains how the final quan sample of 158 non-financial FTSE 350 firms was arrived at. Then Section 6.7.2 explains why the QUAL sample is smaller comprising 21 interviews with CFOs and GFCs, and four supplementary interviews with auditors and a representative of the IASB.

Section 6.8 then discusses issues relating to the quality of mixed methods research. This section considers how researchers can assess the validity and reliability of quantitative and qualitative research, and also the quality of mixed methods research where the quan and QUAL phases are integrated. Finally, Section 6.9 considers how alternative research strategies might have been used to answer the research question and explains why these have not been used in the current study.

6.2 A mixed methods explanatory sequential quan→QUAL design

This thesis applies institutional theory in order to explain the timing of the adoption of new and revised accounting standards by large firms. The use of mixed methods in an institutional study is supported by Lounsbury (2008) who suggests that mixed methods of analysis can be helpful when investigating the behaviours of organisations.

Chapter 2 has explained that the methodology which underpins this project is pragmatic constructivism (Nørreklit *et al*., 2006; 2010). In order to attempt to describe and explain reality, Nørreklit *et al*. (2010) argue that accounting research should encompass the four areas of facts, possibilities, values and communication. The research tools used to gather the data relating to these four areas are summarised in Table 6.1. Table 6.1 also indicates whether the analysis of data is quantitative or qualitative in nature and provides cross references to the results and discussion in Chapter 7.

The specific design for this study is a mixed methods explanatory sequential quan→QUAL design where the first phase of the study is the quantitative analysis of information gathered from firms' annual reports regarding when the new and revised accounting standards listed in Table 3.2 were adopted by 158 sample firms. This first, quantitative phase (quan) leads to the qualitative phase (QUAL) which includes interviews with financial managers. Interview data is then analysed interpretively in order to explain the quantitative results. quan and QUAL are integrated in that the quantitative results regarding the level of early adoption of particular standards have been used to inform the design of the topics and questions to be included in the interviews for QUAL. The quan results also influenced the sample design for QUAL. (See Section 6.7.2.) The explanatory sequential design used is shown in Figure 6.1. Alongside the quantitative and qualitative phases, in accordance with Creswell and Plano Clark (2007), Figure 6.1 identifies the procedures employed in data collection and analysis, and also the products which result from each phase.

Table 6.1

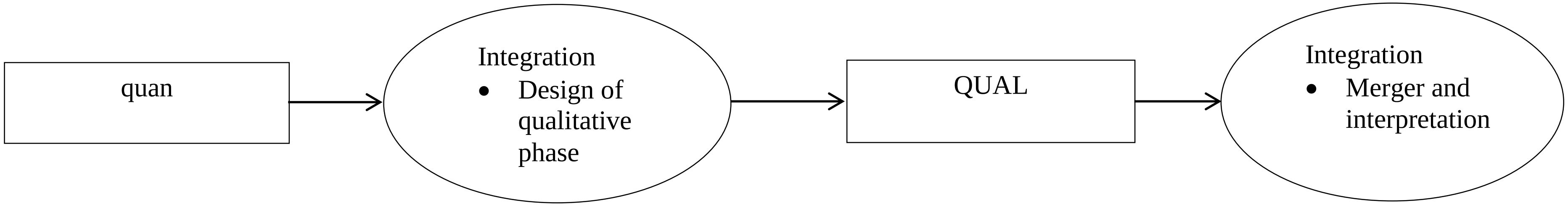
Summary of mixed research methods

Research tool (sample size)[25]	**Analysis**	**Aspect of reality**	**References to research method**	**Selective references to results**
Analysis of archived annual reports (158 firms)	Quantitative	Facts	6.3.3	7.2
Interviews with financial managers (21)	Qualitative	Possibilities, values and communication	6.4.3.1 6.4.3.2 6.4.3.3	7.3 7.5
	Quantitative	Possibilities and values	6.2	7.3
Interviews with auditors (3)	Qualitative	Possibilities, values and communication	6.4.3.4	7.3.3 7.3.4 7.4.2
Interview with IASB board member (1)	Qualitative	Possibilities, values and communication	6.4.3.5	7.5.3 7.6

[25] Sample sizes are justified in Section 6.7.

Figure 6.1

A mixed methods explanatory sequential quan→QUAL design



Procedures
- 158 non-financial FTSE 350 firms
- Analysis of archived annual reports

Products
- Database (Excel spreadsheet)
- Table of percentages of early adopters

Quantitative results inform design of qualitative strands
- Sample design for QUAL
- Interview questions for QUAL

Procedures
- 25 CFOs, GFCs, auditors and IASB
- Semi-structured interviews
- Decision to wait until the mandatory date or to adopt early

Products
- Interview transcripts (NVivo)

Quantification of QUAL data

How qualitative results explain quantitative data
- Adoption from mandatory date
- Early adoption

Further integration occurs when some of the interview data is converted to quantities by recording the numbers of CFOs and GFCs who identified the various advantages and disadvantages of early adoption. (See Tables 7.3 and 7.4.) This quantification of data is used to identify the numbers of interviewed managers who hold the various views which might give an indication of their relative importance among managers. In order to explore firms' behaviours and managers' motives it is important to summarise quantities in this way since *"numbers cannot be ignored when we are dealing with meanings"* (Dey, 1993, p28).

Denzin and Lincoln (2005) criticise mixed methods research where qualitative methods appear to rank below quantitative methods in the mind of a researcher. In that case Denzin and Lincoln (2005) argue that qualitative methods are merely used to explore research possibilities rather than add to knowledge. However, within this explanatory sequential quan→QUAL design, qualitative methods are used to explain and to interpret the quantitative results. It is this context of critique and interpretation which Denzin and Lincoln argue provides a *"natural home"* (2005, p9) for qualitative methods.

6.3 Analysis of archived annual reports

6.3.1 New and revised accounting standards

In order to meet the timeframe for this research project the latest accounts available for inspection are for 2013/14. This study therefore considers the following eight 'standards' with effective dates between 1 January 2005 and 1 January 2014: IAS 1 (Revised): *Presentation of financial statements (2007)*; IAS 19 (Revised): *Employee benefits (2011)*; IAS 24 (Revised): *Related party disclosures (2009)*; IFRS 6: *Exploration for and evaluation of mineral assets*; IFRS 7: *Financial instruments: disclosures 2005*; IFRS 8: *Operating segments*; IFRS 13: *Fair value measurement*; and the package of five consolidation standards[26]. (See Section 3.5.)

[26] IAS 27 (Revised): *Separate financial statements (2011)*; IAS 28 (Revised): *Investments in associates and joint ventures (2011)*; IFRS 10: *Consolidated financial statements*; IFRS 11: *Joint arrangements*; and IFRS 12: *Disclosure of interests in other entities*

6.3.2 *Strengths and weaknesses of analysis of archived documents*

The first method employed in this research project is the analysis of secondary data collected from the archived annual reports of sample firms. Before describing the specific approach taken, there follows an analysis of the strengths and weaknesses of this type of analysis as a research method and a description of how this project attempts to minimise the effect of those weaknesses.

The issue of access makes archival analysis an attractive research method especially where published material is concerned. There is a huge amount of such material available on the internet so that no special access is required or permission needed to examine it. Within the current project this means that the information in FTSE firms' annual reports, and on corporate and the IASB's websites, is all readily available for examination using this type of analysis.

Bryman and Bell (2011) highlight the strengths of analysis of archived materials and their ideas are developed and applied here. First, analysis of published documents can be a reliable research method because a second researcher may observe the same results if the analysis is repeated so that there is potential for high 'test-retest' reliability. (This high reliability can make this type of analysis appear to be a superior research method. However, the interpretive analysis of interviews is also argued to be a reliable research method as discussed in Section 6.8.2.) Second, it is relatively easy to take a longitudinal approach to the analysis of archived documents because historical data are generally available depending on the document or communication under examination. (For this project there is an archive of historical annual reports available on each firm's website which makes longitudinal analysis possible. Whilst not all firms make the same number of historical reports available, any 'missing' reports can be obtained from Companies House for a small fee.) Third, documents such as annual reports which must comply with legislation and regulations such as IFRS, and where managers should be focussed on the requirements of investors and other primary users, are not usually prepared with the aims of researchers in mind. Therefore this method of data collection and analysis may be considered to be unobtrusive because the act of observation does not affect the observed data.

On the other hand, Bryman and Bell (2011) point out that the use of analysis of archived secondary data as a research method suffers from limitations. First, it is difficult to use it to provide conclusive reasons for managers' decisions. Any attempt to do so will be based on assumptions and interpretations by the researcher and any conclusions drawn will therefore be speculative and provisional. Nevertheless this type of analysis remains as the dominant research method in early adoption studies (four of the five early adoption studies shown in Table 4.1 use it) and it will be adopted here as part of a mixed method. The addition of interviews with managers and other institutional constituents will provide the opportunity to investigate the reasons for managers' accounting decisions and identify values.

A second criticism of the analysis of archived materials is that it can focus on what is easily measurable based on how a particular document is presented rather than what is theoretically important. Consequently theory will be kept at the forefront of this project and the data extracted from annual reports will be used together with the interpretation of interviews to illuminate theoretical arguments throughout the course of the analysis. Third, the quality of any research which is based on the analysis of archived material will depend on the quality of the document under examination and the researcher therefore needs to be satisfied that the document is authentic (it is what it claims), credible (without distortion of information) and representative (so that generalisations can be made which link to theoretical arguments within a particular domain). The fact that FTSE 350 annual accounts are subject to audit (almost always by one of the Big 4 accounting firms) provides a level of assurance on the first two points.

6.3.3 Quantitative method

This project uses a quantitative method in the analysis of archived annual reports in order to meet RO2: *To use quantitative analysis of archived data collected from annual reports to identify the timing of adoption of new and revised standards in the period from 2005 to 2014*.

The annual reports of companies for the nine reporting periods from 2005/6 to 2013/14 inclusive are analysed in order to identify which of the eight 'standards' available for early adoption in the period were adopted before the mandatory dates and the extent of their early adoption. Nine years of annual reports were examined for each sample firm in order to undertake a systematic review of disclosures relating to the timing of adoption of new and revised standards.

Closed-ended information was collected from firms' annual reports using the checklist shown in Appendix D. This checklist includes details of when individual standards were adopted together with other information such as company name, business sector, accounting date and audit firm. The accounting date was recorded in order to identify the first period for mandatory adoption for each new standard. (For example, the effective date for IFRS 6 was for accounting periods beginning on or after 1 January 2006 meaning that the first period for mandatory adoption was 2006 for any firm with a December year end but 2007 otherwise.) Details of any overseas listings were also recorded in order to identify those firms for which adoption of the consolidation standards was mandatory in 2013/14 as discussed in Section 3.5.3. The information collected on the checklists was entered into an Excel spreadsheet in order to calculate the numbers and percentages of early adopters. (See Tables 7.1 and 7.2.)

6.3.3.1 Memoranda and problems encountered during the analysis of annual reports

The checklist includes space to record memoranda regarding the impact of individual new standards in order to consider whether information disclosed in the accounts provides possible reasons why a particular standard was adopted early or from the mandatory date. As can be seen in the following discussion, these disclosures do not provide enough information to explain adequately the choice between adopting early or from the mandatory date. Therefore it has been necessary to include the qualitative analysis of interviews in the research design in order to explain the observed quan result.

Annual reports for extractive firms were analysed to look for reasons for early adoption of IFRS 6: *Exploration for and evaluation of mineral assets* beyond the arguments set out in Sections 3.5.1 and 4.4.1 regarding the favourable accounting regime provided by the new standard. Firms did not disclose the reason for adopting IFRS 6 early although eight firms stated that early adoption had no impact on their accounts. One of these firms also referred to the limited scope of IFRS 6 as a reason for retaining its previous method of accounting under UK GAAP. Memoranda also showed that IFRS 6 had a negative impact on the net assets of only two firms (both early adopters). This was because IFRS 6 no longer allowed the capitalisation of pre-license exploration costs. (It is unlikely that these costs could have been carried forward under IAS 38: *Intangible assets* on the move to IFRS if IFRS 6 had not been adopted early and therefore early adoption did not have a detrimental effect on the net assets of either firm.)

A firm which did not adopt IFRS 6 early might have been required to make changes to its accounts on adoption of IFRS in 2005/6. Therefore the accounting policy for exploration and evaluation expenditure (full cost *versus* successful efforts) was noted for each extractive firm. These memoranda were then used to show that the three firms which did not adopt IFRS 6 early had all used the successful efforts method under UK GAAP (see Section 7.5.1) and so they were not required to change their accounting policy on the transition to IFRS. This provides a plausible explanation why these firms did not see any benefit in adopting IFRS 6 early.

Table 7.1 shows that 24 out of the 158 quan sample firms adopted IFRS 8: *Operating segments* early. To explore possible reasons why firms might have adopted IFRS 8 early, for each sample firm memoranda were recorded of the numbers of segments reported under the old standard (IAS 14 (Revised): *Segment reporting*) and IFRS 8. Memoranda were also recorded to show whether a firm used a non-IFRS measure of profit when reporting under IFRS 8. These memoranda were then used in the discussion of results in Section 7.5.2.

Two sample firms adopted IAS 24 (Revised): *Related party transactions* early. The disclosures in their December 2010 accounts (see Appendix E) were reviewed to look for possible reasons which might explain early adoption. The information disclosed on Kazakhmys PLC's group structure discussed in Section 7.5.4 was recorded as a memorandum and provided a plausible explanation why Kazakhmys adopted the standard early.

Two firms adopted IAS 19 (Revised): *Employee benefits* early. Analysis of their 2012/13 accounts (see Appendix E) did not suggest a possible explanation for early adoption. However, for these firms the method of accounting for actuarial gains and losses under the old standard was noted to consider the impact of adopting the revised standard early. Both firms already presented actuarial remeasurements as other comprehensive income consistent with the requirements of the revised standard. Consequently, early adoption had no significant impact on the earnings or net assets of either firm. (See Section 7.5.4.)

45 sample firms adopted the suite of consolidation standards early. Memoranda were made of the impact of the consolidation standards for these early adopters, as well as the expected impact disclosed by firms which intended to adopt from the mandatory 2014/15 date. One problem which arose with data collection was that not all firms disclosed the expected impact of adoption, stating that they were still assessing the potential impact of the new standards. Therefore the researcher reviewed the 2014/15 accounts for the firms which did not adopt early in order to note the actual impact of the consolidation standards for these firms. (The consolidation standards were found to have insignificant impact for most firms, beyond increased disclosures.)

Other problems were also encountered during the analysis of annual reports. Section 6.3.3 has explained that the annual reports for the nine years from 2005/6 to 2013/14 were systematically reviewed for each quan sample firm. The accounting policy note in each annual report was analysed to identify which standards first became effective in each period and to review the impact disclosed by firms in that note. When firms stated that a particular standard became 'effective' for the first time in a period, this indicated that a standard had been adopted and did not necessarily equate to the first 'mandatory' period of adoption. Further, the accounts did not always state explicitly that a standard had been adopted early. However, from the mandatory dates shown on the checklist, the researcher could ascertain which standards had been adopted early. In order to check the adoption dates, the researcher also searched the annual reports for references to specific accounting standards. As a further check of the reliability of the method used to identify early adoption, the adoption dates recorded on the checklist and whether these constituted early adoption were checked with the interviewed managers. This included the managers of the eight firms which had early adopted (see Section 6.7.2) and also managers whose firms consistently adopted from the mandatory dates. All interviewed managers agreed with the researcher's understanding of the dates of adoption and whether or not they had adopted any new standard(s) early.

Another problem which arose during the quan phase was that sometimes a firm did not state when a particular standard was adopted for the first time. For example, twelve firms did not explicitly refer to IAS 24 (Revised) in their 2011/12 annual accounts (the first period for mandatory adoption) but these firms stated that a number of standards and amendments had been adopted with no material impact. These firms are treated as adopting from the mandatory date because they do not state that they adopted early in 2010/11. Also there are incidences of firms stating in two consecutive accounting periods that a particular standard was adopted in that period. Where a review of the accounting disclosures (to establish when a firm first began to comply with the requirements of a new standard) did not clarify the date of adoption, the later date was used in Appendix E.

For the reasons set out in Section 6.7.1 the quan sample comprises 158 firms. This means that 1,422 annual reports have been examined and the results in Tables 7.1 and 7.2 may be used to identify the facts regarding actual early adoption practices. However, because of the limited information available in the annual reports regarding possible reasons for early adoption, these facts need to be explained using a qualitative analysis of interview data.

6.4 *Early adoption of IFRSs: qualitative method*

6.4.1 *Different perspectives*

The complexity of institutional arguments relating to the behaviours of organisations and their relationships within their environments means that this research benefits from gathering primary data and considering early adoption from the perspectives of the various institutional actors. This meets RO3: *To use qualitative analysis of primary data gathered via interviews with senior financial managers, auditors, and the IASB in order to gain insight into how institutional pressures interact with organisational goals and thereby influence the decision whether to adopt a new standard from the mandatory effective date or to adopt early.*

Interviews with CFOs and GFCs are used to explore motivations and meanings behind the choice to adopt new standards from the mandatory effective dates or to adopt early. These interviews with senior financial managers comprise the main part of the qualitative phase of this research project.

Other institutional constituents are interviewed in order to compare and contrast their views with those of CFOs and GFCs. It is important to hear the views of auditors as they are often involved in the preparation of financial statements, particularly when a firm is required to comply with a new standard for the first time. Further, in the context of financial reporting, auditors are the professionals who are argued by DiMaggio and Powell (1983) to exert normative pressure on firms to comply with institutional values and norms. An interview with a representative of the IASB is used to look at the issue of early adoption from the standard setter's perspective. This is particularly useful since the IASB communicate with, and consider the views of, a range of interested parties throughout the standard setting process and therefore this interviewee is able to provide additional insight into firms' accounting practices.

6.4.2 *Survey design*

Dillman (2000) argues that two aspects are particularly important when designing surveys: reducing error and thinking about how to encourage potential participants to respond. In this respect two issues appear pertinent to the current project. First, questions should be designed carefully to address the research question and therefore have the potential to provide insight into the reasons for a particular accounting choice made by firms. Because this study takes an institutional perspective, questions should potentially allow participants' answers to reflect institutional arguments (for example, the role of the auditor in accounting choices and the pressure on managers to copy the practices of other firms). The questions used in the final survey were tested in a pilot study as outlined in Section 6.4.3.2 in order to ensure that they provided the opportunity for interviewees to discuss these issues.

Second, a low response rate is inevitable in a survey of top FTSE managers. Dillman (2000) acknowledges that obtaining responses from businesses is more difficult than from members of the general public or households. In order to try to maximise the number of CFOs who would agree to their firm participating in an interview, initial contact was made in writing. This initial letter explained that the interview was for the purpose of a doctoral thesis (in order to clarify that the interview would not be used commercially) and also gave brief details of the researcher's background in city accounting firms (in order to demonstrate that the researcher would be able to understand the topics discussed and also that she already had a level of awareness of the accounting practices of large firms and the audit process). A copy of the initial letter sent to CFOs to request interviews is included as Appendix F. Detailed participant information was only sent to those CFOs and GFCs who agreed to be interviewed.

The primary data collected from managers have been analysed in order to view early adoption from different perspectives; each manager's response is another facet cut into Richardson and St. Pierre's (2005) crystal of qualitative research so that each interview adds to the breadth and richness of data. Therefore Dillman's (2000) suggestion of the use of a mixed mode when collecting interview data has been used in a further attempt to maximise the response rate. Some managers agreed to be interviewed face-to-face whilst others preferred to be interviewed over the telephone (or to provide a written response to questions). A face-to-face interview was impossible for any manager who was located overseas.

A mixed mode approach to data collection may, however, raise questions of validity:

> The need to combine survey modes to achieve high response rates … has highlighted the unsettling problem that people's answers to any particular question vary depending on the survey mode (Dillman, 2000, p6).

This may be problematic where data is to be analysed quantitatively. However, Sayer (1992) argues that the social sciences rarely replicate the closed laboratory conditions which are sometimes possible in the natural sciences. The context of Sayer's (1992) argument is that research may benefit from both quantitative and qualitative methods being used together. This idea is extended here to justify the use of both face-to-face and telephone interviews when attempting to collect primary data from managers. If this project were only to use face-to-face interviews, it would lose the possibility of conversations with CFOs based overseas as well as the opportunity to communicate with those CFOs who offered to participate in a telephone interview.

Dillman (2000) suggests that when using a mixed mode of data collection a researcher should have a primary survey tool in mind. In the current project that is the face-to-face interview because of the increased opportunity a face-to-face conversation potentially gives the researcher to communicate with the respondents and explore any issues relating to facts regarding actual practice, perceived possibilities and values which arise. Telephone interviews are used when requested by managers or when location makes a face-to-face interview impossible (for example, for a manager based in Australia). In addition, whilst (s)he was originally invited to participate in an interview, Manager M6 asked for a list of questions so that (s)he could consider the questions and perhaps respond in writing. In order to maximise the possibility of a response from this participant (who indicated that (s)he does not usually participate in research), it was decided not to send a request for seven written answers but to provide an edited list of five questions as identified in the footnote to Appendix G. The potential answers to these questions are considered to have the most relevance to the institutional arguments which are made in this thesis.

Hence a mixed mode of data collection is used in the qualitative phase of this research consistent with Graham *et al*. (2005) who use both face-to-face and telephone interviews with American CFOs (see Section 2.6.3) and also Jamali (2010) who uses face-to-face, telephone and email interviews with CSR managers (see Section 5.3.4).

6.4.3 Interviews

6.4.3.1 Interviews with managers

Interviews with CFOs and GFCs provide data which is used to explore the motivations and values of managers regarding the decision whether to adopt a new accounting standard from the mandatory date or to adopt it early. Interviews are used rather than questionnaires because of the opportunity for interviewees to give comprehensive answers to questions, to communicate values and to discuss relevant issues at length. The selection of sample firms is described in Section 6.7.1. The CFOs of sample firms were initially contacted by letter and asked whether they would be willing to participate in an interview. When a CFO passed the letter on to a colleague (the GFC), this individual was considered to be an appropriate 'spokesperson' for the firm, particularly as they are often more involved in the detail of IFRS implementation than a CFO.

Provided questions are framed carefully, the primary data collected via an interview has the potential to be specific and relevant to the research question. Therefore considerable thought went into the question design including whether to use any closed questions requiring only a yes/no answer. This type of closed question would be appropriate when analysing a large amount of data quantitatively but potentially may not be as useful in an interview where the intention is to analyse data qualitatively and to explore motives and values. In the pilot interviews which were used to test the survey design (see Section 6.4.3.2) it was found that for ostensibly 'closed' questions managers never stopped at a yes/no answer but went on to explain their reasons without the need for the researcher to ask a further question. This was also the case for the sample firms in the main study. This is considered to enhance the inductive method as managers 'speak for themselves' and the focus of the questions moves away from being 'institutional theory laden', at least for a time. Therefore both open and closed questions are used to generate data which may be examined interpretively.

Bryman and Bell (2011) suggest that it can be helpful to use survey questions which have already been used by other researchers. Guerreiro *et al.* (2012a) (see Table 4.3) analyse questionnaire data to consider the voluntary adoption of IFRS by large unlisted companies in Portugal. Since Guerreiro *et al.* (2012a) is an institutional study in an accounting context, a copy of the questionnaire used was requested from the authors. The questionnaire avoided the word 'legitimacy' and replaced it by 'prestige' (perhaps because 'legitimacy' has a specific theoretical meaning which might not be understood by practitioners). No other questions seemed to relate directly to the current project. In another study, Dunne *et al.* (2008) analyse interviews with a range of stakeholders (preparers of accounts, auditors, analysts and regulators) in order to examine the effects of introducing IFRS. Whilst none of their interview questions were 'copied' in the current project, their approach of talking about 'reputation' rather than 'legitimacy' (comparable with Guerreiro *et al.* (2012a)) was adopted during interviews.

Crawford *et al*. (2012) conducted interviews with preparers, auditors and users in their investigation into the usefulness of IFRS 8. Their study identifies the extent of early adoption among FTSE 350 firms but none of their interview questions relates to early adoption. Hence there is opportunity for the current study to make a contribution to the literature relating to IFRS 8.

6.4.3.2 Pilot study

In order to pre-test the interview questions, a pilot study was carried out. The method of sample selection is described more fully in in Section 6.7 but, broadly, sample firms are all of the non-financial FTSE 350 firms which were in the FTSE 350 index on 31 December 2005 where those firms remained listed on the London Stock Exchange at their 2013/14 year end. These firms were required to comply with IFRS throughout the nine financial years 2005/6 to 2013/14. It was necessary for pilot firms to have been under the same requirement throughout the nine years and therefore pilot firms were selected from non-financial FTSE 350 firms at 30 September 2013 (the latest list at the time the pilot study was carried out) provided they had been listed throughout the period since 2005. The CFOs/GFCs of four such firms agreed to an interview (three face-to-face and one over the telephone).

The original interview questions as drafted for the pilot study did not refer to the IASB's (2010a) Framework. The theoretical nature of the Framework and its irrelevance to practitioners was mentioned by the first pilot interviewee and so a question relating to the usefulness of the Framework to preparers was included in the subsequent pilot interviews. The answers which the pilot interviewees gave to this question brought the attitudes of managers toward the Framework into sharper focus. Specifically this question revealed how the Framework may not influence accounting decisions such as early adoption and this area of enquiry was retained in the final set of questions.

The pilot telephone interview provided data of a similar quality to the other three pilot interviews. The success of this telephone interview confirmed the researcher's decision that it would be appropriate to use a telephone interview with any manager who preferred not to be interviewed face-to-face because of constraints imposed by time or location.

The four pilot interviews were originally carried out in order to test the interview questions and to explore initial themes using the data collected. All of the pilot interviews included the questions which were subsequently used with sample firms. Because the interview design was not altered following completion of the pilot interviews, and because of their quality and the fact that these interviewees were all CFOs or GFCs of FTSE 350 firms in the period under review, the data collected in the pilot interviews have been incorporated into the main study. Just as the other institutional actors (auditors and the IASB) are able to add to the researcher's understanding of possible explanations for the timing of adoption of new accounting standards, so too are managers of other FTSE 350 firms able to throw light on the values of managers and the accounting possibilities perceived by them. For transparency these pilot interviewees are labelled as 'Other managers' (OM) in the main study. Interviewed managers from the 158 quan sample firms are labelled as 'Managers' (M).

6.4.3.3 Design of interview questions

The final interview used is semi-structured with seven pre-set questions to ask interviewees. Semi-structured interviews provide the opportunity to ask further questions which arise out of the answers given by managers and also to modify the order of questions in response to the answers received. This gives some flexibility to the researcher to consider the accounting possibilities envisaged and values held by each individual manager whilst asking more or less the same questions and thereby making comparisons between cases possible (Bernard and Ryan, 2010).

The interview did not include any questions requesting demographic information because this was obtained from other sources by the researcher as part of her preparation for each interview. The position and exact job title of interviewees was therefore known before the interviews together with other information relating to their firms (for example, sector). Interviewed managers were not asked whether their firms had early adopted any accounting standards because this information was already known from the quan results. The purpose of the interviews in the QUAL phase was to explain these quan results.

The pre-set questions for CFOs and GFCs are included as Appendix G and are repeated below where they are related back to the research question and their inclusion in the interview is justified.

Question 1: What do you see as the advantages and disadvantages of early adoption of new accounting standards?

This was the first question put to all interviewed managers. It was intentionally a very open question so as to allow managers to provide their own views on early adoption. It provided managers with the opportunity to discuss a range of factors which might lead firms to adopt early (advantages) as well as a range of factors which might cause them only to adopt from the mandatory date (disadvantages). As part of the inductive approach, the wording of Question 1 did not lead managers to discuss either institutional factors or factors which might be explained using any other particular theory. Consistent with the advice in Beattie and Smith (2012) this opening question is general and depersonalised in that it does not ask the interviewee about his/her firm or a specific standard. A later question (Question 4) then becomes specific.

Question 2: Do you get the impression that your auditors favour early adoption or that they prefer to wait?

Question 2 investigates the role of the auditors in the decision when to adopt a new accounting standard since the auditors are closely involved in a firm's year end financial reporting procedures. This question provides the potential to investigate DiMaggio and Powell's (1983) description of the normative pressure exerted by professionals such as auditors but without any assumption that the auditors either encourage or discourage early adoption. The question appears to be a closed question with potentially three answers: the auditors favour early adoption; they prefer to wait; no view. However, managers did not provide this type of brief response but explained further without the need for prompting by the researcher.

Question 3: Why do you think that early adoption of IFRS 8: *Reporting segments* was relatively popular?

Table 7.1 shows that the extent of early adoption varies between standards. Question 3 provides the opportunity to explain some of the factors which may have influenced managers to adopt IFRS 8 early. Question 3 is worded so that managers can reflect on their own decisions to adopt IFRS 8 early or consider why other firms might have done so. (IFRS 6 was not selected as the topic for this question because it applies only to extractive firms whereas IFRS 8 applies to all sectors.)

Question 4: *Where applicable:* **What were your reasons for adopting IFRS X early?**

Where a firm had early adopted an accounting standard, this question gave the opportunity to explore the factors which influenced that decision. Interviews were conducted throughout the period December 2013 to November 2014. One interviewee's firm early adopted the consolidation standards in its December 2014 financial statements (that is, after the interview). Therefore this manager was sent a follow-up email to ask about the reasons for this and (s)he emailed the answer to this question in relation to the consolidation standards. This scenario did not apply to any other firms.

Question 5: Do you expect any future standards in particular to be early adopted by companies?

Question 5 provides the opportunity to explore future accounting possibilities being considered by managers. The standards which provide the setting for the quan phase became effective in the periods from 2005/6 onwards and consequently it may be difficult for some managers to recall their thought processes and the factors which led to the decisions when to adopt the earlier standards. Further, some interviewed managers were not in their current post during these early years of IFRS. Talking about future standards provides the opportunity to explore managers' thoughts as they think through the advantages/disadvantages of adopting specific standards early.

Question 6: How would you describe your participation in the development of new standards?

Question 6 aims to explore the extent to which firms attempt to shape accounting practice. Where a firm influences the requirements of a new standard, the favourable accounting regime provided may be a factor which influences the early adoption of a new standard. This question also provides the opportunity to investigate the relationships and communication between firms and the IASB. (See Section 2.2.4.)

Question 7: How often do you refer to the Conceptual Framework to decide on an accounting treatment or whether to adopt a new standard early?

This question was included in the final protocol as a result of the first pilot interview as explained in Section 6.4.3.2. The Framework potentially provides the concepts (values) which managers try to follow when making accounting decisions. This includes the fundamental qualitative characteristic of faithful representation with its focus on the neutrality of financial statements and the enhancing characteristic of comparability. These may influence the timing of adoption. Taking an institutional perspective, this question provides the opportunity to investigate the role of the Framework as a cultural-cognitive pillar of the institutional environment.

Originally it was hoped to interview managers for around 45 minutes to an hour but at the request of participants some interviews had to be restricted to under 30 minutes. The potential time constraint on interviews did not result in removing any questions from the interview protocol but made it extremely important for the researcher to think carefully about interviewees' responses and not to duplicate questions where an interviewee brought in information which related to a later question. (To an extent, this would be necessary in any semi-structured interview.)

6.4.3.4 Interviews with auditors

Primary data have been collected from auditors via semi-structured interviews because of the opportunity this gives to discuss and investigate any issues which arise during the conversation. 157 of the 158 sample companies were audited by a Big 4 audit firm during the period under review. Interviews were therefore carried out with three representatives of Big 4 firms: a technical audit partner, an audit engagement partner and a senior audit manager.

Initially an interview was carried out with a recently retired audit technical partner from a Big 4 accounting firm with the intention of using this as a pilot interview. This interviewee was a current and past member of regulatory organisations dealing with financial reporting within the institutional environment. The experience and expertise of this interviewee and the quality of the interview caused the researcher to bring it into the main study (as Aud1). The comments made by the interviewee reflected this partner's technical role and focussed on the regulatory environment and the requirements of individual accounting standards rather than relationships with clients. This suggests that interviews with technical and client engagement partners may both be useful to explore the normative pressures on firms and also to consider auditors' ideas relating to why their clients adopt from the mandatory dates or adopt early. Therefore a second interview was carried out with a client engagement partner (Aud2). The comments made by this partner had a limited technical content and instead focussed on the auditor's perception of his/her clients' reasons for waiting until adoption became mandatory or early adoption (as well as other choices made when preparing financial statements). A third interview was carried out with a senior audit manager (Aud3) who was able to provide insight into his/her clients' reasons for not adopting new accounting standards early. This auditor was not based in the London office of his/her firm and preferred that the interview was conducted over the telephone rather than face-to-face.

The interview used was semi-structured with five pre-set open questions to ask interviewees but opportunity was taken to ask further questions which arose out of the answers given by auditors. The pre-set questions are included as Appendix H.

The first question put to auditors concerned the advantages and disadvantages of early adoption and was identical to Question 1 for interviewed managers. This question was deliberately phrased in an open way so as to allow auditors to reflect on their own views and also the views of their clients. Questions 2 and 3 were identical to managers' questions 3 and 5 respectively regarding early adoption of IFRS 8 and future accounting standards. Because of the relatively high number of early adopters for IFRS 8 and the fact that no firm has yet reported under IFRS 15, these questions provided the opportunity for auditors to speak about specific standards without having to identify particular clients, client confidentiality being a high priority for auditors. Question 4 asked each auditor about how their firm introduces a new standard to clients in order to explore the auditor's perception of his/her own role and compare this with views of managers regarding the influence of the audit firm in the decision when to adopt a new accounting standard.

Whilst Questions 1 to 4 were put to all of the interviewed auditors, the final question depended on whether the auditor was part of the client engagement team or in the technical department. Aud2 and Aud3 (engagement) were asked Question 5 concerning how often they or their clients consult the Framework (equivalent to managers' Question 7). This question was asked in order to triangulate the information received from managers and also to explore whether the concepts in the Framework influence auditors' advice. Aud1 was not asked this question because the technical team do not have the same level of interaction with CFOs and GFCs. Instead Aud1 was asked for his/her views on the role of early adoption in the accounting environment to extend the theme of 'advantages' in Question 1 by moving beyond benefits to individual firms and considering the institutional setting.

6.4.3.5 Interview with a representative of the IASB

In order to explore wider environmental influences than just the audit firm of a particular FTSE company, a semi-structured interview has been conducted with a senior board member of the IASB (the standard setting body and therefore playing a key role in the regulatory environment). The interview used was semi-structured with five pre-set open questions but opportunity was taken to ask further questions which arose out of the answers given by the interviewee. The pre-set questions used in this interview are included as Appendix I.

The interview began with a general question which asked for the IASB's views on early adoption. This interviewee was not asked for the 'advantages and disadvantages' because these are set out in the IASB's (2010b) *Request for views.* (See Section 3.4.) The interview then explored the role of early adopters (comparable with Question 5 for the technical auditor), the impact of the EU endorsement process on the timing of adoption and whether the IASB are concerned about the opportunity for 'cherry picking' when firms are considering which standards to adopt early.

6.5 NVivo and coding

Interview data is mainly analysed qualitatively. In order to prepare this data for analysis, interviews were first transcribed into Microsoft Word by the researcher. When a recorded interview had been transcribed, the researcher listened to the interview again while reading the transcription in order to check for typing errors and also to consider whether the punctuation introduced by the researcher accurately reflected what the interviewee said. This process of transcription and checking enabled the researcher to become familiar with the data at an early stage. Two interviews were not recorded at the request of participants (Managers M8a and M8b who were interviewed together, and Auditor Aud2.) These participants agreed that the interviewer could take notes during the interview. The notes were typed as Word documents within a few hours of both interviews in order to supplement the notes taken at the interviews with the researcher's recollection of what was said by participants and the meaning conveyed at the time. Transcripts were then imported from Word into NVivo for analysis.

Transcripts were read and re-read in NVivo in order to identify themes and these themes have been coded accordingly. For the two interviews which were not recorded, the name of the source (or 'case' using NVivo's terminology) was labelled with 'N' (for 'notes') in NVivo.

These interviews were coded in order to include the views of these participants and the themes introduced by them in the analysis. However, when data was retrieved using the software's search facility, the 'N' reminded the researcher that the text was not a direct quote.

The development of themes and codes throughout the analysis is displayed in Table 6.2. Four broad themes were set up before the analysis of interviews with managers (M) (see Section 6.4.3.2) whose firms are in the quan sample. These broad themes arose out of an initial analysis of the four pilot interviews and related to the advantages of early adoption (Code 100), the disadvantages (Code 200), the coercive, mimetic and normative pressures identified by institutional theory (Code 300), and responses to those pressures (Code 400). Codes 100 and 200 were set up in order to record the answers to Question 1 in each interview. (See Section 6.4.3.3.) When these codes were introduced, the researcher did not know which of the two codes would be used most or the sub-codes which would be necessary to capture the themes which would arise in the interviews. This reflects the inductive approach to this research. Arising out of a preliminary analysis of the pilot interviews and a review of the institutional literature, Codes 300 and 400 were set up although before interviews with other participants were analysed, the researcher did not know the extent to which these codes would be used, how these themes might develop or which sub-themes would be introduced. Therefore use of the original *a priori* codes shown in Table 6.2 did not limit the themes which emerged during the qualitative analysis of interview data using NVivo (Robertson, 2008).

NVivo software supports qualitative research *inter alia* by helping a researcher to manage and retrieve data (QSR International, 2015). As codes are assigned to pieces of text such as parts of transcribed interviews, NVivo stores this coded text in nodes making the retrieval of text and review of particular themes possible. Throughout the process of coding, new themes were allowed to emerge *in vivo* as interviews were analysed. Initially these new themes were coded at what NVivo calls 'free nodes'. In order to remain open to any new themes which might emerge, at this stage the researcher did not attempt to make links between codes. Then it became necessary to organise the data by reflecting on the codes which were being applied. Where a connection between codes becomes apparent, NVivo software allows nodes to be merged together. Alternatively, a node may be cut and pasted into another node so that a hierarchy of parent-child nodes (or 'tree nodes') is displayed. The process of thinking about the data held at two similar nodes may therefore lead to a merger of nodes or the introduction of a parent-child hierarchy. Alternatively, the thought process may reinforce the differences between themes providing additional insight into the meaning of the data (Bazeley, 2007).

Table 6.2

Evolution of coding scheme

Original	**Expanded**	**Reference to results**
100 Advantages of early adoption	100 Advantages of early adoption 110 Excuse to change 120 Flexible timeframe 130 Better outcome / improved key ratios 140 Looks good to implement early 150 Improved reporting / more logical accounting 160 Simplified reporting 170 Favourable commercial impact / decrease in tax liability 180 Comparability with US firms	7.3.3
200 Disadvantages of early adoption	200 Disadvantages of early adoption 210 Expense / time and resources 220 Inconsistent reporting 230 Increased disclosures 240 Minimal impact 241 on net assets 242 on share price or cash flows 250 Peer comparisons affected 260 Risk of error / guesswork 270 Worse outcome / worse key ratios 280 Tight timeframe 290 Unfavourable commercial impact / increase in tax liability	7.3.2
300 Institutional pressures 310 Coercive 320 Mimetic 330 Normative	300 Institutional pressures 310 Coercive pressures 311 Legitimacy 320 Mimetic pressure 321 Mimetic pressure to early adopt 322 Mimetic pressure to adopt from the mandatory date 323 Coalitions and consultations 324 Institutional leadership 330 Normative pressure 331 Normative pressure to early adopt 332 Normative pressure to adopt from the mandatory date	 7.5.3 7.3.3, 7.5.4 7.6.1 7.4.1 7.4.1 7.4.1, 7.6.1 7.4.1 7.5.3 7.4.2

Original	**Expanded**	**Reference to results**
400 Responses to institutional pressures	400 Responses to institutional pressures 410 Acquiescence 420 Resistance 421 Escape	 7.4.1, 7.4.2 7.4.3 7.5
	500 Framework	7.8
	600 Individual standards 610 IFRS 6 620 IFRS 8 630 Consolidation standards 640 Other standards 650 Future standards 651 IFRS 15 652 *Leases*	 7.5.1 7.5.2 7.5.3 7.5.4 7.6.1 7.6.2
	700 Active decision process	7.4.3, 7.6, 7.6.1, 7.6.2

Following the preliminary analysis of the pilot interviews, the system of coding began with the *a priori* codes shown in Table 6.2 and then evolved as interviews were read and re-read and new themes emerged. For example, a new Code 600 was introduced in order to record comments on individual standards. Code 600 included sub-codes to classify those comments according to the particular standard involved. These sub-codes facilitated the discussion of the reasons for early adoption presented in Section 7.5.1 *et sequentia*. The text within Code 600 provides an example of how text could be assigned to multiple codes; a CFOs recollection of discussion with an auditor about possible early adoption of a particular standard would be coded to a child node within *Individual standards* and also to Code 331 (if the auditor's advice was to adopt early) or Code 332 (if the advice was to wait until the mandatory date). Alternatively, comments made by a CFO about a particular standard would be coded to a child node for Code 600 and might also be coded to a child node for Code 100 (if that comment referred to an advantage of early adoption) or Code 200 (a disadvantage).

As a further example of introducing sub-codes, Table 6.2 shows the *a priori* Code 330 relating to normative institutional pressure (the influence of the auditor). As initial interviews were coded, it became apparent that there are two types of advice which auditors give to their clients: the first being advice to adopt a new standard early; the second being advice to wait until the mandatory date of adoption. These sub-themes were coded using sub-codes 331 and 332 respectively and facilitated the discussion of the nature of normative pressure in Chapter 7. Bazeley (2007, p163) refers to this process as "*coding on*" from an existing node in order to reflect the way in which data is leading to a conceptual advance. In particular, the introduction of sub-code 332 supports the thesis' contribution to institutional theory that professional advisors such as auditors do not always encourage the new practice of I_2 but instead may act as agents of I_1.

As well as introducing a finer classification of codes, nodes were also merged as the researcher reflected on the coding system and the need to bring order to the data and presentation of results. An example is the merger of some of the child nodes relating to the advantages and disadvantages of early adoption. For example, whilst a decrease in the tax liability was initially coded at its own child node within the advantages of early adoption, this was subsequently merged with the child node for favourable commercial impact (Code 170) reflecting the positive effect on earnings reflected in both.

Interviews were carried out throughout the twelve month period from December 2013 to November 2014. Interviews were typed up as Word documents as soon as possible after each interview in order to recall the context which generated the data (Bryman and Bell, 2011). This was usually on the same day and always completed no later than the next day. Once an interview had been typed up, the transcript was imported into NVivo as a new case and the researcher began the process of coding the interview. This provided the opportunity to use and to review the coding scheme which had been set up *a priori* based on the pilot interviews, and to develop codes which were derived from the data collected from later participants.

As additional interviews were coded, new *in vivo* codes were introduced. Therefore the researcher went back to earlier interviews, including the 'pilot' interviews which were brought into the main study (see Section 6.4.3.2) to consider whether any new codes might apply to those interviews and to ensure that the analysis of all of the data collected during the interviews used the most up-to-date coding system. This was done regularly throughout the process of coding. Finally, after the final interview (with Manager M17) had been transcribed and coded, all coded transcripts were reviewed again in order to ensure that the codes applied to the text reflected the final coding system.

Looking for themes in a text and applying codes requires a great deal of concentration so as not to overlook anything relating to either an existing or potential new code, allocate an incorrect code or miss nuances in the meaning of the text. One of the advantages of coding over a twelve month period was that the researcher did not try to code multiple interviews on the same day and therefore avoided fatigue in coding, rushing the process or feeling overwhelmed by the amount of coding to be done (Bryman and Bell, 2011). A criticism of this approach might be that there was the potential for inconsistent coding over an extended period of time. However, this was guarded against by revisiting earlier interview transcripts to check the coding system used.

Another advantage of coding throughout the period of collecting interview data was the opportunity to check (validate) ideas with other participants. For example, it was possible to confirm the researcher's understanding that early adoption is generally unpopular but that firms would consider it if there were some benefit for them. On the other hand, this meant that there was the potential problem of allowing the coding system already applied to affect later interviews. This was guarded against by using the pre-set questions described in Section 6.4.3.3 in all interviews. Also, the seniority and professional experience of interviewees means that it is highly improbable that the researcher could ‘lead’ them to say something which they did not really think.

Throughout the process of coding, the analysis of data continued to suggest that the initial idea of using institutional arguments in the theoretical framework was appropriate. Therefore the iterative process depicted as Steps 9 and 10 in Figure 2.1 involved revisiting the institutional literature to consider how institutional arguments might apply and how the thesis could interpret data to develop theory. However, Section 2.6.4.1 has explained that the approach taken to the relationship between data and theory in this thesis is inductive. Therefore during the process of coding the researcher was open to using a theory other than institutional theory to explain the choice whether to adopt a new standard from the mandatory date or to adopt it early.

A code was used in NVivo (labelled as ‘Strategy’) in order to identify text relating to strategic decisions by firms and therefore which might indicate that a theory other than one using institutional arguments might provide a better theoretical framework for the study. It was found that these pieces of text could be coded to other codes, particularly as advantages (Code 100) and disadvantages (Code 200) of early adoption. A careful review of the text within Code 100 indicated that there are multiple reasons for early adoption. These include reasons relating to the environmental setting (for example, Code 140: *Looks good to implement early*), reasons arising from a firm's own reporting goals (for example, Code 130: *Better outcome / improved key ratios*) and reasons based on efficiency considerations (for example, Code 160: *Simplified reporting*). Oliver's (1991) model of strategic responses to institutional processes is able to include these strategic arguments by considering organisational goals as well as arguments based on efficiency. Therefore the use of an institutional framework which includes Oliver's model is considered to be the best approach to use to explain the observed results.

The final coding scheme used to analyse interview data is shown in Table 6.2. This analysis is used to answer the research question and to develop theory. Therefore Table 6.2 also includes references to the discussion of results in Chapter 7.

6.6 Ethics

In order to protect the anonymity of the interviewees in this research project, neither individuals nor firms are named in the list of interviewees which is shown in Appendix J. Some participants also asked that no information regarding business sector be disclosed and this request has been complied with. Where requested by participants, neither size of firm (FTSE 100 *versus* FTSE 250) nor the job title of the interviewee is disclosed although some interviewees agreed that they could be described as CFO or GFC. To protect anonymity, the title of CFO has been used for interviewees whose actual title is CFO, Finance Director or Group Financial Director. GFC refers to a senior accounting manager who is not on the board of directors. This includes a GFC, Group Reporting Manager, Group Chief Accountant or a senior manager with some other title. Similarly, no audit firm is named. The representative of the IASB is not named. All data is stored separately from the 'key' to the identities of participants.

This research includes analysis of published information in firms' annual reports and on the IFRS Foundation's (2015) website. This information is freely available to the public and so individual companies have been named in the context of factual information regarding incidences of early adoption (Appendix E), and views and quotations from response letters to the IASB (Appendices A and C).

6.7 Sample design

6.7.1 Non-financial FTSE 350 firms quan sample

This investigation is based on the list of FTSE 350 companies effective as at 31 December 2005. It was decided to base the investigation on the FTSE 350 as their financial power may give them a measure of influence over the development of IFRS and also increased resources to early adopt if they so choose. In common with other studies, the sample has been restricted to non-financial firms because of the specialised nature of many financial firms' accounts (Iatridis and Joseph, 2006; Leuz, 2003; Mezias, 1990; Tsalavoutas *et al*., 2012). The date of 31 December 2005 was chosen as this was the first end of accounting period for which compliance with IFRS was mandatory for FTSE firms in their consolidated financial statements.

The setting for this project is the new and revised standards which have become effective since 1 January 2006. Therefore, any firms which were not in existence throughout this period (for example, firms which have been subject to merger or demerger since 2005) or which were not required to follow IFRS (for example, firms which were delisted in the period or which complied with US GAAP) have been eliminated from the sample. On this basis there are 158 firms included in the final sample as shown in Table 6.3.

Table 6.3

Number of quan sample firms

	Number of firms
FTSE 350 firms at 31 December 2005	350
Less: Financials	(99)
Non-financials	**251**
Less: Acquisitions and delistings	(75)
Less: Mergers and demergers	(16)
Less: Use US GAAP	(2)
Final sample	**158**

The sample size of 158 is consistent with Mezias' (1990) sample of 150 non-financial US firms in his institutional study set in a financial reporting context and also with other accounting research (Crawford *et al*., 2012; Dunne *et al.*, 2008; Leuz, 2003). For each firm, nine annual reports have been examined (2005 to 2013 inclusive for December year ends and 2006 to 2014 for all other firms), a total of 1,422 annual reports.

6.7.2 Non-financial FTSE 350 firms QUAL sample

This project follows Creswell's (2015) suggestion that in an explanatory sequential quan→QUAL design the qualitative sample should be a sub-set of the initial quantitative sample. The qualitative sample should be drawn from the same pool of cases in order to explain the quantitative results but its purpose is to provide 'depth' of analysis rather than 'breadth'. This means that the qualitative sample is drawn from the pool of 158 firms but with the addition of the four 'pilot' interviews which have been brought into the main study for the reasons outlined in Section 6.4.3.2.

Including requests for pilot interviews, letters were sent to a total of 170 firms to request an interview. (Initial analysis of the quantitative data did not highlight that interviews should be focussed on one particular sector, only that the sample should include the possibility of interviews with extractive firms to enable a discussion of the reasons for early adopting IFRS 6. Therefore 170 requests for interview were made to the CFOs of non-financial firms across a range of business sectors in order to consider the views of as many different managers as possible.) It has been suggested that a response rate of 10-12% is typical for a mailed survey of listed company directors in the current economic climate (Beattie and Smith, 2012; Simsek *et al*., 2009). Consistent with this benchmark, a positive response rate of 12.4% has been achieved with 21 CFOs and GFCs agreeing to participate in this research project. This sample size is comparable with Graham *et al*. (2005) who interviewed twenty American CFOs (see Section 2.6.3) and also with Jamili (2010) who interviewed eighteen CSR managers (see Section 5.3.4.). Twenty CFOs and GFCs participated in an interview and one GFC provided written answers to the interview questions. (See Section 6.4.2.) Table 6.4 analyses the 21 'interviewees' between CFOs and GFCs, and also between FTSE 100 and FTSE 250 firms. Further details of interviews are shown in Appendix J. Eight out of the 21 firms (38.1%) adopted at least one accounting standard early. Of these eight, seven were from the quan sample and one was a 'pilot' firm.

Table 6.4

Summary of interviews with CFOs and GFCs

	CFOs	GFCs	Total
FTSE 100	1	9	**10**
FTSE 250	6	5	**11**
Total	**7**	**14**	**21**

Guest et *al*. (2006) suggest that for a qualitative research project around twelve interviews are often sufficient, particularly where the selected group is relatively homogeneous and the data quality is good, as is believed to be the case here with the financial managers of large firms. Further, Guest et *al*. (2006) suggest that six interviews might be enough to generate codes for overarching themes. Whilst Guest et *al*. (2006) justify their conclusions based on a particular context of interviews with female sex workers in Africa, they suggest that their findings may be generalisable to other settings. Because of the unique context for their research, it is important to consider whether the current study has achieved data saturation, being *"the point at which there are fewer surprises and there are no more emergent patterns in the data"* (O'Reilly and Parker, 2012, p192).

The aim of this study is to identify the factors which explain the timing of the adoption of accounting standards by large firms, specifically non-financial FTSE 350 firms. This aim might be restated as identifying the factors which explain adoption from the mandatory date (the disadvantages of early adoption) and the factors which explain early adoption (the advantages). The disadvantages and advantages identified by interviewed managers are summarised in Tables 7.3 and 7.4 respectively. All of these themes arose in the first ten interviews with CFOs and GFCs. No new disadvantages/advantages emerged in the following eleven interviews and so it is reasonable to consider that data saturation has been reached.

6.7.3 Auditors and the IASB QUAL sample

In order to consider the views of the various institutional actors, as well as the financial managers of the firms themselves, supplementary interviews have been carried out with other institutional actors shown in Figure 5.5, namely auditors and the IASB. The purpose of these supplementary interviews is both to understand more about the wider environment in which CFOs and GFCs operate, and also to complement and enrich the data provided by the financial managers. Therefore the researcher has used her judgement to select a purposive sample of interviewees who are considered to have the potential to provide data which may be used to meet the qualitative research objective RO3 (Saunders *et al.*, 2012). This type of purposive sampling is not based on a statistical approach and therefore the results may not be generalisable, that is the data may not reflect the views of other auditors and other IASB board members. That said, audit partners of Big 4 accounting firms are considered to be a relatively homogeneous group and the views of a senior board member of the IASB are likely to reflect those of the IASB as 'an organisation'.

These interviewees were contacted through professional networks. Three auditors of FTSE 350 firms were interviewed. As explained in Section 6.4.3.4, in order to consider a range of viewpoints, one was an audit technical partner (who had a focus on the technical content of the standards which form the context of this research) and the others were an audit engagement partner and a senior audit manager (who are at the client interface and therefore communicate more frequently with the CFOs and GFCs who make accounting decisions). There was also one interview with a senior IASB board member. [27]

The samples of 158 firms in the initial quantitative phase and 25 interviews in the explanatory qualitative phase are considered adequate to answer the research question and draw inferences from both types of data. These inferences may then be combined to draw conclusions and answer the research question (Teddlie and Yu, 2007).

[27] Interviews were also requested with two IASB staff members and a representative of a fourth Big 4 audit firm but they did not agree to participate in this project.

6.8 Quality issues for mixed methods research

The quality of a mixed methods research project arises from three sources: the quality of the quantitative strand of the project; the quality of the qualitative strand; and the quality of the integration of the two strands to draw inferences and to use both the quantitative and qualitative results to answer the research question (Ihantola and Kihn, 2011; Teddlie and Tashakkori, 2009). Research of high quality produces findings which are both valid and reliable. Whilst the concepts of validity and reliability originally arose in the context of quantitative research, it is important to consider their adaption and application for qualitative and also mixed methods research (Bryman, 2004; Gray, 2014). Therefore issues relating to the validity and reliability of quantitative and qualitative research will be considered in Sections 6.8.1 and 6.8.2. Section 6.8.3 will then reflect on the specific threats to quality which can arise when using a mixed methods approach.

6.8.1 Validity

6.8.1.1 Internal validity

Research should possess both internal and external validity. Internal validity within quantitative research ensures that the correct variables are measured and any cause and effect relationships are true (with no omitted explanatory variables). The validity of quantitative research may be threatened if sample sizes are too small or if the wrong statistical tests are used to analyse data. The quantitative analysis in the current project consists of summarised data in tabular form. There are no statistical tests because of the low number of incidences of early adoption. The data presented in Table 7.1 is based on the entire population of non-financial FTSE 350 firms as at 31 December 2005 apart from those firms which have been excluded for the reasons set out in Table 6.3.

The issue of sample size is different for qualitative research. The ‘ideal’ number of interviews has been considered in Section 6.7.2 but it is possible that interpretive research could be based on just one interview (or case study) because qualitative research aims to provide data of richness and depth (Bryman, 2004).

Within qualitative research it is important that the research and findings can be believed, that is, they are credible (Bryman and Bell, 2011). In order to demonstrate the internal validity (credibility) of this research, the research design used is set out clearly in this chapter so that it can be examined. This includes the description of the method used to code interview data presented in Section 6.5. To avoid introducing a bias into this QUAL data, the CFOs of sample firms were contacted to request an interview. Where a GFC participated in an interview, this was because the CFO had passed the request letter on, presumably to a colleague who was able to speak for the CFO and the firm. The interviewees (CFOs, GFCs, Big 4 auditors and a senior IASB board member) are considered to have the practical experience and technical expertise to provide the data which are analysed in this research. Further, to ensure a faithful interpretation of this data, some interviewed managers explicitly confirmed the researcher's understanding that firms tend to adopt a new standard from the mandatory date but consider early adoption where there is a possible efficiency or strategic benefit in so doing such as the possibility of presenting improved numbers in the financial statements (Bryman, 2004).

6.8.1.2 External validity

Within quantitative research, findings with external validity may be generalised to other situations. Within qualitative research the concept of transferability of findings has been suggested as an appropriate substitute for the concept of external validity so that theoretical arguments derived from findings in a particular setting might be applied to other contexts (Bryman and Bell, 2011). In common with other empirical research, this institutional study is set in a unique setting, namely the timing of the adoption of new accounting standards by non-financial FTSE 350 firms. However, as well as interviewing multiple CFOs, GFCs and auditors, this research is set over a nine year period which adds to its generalisability over time. The findings allow the development of institutional theory within a specific environmental field which may then be transferred to alternative scenarios.

6.8.2 Reliability

Reliability means that there is a high test-retest stability of findings. For a quantitative study to be seen as reliable, that study could be repeated and a second researcher should get the same results as would be the case with the data in Table 7.1 (supported by the detailed analysis of when sample firms adopted the individual standards shown in Appendix E). However, this kind of replication is problematic within a qualitative method (Jick, 1979). Specifically, retesting is not usually possible with interviews which use open questions. Even if a second researcher could interview the same people, they are unlikely to give exactly the same answers to the questions. Instead, the 'reliability' of the results of qualitative research may be justified in different ways. First, the findings and conclusions may be considered reliable because interview data are collected from multiple interviewees so that data are triangulated where possible whilst at the same time appreciating that interpretive research explores the motivations, values and experiences of individuals which may be unique to each interviewee in his/her own construction of reality. Second, the results may be considered reliable because a second researcher could use the interview data to come to the same conclusions, or at least to agree that the stated interpretation of the data is reliable when viewed from a particular institutional perspective.

6.8.3 Mixed methods

The assessment of the quality of mixed methods research is an emerging issue in the literature and a number of authors have put forward various frameworks to use when evaluating the quality of this type of research. Creswell and Plano Clark's (2007) framework usefully highlights four broad areas to consider when evaluating the quality of a mixed methods study. These areas include the extent of integration, the rigour of the quantitative and qualitative phases, the quality of the project's design and the transparency of decisions made during the project. Other authors have provided more detailed guidance (Dellinger and Leech, 2007; Onwuegbuzie and Johnson, 2006; Teddlie and Tashakkori, 2009). However, there is a degree of overlap among these authors and, specifically, the main principles of their guidance may largely be seen in Creswell and Plano Clark's (2007) framework which is therefore used to evaluate the quality of this mixed methods project.

First, Creswell and Plano Clark (2007) argue that the process of evaluation should consider whether a particular research project has, in fact, used a mixed methods approach. In the current project the mixed approach has been embedded into the research plan from the start. The integration of quan and QUAL is therefore reflected in RO4: *To integrate the results of the quantitative and qualitative phases in order to identify the factors which explain the timing of the adoption of accounting standards*. Another form of integration has been to develop the interview questions in QUAL out of the results of quan. Further, qualitative interview data regarding the advantages and disadvantages of early adoption have been converted to quantitative data. (See Tables 7.3 and 7.4.) Finally the results of both the quan and QUAL phases have been brought together as follows.

Findings from the quan phase are that early adoption is relatively unpopular among large firms but its extent varies across standards. (See Table 7.1.) Details of the firms which adopted particular standards early are shown in Appendix E. The researcher has integrated the quan results with the interpretation of interviews in the QUAL phase by using the quan data which are shown in Appendix E to identify whether a firm whose CFO or GFC was quoted in the discussion in Chapter 7 adopted at least one standard early in the period under review. (See Appendix J.) The results of the quan phase showed that IFRS 6: *Exploration for and evaluation of mineral assets*, IFRS 8: *Operating segments* and the new consolidation standards were adopted early by a number of firms. Because of the relatively high numbers of early adopters for these standards, in Sections 7.5.1 to 7.5.3 which present the reasons for the early adoption of these standards, the early adopters who are quoted are identified as such because this does not threaten participant anonymity.

Identifying whether or not a manager's firm early adopted any new standard(s) in the annual reports which were analysed in the quan phase enabled a fuller understanding of the context for comments by participants. This use of the quan data to complement the QUAL data enabled the researcher to interpret interviews with a knowledge of whether or not the accounting possibilities and values discussed by managers had led to early adoption in the accounting periods 2005/6 to 2013/14.

Further, because the mixed methods approach used is an explanatory sequential quan→QUAL design, integration occurs as the QUAL results are used to explain the observations in the initial quan phase. Therefore the results of both phases are shown together in a joint display (Creswell, 2015). (See Table 7.5.) This enables explanations for early adoption obtained from participants in the QUAL phase to be shown alongside the numbers of early adopters of the individual standards to which participants' comments relate.

As part of the Conclusion for this thesis, Section 8.5 includes the researcher's reflections on the method and extent of integration in this project. This includes a reflection on the dominance of the QUAL phase arising out of the inductive approach taken to develop theory which is largely based on the interpretation of interviews (Morse, 2008).

Second, Creswell and Plano Clark (2007) state that the quantitative and qualitative research methods used should be applied rigorously according to the criteria for evaluating such research. This aspect of the current study has been reviewed in Sections 6.8.1 and 6.8.2.

Third, the research question, the specific mixed methods design (for example, the explanatory sequential quan→QUAL design used in this study) and data analyses should be evaluated. The question arises as to whether it is valid to use mixed methods to address the aim of this study, which is to identify the factors which can explain the timing of the adoption of accounting standards by large firms. Chapter 2 has explained why the researcher takes a pragmatic constructivist view of reality in this study (Nørreklit *et al*., 2006). A mixed methods approach is argued to be more valid than a solely quantitative or qualitative institutional study because mixed methods provide the opportunity to observe and to describe the facts (the particular accounting choices actually made by firms) whilst using interview data to consider the alternative possibilities which managers believe to exist, the organisational and institutional values which lie behind those accounting choices and the communication between institutional actors, and also between actor and researcher.

A specific issue to consider when evaluating a mixed methods sequential design such as a quan→QUAL design is whether the inferences drawn would be different if the sequence of the two phases were reversed (Onwuegbuzie and Johnson, 2006). In the current study, carrying out the interviews before collecting archived data would not enhance the quality of the research because the facts regarding the extent of early adoption would not be available to inform the design of the interview questions. Reversing the sequence would reduce the extent of the integration between the quantitative and qualitative phases and the quality of the research would be diminished.

Finally, Creswell and Plano Clark (2007) state that the mixed methods researcher should discuss decisions made in response to challenges that arose during the study, particularly those relating to a mixed methods approach (for example, issues relating to sample sizes and participant selection in the quantitative and qualitative phases). In the current study, selection bias in respect of the QUAL sample was avoided by writing to 170 firms to request an interview. The limitations of the study are included in Section 8.6.

6.9 Alternative research strategies

This research project uses mixed methods and therefore it has been possible to include both quantitative analysis of archived documents and qualitative analysis of semi-structured interviews. This is judged to be the best research design to use in order to answer the overarching research question. However, it is recognised that there are alternative research strategies which have not been used here. Two of these are discussed below and the reasons why they have been omitted from this project are explained: Section 6.9.1 considers the possible value of using questionnaires to collect primary data; Section 6.9.2 considers the use of advanced statistical analyses (for example, regression analysis) as part of a quantitative method.

6.9.1 Questionnaires

Having selected interviews as the survey tool in the qualitative phase of this project, it is acknowledged that questionnaires may have advantages over interviews in some situations. (The following comments on the strengths and limitations of questionnaires are based on Bryman and Bell (2011).) First, questionnaires are often quicker to administer and therefore cost less (in terms of fares and time) to use. This is especially true when potential respondents are spread out over a wide geographical area, perhaps overseas, as is the case for some FTSE 350 firms. (Whilst many firms in the quan sample have their corporate headquarters in London, some are located overseas or elsewhere in the UK (for example, in Scotland).) This means that questionnaires are a convenient way of surveying a larger sample than would be possible with interviews. In this project a telephone interview is used to gather data from a manager who is willing to participate in the study but is located overseas. Also, the number of interviews is 25 rather than in the hundreds or thousands so this benefit of postal questionnaires is irrelevant here.

A second advantage of questionnaires is that they might be the only way for a researcher to gather data from senior managers of large organisations such as members of the FTSE 350. However, consistent with Saunders *et al.*'s (2012) findings, the pilot interviewees gave the impression that they prefer to speak face-to-face and do not like completing research questionnaires. Only one manager preferred to provide a written response to questions rather than participate in an interview.

Other limitations of the questionnaire as a research tool are well documented (Bryman and Bell, 2011; Dillman, 2000). First, whilst relatively easy to send out, many questionnaires may not come back immediately and it is often necessary to chase up non-replies which can be time consuming (Dillman, 2000). Even then it may be that some questionnaires are never returned and this is anticipated to be a significant risk in this study because the CFOs of FTSE 350 firms might not respond positively to being chased for replies.

Second, there may be data missing from questionnaires because respondents may choose not to answer a particular question and there is no interviewer to prevent this. Specifically, it is more difficult to use open questions in questionnaires because respondents often want to complete them quickly and do not want to spend time writing. Therefore too many open questions may give rise to missing data or adversely affect the response rate.

A third limitation of questionnaires is that in most cases a researcher cannot be certain who has answered the questions. In this research project, for example, it may be the views and opinions of the senior managers who make financial reporting decisions which are relevant to the research topic but a manager may delegate the completion of the questionnaire to a more junior employee. (When a GFC participated in an interview, the researcher was able to gauge that GFC's role in the firm's financial reporting process, and also to assess his/her level of the awareness of IFRS and the issues surrounding the decision whether to early adopt.)

6.9.2 Inferential statistical analysis

The quan results are presented as tables of numbers of early adopters and percentages to show the pattern of early adoption across the various standards. The examples of quantitative research shown in Tables 4.1 and 4.3, and the US early adoption studies reviewed in Section 4.3, employ more sophisticated statistical analyses of data using a software package such as SPSS or similar. This approach to quantitative research is usually deductive; a researcher puts forward hypotheses for testing based on the predictions of theory and generally requires a large sample size in order to generate statistically significant results. A regression analysis is not considered to be the best approach to use in order to answer the research question because the numbers of incidences of early adoption vary considerably between standards. (See Table 7.1.) There are standards (for example, IAS 1 (Revised)) with low or zero early adoption and a standard such as IFRS 6 with a high number of early adopters. On the other hand, 15.2% of sample firms adopted IFRS 8 early. The use of regression analysis to attempt to identify the factors which these early adopters of IFRS 8 tend to have in common is rejected because of the relatively small sample size.

6.10 Chapter summary

This chapter has set out the details of the mixed research methods which are used in this study in order to investigate the factors which are able to explain the timing of the adoption of new and revised accounting standards by large firms. The project uses a mixed methods explanatory sequential quan→QUAL design which combines the quantitative analysis of the numbers of early adopters with qualitative analysis of interview data collected from the CFOs, GFCs and auditors of FTSE firms, and the IASB. The results arising from the quantitative and qualitative analyses of data are now presented in Chapter 7 where the findings are discussed and synthesised.

7. RESULTS AND DISCUSSION

7.1 Chapter overview

Chapter 7 presents the results of this investigation which aims to answer the overarching RQ: *What factors can explain the timing of the adoption of accounting standards by large firms?* Chapter 7 therefore identifies various factors which cause a firm either to adopt a new standard from the mandatory effective date or to adopt it early. Specifically, Chapter 7 shows how these findings may be used to gain insight into, and to develop, institutional arguments regarding the nature of the institutional environment for large firms, the conflicting pressures which can arise within an institution and also the ways in which firms respond to those pressures.

This project uses mixed research methods as part of a pragmatic constructivist methodology which views reality as being made up of the four aspects of historical facts, future possibilities, held values and communication with others. (See Section 2.2.) Section 7.2 therefore begins by summarising the observed facts regarding the actual timing of the adoption of accounting standards by 158 sample firms in the nine accounting periods from 2005/6 to 2013/14 inclusive. Specifically, Table 7.1 shows the percentages of sample firms that early adopted the new and revised standards which became effective in those periods. This meets RO2: *To use quantitative analysis of archived data collected from annual reports to identify the timing of adoption of new and revised standards in the period from 2005 to 2014*.

The mixed methods approach used is an explanatory sequential quan→QUAL design where interview data collected in the QUAL phase are used to explain the observed results in the quan phase. In this chapter the quan and QUAL results are integrated *inter alia* by using the quan data shown in Appendix E to identify whether a firm whose CFO or GFC is quoted adopted a new standard early in the period under review. Using the quan result in this way enables a more informed interpretation of the meaning of the interview data collected in the QUAL phase.

Sections 7.3 and 7.4 analyse the views on early adoption which were communicated to the researcher during interviews with 25 actors representing firms, their auditors and the standard setter. The disadvantages and advantages of early adoption identified by interviewed managers are summarised in Sections 7.3.2 and 7.3.3 respectively. Mimetic pressure to copy the practices of other firms in order to avoid making a mistake in the implementation of a new standard is discussed in Section 7.4.1. Section 7.4.2 then discusses the role of auditors in their clients' early adoption decisions in order to understand the operation of normative pressure within the institutional environment and Section 7.4.3 discusses firms' resistance to this pressure.

Table 7.1 shows that the early adoption of revised IASs and new IFRSs has been relatively unpopular in the period from 2005/6 to 2013/14. However, the extent of early adoption differs between standards. Section 7.5 therefore discusses the specific requirements of IFRS 6, IFRS 8 and the package of consolidation standards all of which were early adopted by a number of firms. This discussion includes an analysis of the views communicated by interviewed CFOs and GFCs in order to identify the accounting possibilities which these standards provide for firms. This section considers the factors which motivated some firms to escape from the *status quo* and adopt these particular standards early. Looking ahead to future standards, Section 7.6 considers how managers view the accounting possibilities which are potentially provided by IFRS 15: *Revenue from contracts with customers* and the proposed new *Leases* standard, and the extent to which managers consider that there might be advantages in adopting these early.

The discussion of results in Sections 7.3 to 7.6 meets RO3: *To use qualitative analysis of primary data gathered via interviews with senior financial managers, auditors, and the IASB in order to gain insight into how institutional pressures interact with organisational goals and thereby influence the decision whether to adopt a new standard from the mandatory effective date or to adopt early.*

Section 7.7 summarises the analysis and discussion in the preceding sections by explaining how the results may be used to gain a better understanding of the operation of, and resistance to, institutional pressures, and from that understanding to develop theory.

This thesis views the IASB's (2010a) Framework as a cognitive pillar of the accounting environment for large firms. The Framework includes concepts and values which should assist preparers as they make accounting choices. Section 7.8 analyses interview data in order to consider the extent to which the concepts within the Framework affect managers' values and their accounting choices and whether the Framework is an actual influence on managers as they decide whether to adopt a new or revised standard early.

Section 7.9 summarises the synthesis of the observed results from the quantitative and qualitative analyses of annual reports and interview data respectively in order to meet RO4: *To integrate the results of the quantitative and qualitative phases in order to identify the factors which explain the timing of the adoption of accounting standards*. This section shows how mimetic and normative institutional pressures tend to cause firms to adopt new standards from the mandatory dates. However, firms may bring forward the implementation of a new standard when managers perceive that early adoption provides an efficiency or economic benefit, or where early adoption is consistent with an organisational goal in relation to a firm's financial reporting.

7.1.1 The institutional environment

A contribution of this thesis is the presentation of the institutional environment as a complex network of relationships and pressures. Figure 5.5 has therefore illustrated the various influences and dependencies which are argued to exist within the accounting environment for large firms. In order to support this argument and the development of theory in Section 4.7.1, Figure 7.1 duplicates Figure 5.5 and includes references to where the various pressures and influences are discussed in the following sections.

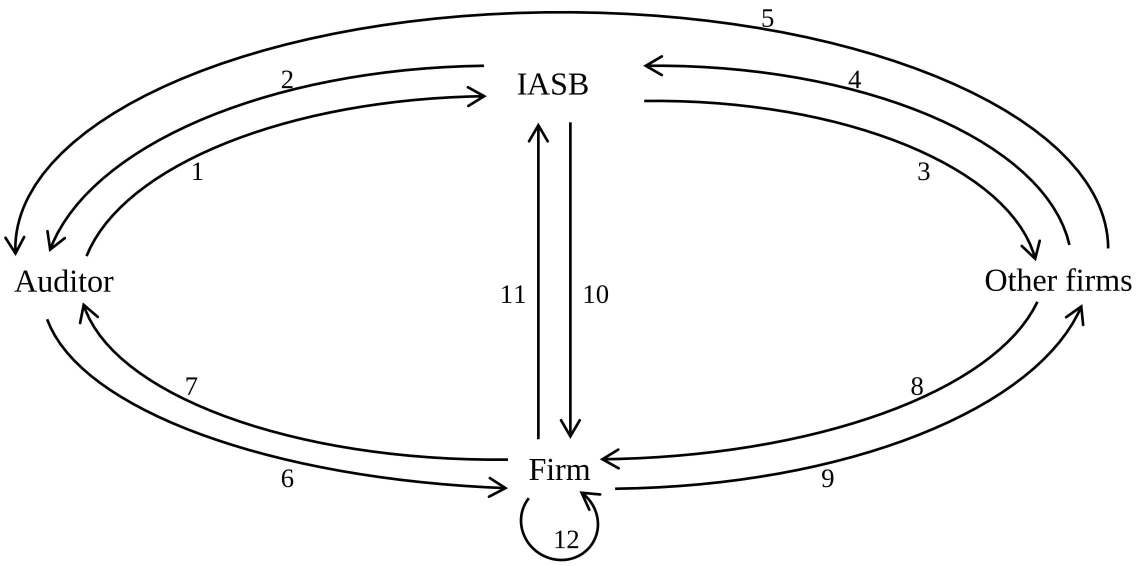
7.2 Early adoption of new IFRSs and revised IASs in the periods 2005/6 to 2013/14

Because compliance with IFRS is mandatory for EU-listed firms, as the standard setter the IASB exerts influence on FTSE firms regarding the content of their accounts. Firms are not required to adopt a new standard early but they must adopt on or before the mandatory date. The mandatory effective date is written into the published standard by the IASB. In order for that date to become mandatory for a firm with a European listing such as a FTSE firm, the standard (and its mandatory effective date) must then be endorsed by the EC. The standards issued by the IASB also influence the Big 4 accounting firms as they audit their clients' accounts in order to be able to express an opinion on whether those accounts give a true and fair view, *inter alia* by evaluating whether accounts have been prepared in accordance with IFRS in all material respects (FRC, 2013). The influences which are exerted by the IASB onto firms and their auditors are illustrated in Figure 7.2.

Tables 7.1 and 7.2 summarise the actual early adoption practices of sample firms in the nine accounting periods from 2005/6 to 2013/14 inclusive. The specific companies which early adopted these standards are identified in Appendix E.

Figure 7.1

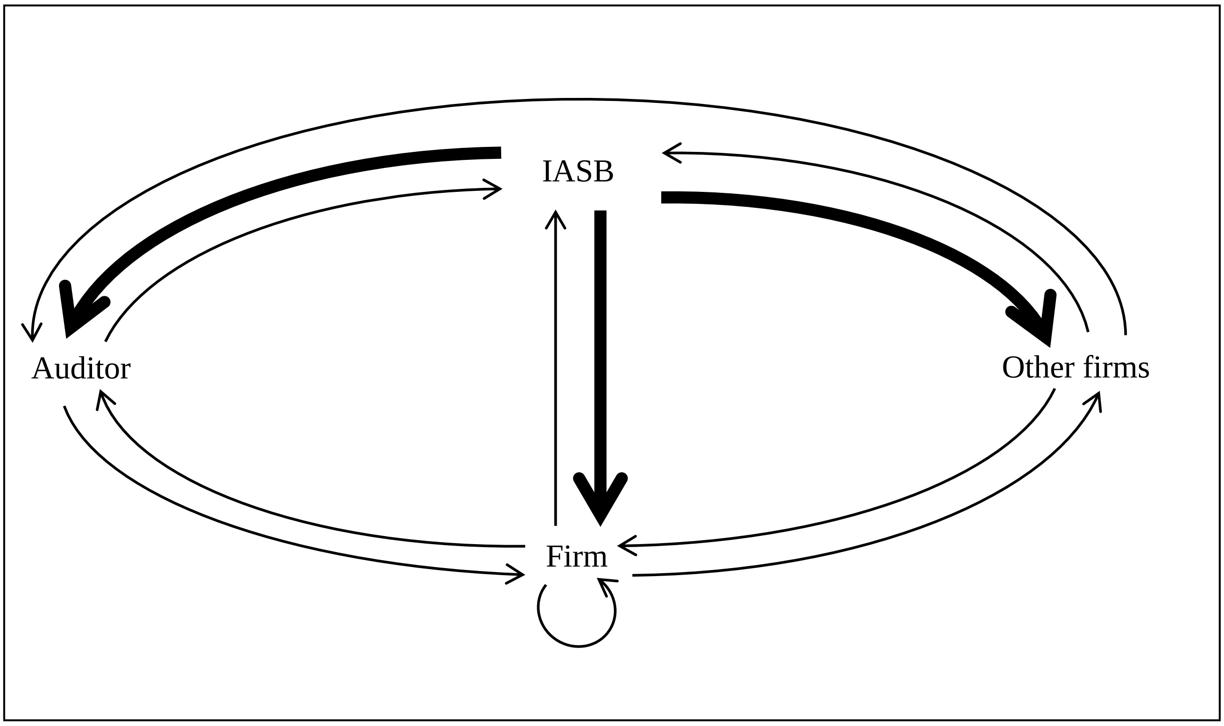
Key to discussion of institutional influences and pressures



Influence	Direction of pressure	Discussion in section(s)
1	Auditor ⇨ IASB	7.4.2
2	IASB ⇨ Auditor	7.2, 7.4.2
3	IASB ⇨ Other firms	7.2
4	Other firms ⇨ IASB	7.6.1, 7.6.2.1
5	Other firms ⇨ Auditor	7.4.2
6	Auditor ⇨ Firm	7.4.2
7	Firm ⇨ Auditor	7.4.3
8	Other firms ⇨ Firm	7.4.1, 7.6.1
9	Firm ⇨ Other firms	7.4.1
10	IASB ⇨ Firm	7.2, 7.5.1, 7.5.2, 7.5.3, 7.6.1
11	Firm ⇨ IASB	7.6.1, 7.6.2.1
12	Organisational goals Efficiency Economic gains	7.5.1, 7.5.2, 7.6.1

Figure 7.2

Influences exerted by the IASB



In a time of transition between regulatory environments I_1 and I_2 the quan results show that firms tend to retain existing practice and remain in I_1 although there are situations when firms choose to escape to I_2. Section 7.3 will therefore analyse managers' views on the advantages and disadvantages of early adoption to identify explanations for both choices. Section 7.4 will then consider how a manager's reluctance to adopt early may be explained by new institutional arguments relating to the mimetic and normative pressures of I_1.

Whilst generally favouring adoption of the standards shown in Table 7.1 from their mandatory dates, a number of firms are observed to have adopted IFRS 6, IFRS 8 and/or the consolidation standards early. Possible reasons why these particular standards might have been adopted early are presented in Section 7.5.

Table 7.1

Early adoption practices of quan sample firms in the periods 2005/6 to 2013/14

Standard[28]	**Topic**	**Effective date approved by EC**	**Number of relevant firms n (N=158)**	**Early adopters**	
				Number[29]	**%**
IFRS 6	Exploration for and evaluation of mineral assets	1.1.06	18	15	83.3
IFRS 7	Financial instruments: disclosures 2005	1.1.07	158	4	2.5
IAS 1 (Revised)	Presentation of financial statements (2007)	1.1.09	158	0	0.0
IFRS 8	Operating segments	1.1.09	158	24	15.2
IAS 24 (Revised)	Related party disclosures (2009)	1.1.11	158	2	1.3
IAS 19 (Revised)	Employee benefits (2011)	1.1.13	158	2	1.3
IFRS 13	Fair value measurement	1.1.13	158	0	0.0
IAS 27 (Revised), IAS 28 (Revised), IFRS 10, IFRS 11, IFRS 12	Consolidation standards	1.1.14	158	45[30]	28.5

[28] IFRS 9: *Financial instruments* has been omitted from Table 7.1 for the reason set out in Section 3.5.

[29] Appendix E shows when individual firms adopted these standards.

[30] The 45 early adopters do not include any firms with an overseas listing (for example, in Australia or South Africa) which made adoption mandatory in 2013/14.

Table 7.2

Number of standards adopted early by quan sample firms in accounting periods 2005/6 to 2013/14

Number of standards adopted early	Number of firms (N=158)
0	92
1	42
2	22
3	2
Total	**158**

7.3 Views on early adoption

7.3.1 Advantages and disadvantages of early adoption

The first question put to managers (CFOs and GFCs) was *"What do you see as the advantages and disadvantages of early adoption of new accounting standards?"*. (See Section 6.4.3.3.) Managers identified a number of issues in response to this question. The various disadvantages and advantages of early adoption which were identified by managers are summarised in Tables 7.3 and 7.4 respectively. As part of the integration of the quan and QUAL results, Tables 7.3 and 7.4 show how many managers are from firms which adopted any standard(s) early in the period under review in the quan phase.

7.3.2 Disadvantages

Table 7.3 shows that the disadvantage of early adoption which was identified by most managers (seventeen out of 21) is the potential expense involved. This expense comprises a number of elements. First, managers commented on the additional resources required because early adopters may need to spend more time considering the requirements and implications of a new standard. FTSE 250 managers in particular said that they did not have sufficient resource within the accounts department to do that. There can also be a significant amount of work involved in going back through the accounting records for prior years to find the information required to restate comparatives if this has not been planned for and so this exercise is 'easier' for late adopters. Therefore even for a FTSE 100 firm, the constant demand on accounting resources means that firms tend not to adopt early unless there is a benefit in doing so:

> "… from a [company] perspective our default position would generally be that we wouldn't early adopt standards unless it could be shown that there's a significant benefit to us because the culture and the way that we work at [company] is that it's a fairly fast moving environment. There's always something going on. … We're quite lean as a team and as a result of that, the key factor is the amount of effort that will be required around a new standard. Depending on what it is, the impacts will vary." (M15) [early adopter]

Managers also believe that there would be additional audit costs associated with early adoption which they are reluctant to bear. (See Section 7.4.2.) This expectation of increased costs provides a rational explanation for why a firm might prefer to adopt a new standard from the mandatory date.

The second most common disadvantage of early adoption identified by managers (eleven out of 21) is the risk of incorrect implementation of a new accounting standard. Consequently new institutional arguments relating to mimetic behaviour whereby firms are understood to copy other firms in order to minimise error and in that way to protect their reputations (legitimacy in their institutional environment) are able to offer insight into firms' accounting choices. Mimicry and the resulting similarity between firms are discussed in Section 7.4.1.

Six managers were concerned that early adoption would affect peer comparisons. The desire to be similar to peer group firms may sometimes be explained by institutional arguments that organisations mimic their peers in conditions of uncertainty in order to obtain or to protect legitimacy. This desire also reflects 'rational' reporting considerations because managers believe that the ability to compare different firms with similar (consistent) accounting is very important to investors:

> "You talk about one of the fundamentals of accounting as being consistency. Therefore if you want consistency, why make a period where people could early adopt something and therefore people are accounting for things on different bases?" (M3) [not an early adopter]

Table 7.3

Disadvantages of early adoption according to interviewed managers

Disadvantage / similar issue identified by managers but different wording	Number of managers of sample firms (M) n=17 *(number of 7 early adopters in quan)*	Number of managers of other firms (OM)[31] n=4 *(whether including 1 early adopter)*	**Total number of managers n=21** *(number of 8 early adopters[32])*
Expense (including additional audit cost) / additional time and resources necessary to implement first	14 *(6/7)*	3 *(1/1)*	**17 *(7/8)***
Risk of error / guesswork regarding how to implement	8 *(4/7)*	3 *(1/1)*	**11 *(5/8)***
Minimal impact sometimes / no material change to net assets	8 *(4/7)*	1 *(0/1)*	**9 *(4/8)***
A new standard usually requires increased disclosures	7 *(4/7)*	1 *(0/1)*	**8 *(4/8)***
Tight timeframe (including waiting for EU endorsement)	6 *(4/7)*	2 *(0/1)*	**8 *(4/8)***
Out of line with peers	6 *(3/7)*	0 *(0/1)*	**6 *(3/8)***
No effect on value or cash flows	4 *(2/7)*	2 *(0/1)*	**6 *(2/8)***
A worse outcome in the financial statements / worse key ratios	4 *(1/7)*	0 *(0/1)*	**4 *(1/8)***
Inconsistent reporting / communicate changes to stakeholders	4 *(1/7)*	0 *(0/1)*	**4 *(1/8)***
Unfavourable commercial impact / increased tax liability	2 *(0/7)*	0 *(0/1)*	**2 *(0/8)***

[31] See Section 6.4.3.2.
[32] See Section 6.7.2.

Table 7.4

Advantages of early adoption according to interviewed managers

Advantage / similar issue identified by managers but different wording	Number of managers of sample firms (M) n=17 *(number of 7 early adopters in quan)*	Number of managers of other firms (OM)[33] n=4 *(whether including 1 early adopter)*	**Total number of managers n=21** *(number of 8 early adopters[34])*
A better outcome in the financial statements / improved key ratios	11 *(5/7)*	4 *(1/1)*	**15 *(6/8)***
Improved accounting practice / improved financial reporting	12 *(5/7)*	2 *(0/1)*	**14 *(5/8)***
It looks good to implement early / expectation on large firms	7 *(3/7)*	3 *(1/1)*	**10 *(4/8)***
Flexible timeframe / implementing before the deadline to manage workload / reporting an item on the new basis without a need to change in the future	6 *(2/7)*	1 *(0/1)*	**7 *(2/8)***
Favourable commercial impact / decreased tax liability	4 *(1/7)*	0 *(0/1)*	**4 *(1/8)***
Simplified accounts preparation	3 *(2/7)*	0 *(0/1)*	**3 *(2/8)***
Excuse to correct erroneous past practice / a new standard supports a company's proposed accounting treatment	2 *(1/7)*	1 *(1/1)*	**3 *(2/8)***
Comparability with US firms where a standard converges with US GAAP	1 *(1/7)*	0 *(0/1)*	**1 *(1/8)***

[33] See Section 6.4.3.2.
[34] See Section 6.7.2.

> " … it [early adoption] puts you out of line with your peers. Then the users will go, 'Hang on, how do I compare your results to theirs because you've gone off and done something ahead of time?' " (M4) [early adopter]

Early adoption might therefore result in economic harm if investors do not understand why a firm's accounts are different from those of its sector peers. On the other hand, one manager said that early adoption might be beneficial if it improves comparability with a firm's US peers where a new standard is convergent with US GAAP. This emphasises the importance of the investors when managers make accounting decisions.

Eight managers explained that the timeframe for early implementation is often too short. This is exacerbated by the need to wait for formal endorsement by the EC and the possibility that the EC might not approve a new IFRS but may require changes leading to a postponed mandatory date. Managers also said that new standards often have minimal impact either on the carrying amount of net assets (nine managers), or on share price or cash flows (six managers):

> "At the end of the day you'll sort of have the same net assets on the balance sheet and you'll still have the same profit number albeit is it one line or a multi-line number? So I don't know that it [IFRS 12] necessarily achieves a great deal." (OM1) [not an early adopter]

> "I doubt it [early adoption] would go to value. I've not known any change yet that resulted in a change of share price." (M1) [not an early adopter]

Like increased costs, these disadvantages of early adoption which reflect efficiency considerations may be viewed as rational reasons to adopt from the mandatory date.

7.3.3 Advantages

Table 7.4 shows the advantage of early adoption identified by most managers (fifteen out of 21) is that a new standard may sometimes provide the opportunity to show a better outcome in the financial statements. Early adoption may occur when managers see the possibility of improving reported results because a new standard favourably affects the measurement of profit, for example, or where a new standard gives managers the opportunity to manipulate a firm's financial ratios:

> “… irrespective of what people say, whether something is reported on balance sheet or off balance sheet, companies do make strenuous efforts to present something in the best possible light.” (Aud1)

> “What some companies would do is adopt something early if it’s going to have a beneficial impact on key ratios for them. That, I think, is the only incidence I can think of where companies would early adopt.” (M3) [not an early adopter]

> “Why would people early adopt? Either because they view themselves as a gold-plated company and they do everything early and they have a reputation for doing that or there is some advantage in so doing because they feel that it gives a materially better answer in terms of accounting treatment or presentation.” (M17) [not an early adopter]

Hence a new standard may be adopted early when this provides a firm with the opportunity to pursue an organisational goal of reporting improved performance.

Three managers pointed out that a new standard gives a firm the opportunity to change an aspect of its accounting without explaining why its previous practice required improvement. However, as one manager explained, this is just one of many reasons which can motivate early adoption:

> “ ‘Is there … something that we are doing at the moment that we’ve been doing for *ad infinitum* but we can use the accounting standard as an excuse to change?’ … If there’s a new standard that comes out, we would use it as an opportunity to review what we were currently doing and say, ‘Do we want to keep doing that? Does it cause us a problem, the way we’re doing it at the moment? Can we change? Should we change?’ It’s an excuse. There are lots of reasons.” (OM3) [early adopter]

This desire to change accounting practice may arise internally as described by OM3 or it may be the result of criticism received from an auditor or regulator such as the FRC. The early adoption of a new standard in these circumstances would be done with the aim of protecting a firm’s reputation (legitimacy).

Ten managers said that it looks good when a firm adopts a new standard early because a firm is then seen to comply with best practice. This goal to appear to comply with best practice extends to areas other than accounting where a manager takes a holistic view of the information communicated via the entire annual report and accounts and the way in which this might affect a firm’s reputation within its environment:

> "Particularly when there's a disclosure issue, I think it can be good to be seen to adopt early … . If you don't, it appears that you've got something to hide. I think where it has a measurement effect, so it affects profits or it affects net assets, that tends to involve more work and potentially systems changes and other things so people tend to be more understanding as to why it's not always practical to implement early. But I think when it's disclosure, it's good to be seen to embrace the newer standard." (M11) [early adopter]

> "We early adopted some corporate governance things last year ... It didn't have any commercial being and it actually showed that we had thought about this ahead of time ... We like to be able to show that we're ahead of the game on a few things. … there was no huge cost burden of doing that, there was no systems or administrative burden of doing that, and in that instance, that wasn't an accounting standard, that was corporate governance so it wasn't going to change our financial statements in any way." (M3) [not an early adopter]

The quantitative results in Tables 7.1 and 7.2, and Appendix E show that no firm regularly chooses to adopt all new standards early and therefore this choice appears to be made strategically from time-to-time and sometimes with the intention of appearing to embrace the latest values within the environment. Managers do not believe that it is necessary to early adopt every standard in order to retain legitimacy. This reflects a longitudinal dimension to the pursuit of legitimacy which is omitted from Oliver's (1991) arguments. Under this scenario a new standard would have been adopted early if it was straight forward to implement so that there was minimal risk of error (see Section 7.4.1) or if it was a standard which was considered to be important within the environment (see Section 7.5.4).

Fourteen managers said that the advantages of early adoption include the improved accounting practice required by a new standard particularly where a manager considers that the new practice is more logical. Another important advantage which seven managers identified is that early adoption provides them with the flexibility to implement a new standard at a convenient time for the firm. These two advantages reflect the benefits identified by the IASB (2010b) in its *Request for views*. (See Section 3.4.)

7.4 Institutional pressures within I_1

The preceding discussion shows that there are a number of issues which CFOs and GFCs consider when they are thinking about the timing of the adoption of a new standard. Some of these issues may be explained using institutional arguments. This research considers an accounting choice made in a time of transition between regulatory environments I_1 (old standard) and I_2 (new standard). Within both I_1 and I_2 there is coercive pressure for firms to comply with the accounting regulations which include the operative standard. Whilst firms may adopt early and escape into I_2 when managers perceive that there is a benefit in doing so, firms generally tend to copy existing practice and to remain in $I_{1.}$ The dominant institutional pressures and influences of I_1 in the latter scenario are shown in Figure 5.6.

The following sections provide evidence for the non-regulatory influences shown in Figure 5.6. First, Section 7.4.1 discusses comments by managers reflecting the operation of the mimetic pressure described by DiMaggio and Powell (1983). Then Section 7.4.2 discusses the normative pressure exerted by auditors onto their clients to retain the *status quo*.

7.4.1 Mimicry: similarity between firms

DiMaggio and Powell (1983) argue that when an organisation finds itself in conditions of uncertainty, it experiences pressure to mimic its peers. This mimicry does not only include copying a new practice. An organisation may also decline to adopt a new practice in order to remain similar to the other organisations within its environment and in that way there is homogeneity among organisations (Boxenbaum and Jonsson, 2008). By retaining existing practice, organisations are less likely to implement a new (uncertain) practice incorrectly and so their legitimacy is protected. Several interviewees identified the possibility of making a mistake as a disadvantage of early adoption as explained by the following managers:

> "The disadvantage is that you're probably on your own and so you will possibly be guessing what it is you should be doing. You're doing it in the absence of any well-worn path or useful guidance to know where you got it right or wrong." (M4) [early adopter]

> "… sadly nowadays I guess there's a culture of fear of doing something wrong. You might be trying for the right reasons to do something and get something wrong and then you get yourself upbraided by the FRC. So there's not a great encouragement to be the first to leap out of the trenches." (OM1) [not an early adopter]

The quotation from OM1 shows how the desire to mimic other firms can arise as the result of coercion by a superordinate organisation such as the FRC. Evidence for the difficulty in distinguishing the institutional pressures set out in DiMaggio and Powell's (1983) typology is an empirical contribution of this thesis.

The mimetic pressure on a firm to copy its peers is shown in Figure 7.3. Figure 7.3 also shows how a firm is able to influence its peers as firms consult with each other to understand the requirements of a new standard and decide together how to implement it so as to remain in step with each other:

> "I do try and canvass my colleagues through informal networks … and find out what the general consensus is on these items." (OM4) [not an early adopter]

> "… if there are debates going on around how you might apply certain aspects of a standard to our industry, for example, we might well be talking to our colleagues in other [sector] companies about how you might deal with a new standard. … Then it could well be beneficial to wait until the consensus develops before you go ahead with a set of accounts because I think the last thing you want to do is put something out and then be out of line with others and feel like you need to change …" (M7) [early adopter]

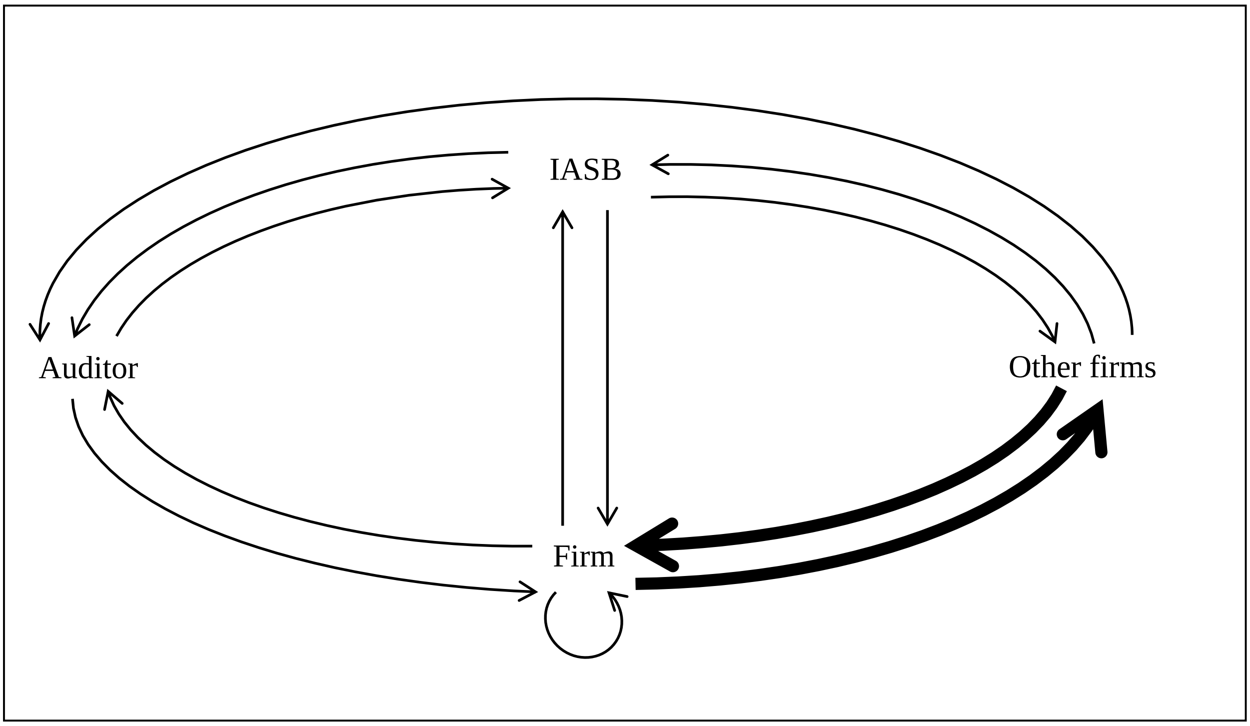
> "Actually, in anticipation of when IFRS was first applicable to UK-listed groups we established a discussion group between ourselves and the peers. It's really at group financial controller level rather than at finance director level but that gave us, without breaching any commercial confidences, that gave us a mechanism to discuss what people were thinking and, helpfully, there were industry specific accounting questions where perhaps the accounting treatment wasn't clear cut under IFRS where that allowed us to explore that and hopefully come up with a consistent answer. It doesn't always work sometimes. There are particular groups have their own reasons for doing things but it at least allowed us to compare notes and understand what other people are thinking. So generally we would know what people's intentions are with regard to early adoption or not." (M11) [early adopter]

Thus competitors within the same sector sometimes consider together how and when to apply changes to IFRS. These findings emphasise the complex relationships which can exist within the institutional environment.

Managers recognise that accounting practice emerges over time. IFRS incorporates not just the accounting standards and the Framework (see Section 7.8 for an analysis of managers' views on the applicability of the Framework to their accounting decisions), but it also reflects the way that firms interpret individual standards. Adoption from the mandatory date gives managers the chance to see how the requirements of a new standard are implemented by other firms.

Figure 7.3

Mimetic pressures to retain existing practice



Managers do not expect a new standard to have all the answers and explain every aspect of an area of accounting but they look to their peers to start to clarify the new norm in a particular area of accounting:

> There's a lot of interpretation no matter how well you write these things to be fair to those who try. There is always scope for interpretation so we prefer to let other people go first and do some of the early, let's say, experimental kind of work." (OM1) [not an early adopter]

> "… the principal reason for not adopting early is that normally there are some practices which become evident when people start to do it that require some collective thinking as it were." (OM4) [not an early adopter]

A manager therefore may copy the approach taken by other firms, and, in turn, a firm's accounting practice may itself be copied by others. Alternatively, firms sometimes act proactively and consult together to decide how to implement a new standard. These two scenarios indicate that firms are both influenced by, and, at the same time, exert influence on, other firms.

The standards shown in Table 7.1 all have a 1 January effective date. This means that when firms wait until the mandatory date to adopt a new standard, firms with a December year end are required to adopt first. The firms with December year ends and which publish their annual reports within a few months (usually the very large firms) will be the first of these and so they may unintentionally provide a lead for other firms to follow regarding how to implement a new standard. However, this research finds very little evidence that the larger firms are motivated to adopt early in order to lead and shape the emerging accounting practice. In part this is understood to be because all but the very largest FTSE 100 firms can have limited investment in the financial reporting function and lack the technical resources which may be necessary in order to adopt a new standard early. Even the very large firms are reluctant to devote the necessary resources to early adopt a new standard unless there is a clear benefit in doing so. This is despite the fact that a few managers of smaller firms indicated that there may be an expectation for larger firms (usually the FTSE 100) to take the lead and adopt new standards early. As one FTSE 250 manager explained:

> "… if you're FTSE 100, in the limelight, you know, your audit committee expects you to be in the forefront of things. You probably have that obligation. For us, I think the answer is we don't have that." (M1) [not an early adopter]

This view is acknowledged by one FTSE 100 manager but (s)he explained that it is only considered necessary for a large, prestigious FTSE 100 firm to early adopt sometimes:

> "There is always an extra weight of expectation that you, as a FTSE 100, report as accurately as you can. As accurately as you can, what I mean is the best principles you can so if you can early adopt something, you will." (M3) [not an early adopter]

Manager M3's comment suggests that (s)he believes that a large firm's reputation might be damaged were it consistently to adopt new and revised standards from their mandatory effective dates. This links to the strategic approach to achieving legitimacy over the long term which has been discussed in Section 7.3.3.

On the basis of the views communicated by managers, firms are understood to prefer to adopt new standards from their mandatory dates so that firms remain in I_1. This interpretation of interview data explains the relatively low numbers of early adopters shown in Table 7.1. Firms tend adopt from the mandatory date because adopting before their peers increases the possibility of implementing a new standard incorrectly with ensuing damage to their reputations (legitimacy). Having analysed managers' views in relation to this mimetic pressure to copy their peers, Section 7.4.2 will consider managers' and auditors' views on the normative pressure exerted by audit firms regarding the timing of adoption.

7.4.2 Normative pressure to retain the status quo

The pressure exerted by auditors onto their clients is shown in Figure 7.4. This pressure arises because auditors experience pressure from the IASB (as an influence within the regulatory environment) to ensure that their clients comply with the requirements of IFRS. Arising out of the interpretation of interview data, Figure 7.4 also shows how auditors are motivated to copy existing practice and generally recommend that their clients do not adopt a new standard early. This observation makes a contribution to the institutional literature because it contrasts with DiMaggio and Powell's (1983) argument that professionals generally promote new practices and this compels organisations to adopt new structures and/or practices even when those practices and structures are technically inefficient.

DiMaggio and Powell (1983) argue that the normative pressure which is exerted by professionals such as auditors causes organisations to become similar. Underlying this argument is the assumption that professionals know what the latest (and therefore 'best') practice is and they recommend this to their clients. Within IFRS, a new standard is understood by the accounting community to represent an improvement in accounting practice. Therefore it might be expected that an audit firm would encourage early adoption in order to enhance their clients' (and their own) legitimacy. If investors and regulators have concerns regarding a particular issue, the disclosures or measurements required by a new standard may address these concerns and trust within the environment is safeguarded (legitimacy is protected).

Since I_2 is built on a regulatory pillar which includes a new accounting standard, it might be supposed that the Big 4 auditors would tend to support new and improved accounting practice and would therefore encourage firms to adopt early. That is, auditors might be expected to act as agents of I_2. On the other hand, since both the old and new standards are permissible under IFRS, in the time of transition between standards auditors might be expected to remain neutral and show allegiance to neither I_1 nor I_2. Consistent with this expectation, the interviewed audit technical partner explained that auditors should brief their clients as follows:

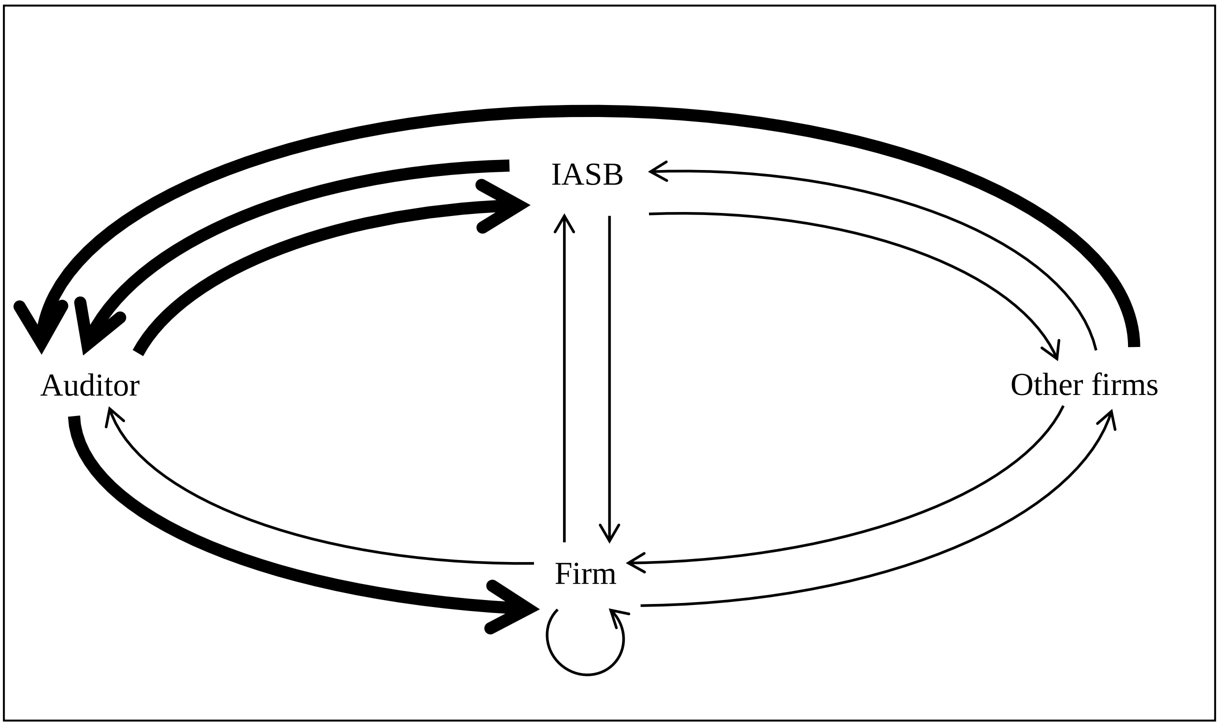
> " 'This is what's in the pipeline; this is what's changing; this is when it's going to change; and these are your choices. This is the timing of when you can choose to implement it.' Then get the audit team and the client to debate between themselves what's the best solution as to how to implement it and when to adopt it." (Aud1)

This neutral approach may be contrasted with the normative role of agents of I_2 which DiMaggio and Powell (1983) assign to the professions.

Whilst Aud1 communicated that the decision when to adopt a new standard should be made by the client and not the auditor, several FTSE managers said that they see a bias in the advice given by their auditors. Managers believe this is because of the possibility of incorrectly implementing a new standard:

Figure 7.4

Normative pressure to retain the status quo



> "… there's probably a bias towards waiting until the standard is out and in force. On the rare occasions that we may have said 'Well, why don't we adopt this now?' their [the auditors'] response would be 'Why? You don't have to.' " (OM2) [not an early adopter]

> "They [the auditors] tend to have a bias against early adoption. … the reason for that is, I think, they're obviously nervous about early adopting something and getting it wrong. So where possible they would rather wait and see how everyone else adopts and see how they do it before they sign off a set of accounts. They don't really want to be opining on a ground-breaking set of accounts that was the first company to adopt the revenue recognition rules, for example. Their preference generally is to hold off rather than to adopt early." (M11) [early adopter]

Therefore auditors do not appear to managers to encourage firms to move into I_2 early but they are understood to prefer that firms remain in I_1 when given the choice. Manager M11's comment highlights that it can be difficult to separate the various institutional pressures on firms. Firms remain in I_1 because they do not want to make a mistake in implementation and so they comply with mimetic pressure to copy the practices of their peers. Auditors also prefer their clients to mimic existing practice and so they likewise advise that a new standard is adopted from the mandatory date and not before.

Along with the FRC, the IASB as the standard setter plays a role in the regulatory environment for auditors and there are systems in place for the FRC to monitor compliance with the accounting standards issued by the IASB:

> "The auditors will certainly have disclosure checklists and they will work through those disclosure checklists because that is the way that they can demonstrate to the regulator that they have been consistent and comprehensive and aren't missing anything. It's a grave embarrassment if your client is taken before the Review Panel and a public statement made as to something's got to change." (Aud1)

The auditors try to ensure that their clients comply with the detailed requirements of IFRS. The auditors' influence can also be described as coercive as they act as a pseudo-regulator and attempt to enforce the mandatory accounting regulations within the environment.

Whilst the Big 4 accounting firms are in competition (for example, in relation to performing the audits of FTSE 350 firms), there is also the view among the other actors that the Big 4 sometimes work together to minimise the risk of incorrect reporting and to protect their interests. This enhances the power of the audit firms to shape accounting practice within the environment. By consulting together in this way, the Big 4 may increase their power over client firms and also their influence over the IASB:

> "If you've got a partner and you're putting him on the spot and he's got to get an opinion from his firm on how to treat something, they can get a bit twitchy. … Ultimately they do then start talking to all the other firms about it. I know in that instance [Firm X] were talking to [Firm Y] trying to get a unified way forward on it so it was interesting. It gave me a little bit of insight into how things happen. They'll be talking between themselves. … When things start to get interesting, they don't like to tend to step away from the crowd too much as you can imagine." (M13) [not an early adopter]

> "They [the Big 4] coordinate with each other. … I sometimes think they talk to each other about their problems as well and if they're not sort of agreeing, then they often in some way or another get back to us and we might get an IFRIC [International Financial Reporting Interpretations Committee] issue or a request for a clarification or they might point out to us that the standard's contradictory. You know, whatever the problem might be. ... But if the firms are doing it … the auditors will be sitting right alongside, intimately involved in everything that's going on. So I see them as a real focal point." (IASB)

The general view among interviewed managers is that auditors try to protect their own reputations by dissuading their clients from early adoption because of the risk of incorrect implementation of a new standard's requirements. Only one manager thought that audit firms may sometimes like their clients to adopt early because that enhances the auditor's reputation although the problem of incorrect implementation is acknowledged:

> "Sometimes they [the auditors] encourage it [early adoption] because they like to associate themselves with an advanced preparer. So if you adopt early, that could bring some kudos. They'll attach themselves to that kudos. 'Hey look at us.' On the other hand, when a particular standard is really unclear as to what early adoption will mean, they tend to discourage it because of the risk of getting it wrong and egg on your face. I'd say that if it's simple, they'll push it. If it's complex, they'll resist because of the risk of getting it wrong." (M4) [early adopter]

The audit engagement team are perceived to be reluctant for their clients to early adopt because the requirements of new accounting standards can be complex. This complexity means that if a client is considering early adoption, the audit firm's technical department usually becomes involved. Because of the nature of the technical department's advice and also the time taken to receive it, this is not always popular with managers:

> "Twenty years ago you could go to a senior manager on an audit and could say 'Look I'm having this problem' or 'What do you think? How do I do this?' and you could get an answer. Now it's 'I think it's like this but I'm going to have to go and check with my technical department' and practically everything ends up in this great logjam of waiting for their technical people." (OM1) [not an early adopter]

> "… this is where you come into the cost and complexity side of early adoption because they [the auditors] then have to get up to speed and become familiar with that standard very quickly and will often end up in various incidences referring it to their technical team. … The bulk of those technical expertise teams don't have an ounce of commercial nous in their body. …. What they don't often do is understand the commercial nature that's behind the transaction, applying the principles without any form of – what we get out of some of those folk some of the time at [auditor's name] would be something that doesn't take into full consideration the commercial substance of what is actually happening." (M3) [not an early adopter]

In addition, managers are reluctant to incur the additional audit fees which might arise if they were to adopt a new standard early:

> "… you don't necessarily want to pay for their [the auditors'] training as they get to grips with a new standard." (OM3) [early adopter]
>
> "I'll be cynical and say that they [the auditors] do like to try and make a bit of money. It's a good way of them providing different advisory services than plain audit so they do tend to try and build these things up, I think ..." (M12) [not an early adopter]

The foregoing analysis shows how an auditor's advice to firms, and the auditor's own internal systems which may cause a slower accounting process and extra costs whenever a client might want to early adopt a new accounting standard, increase the pressure on firms to adopt from the mandatory date.

7.4.3 Resistance to normative pressure

During the interview, one manager reflected on his/her relationship with the auditors and commented as follows:

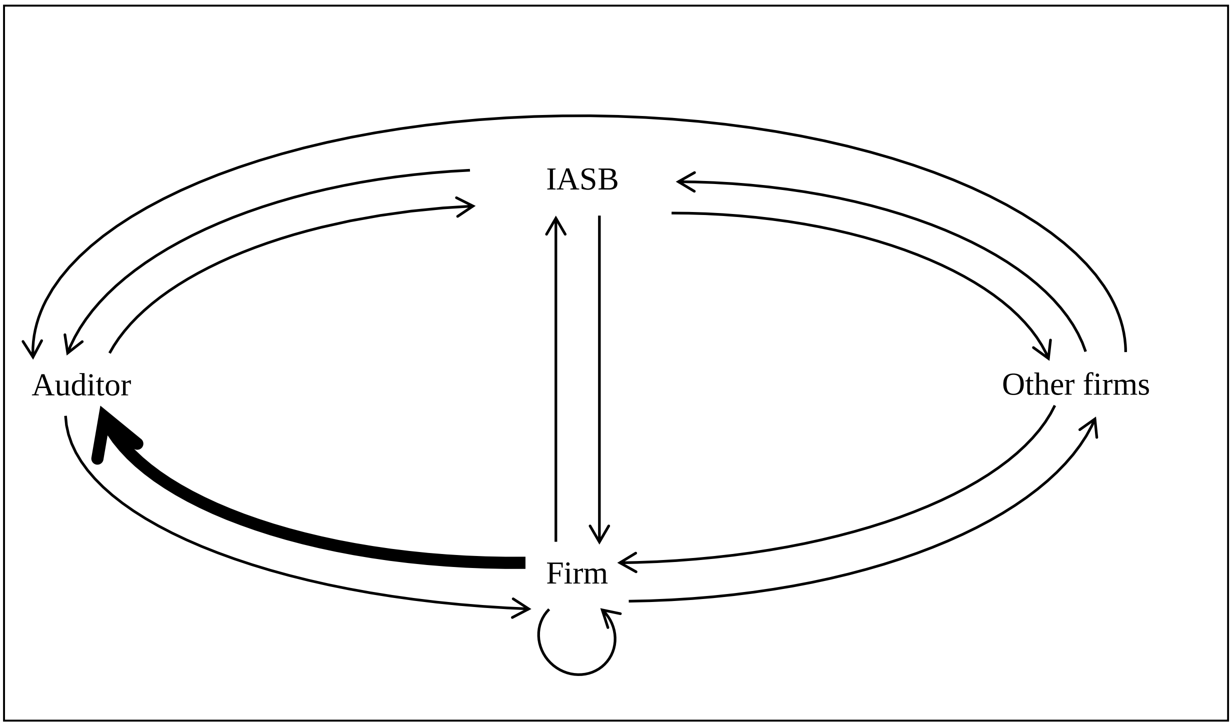
> "Talking about it now, I definitely feel that I'm over-reliant on the auditors and it's probably something I'll think about from this point. … You've got me thinking about this now. You rely on the auditors and I think the auditors do like to put their clients in a certain place and so you're often going to get a biased view by doing that. ... Our over-reliance on auditors isn't a good thing and I would like to shift that. But it's always the case that you've got limited resource and you've got other things to do." (M13) [not an early adopter]

M13's comment illustrates the 'taken for granted' nature of the role of the auditors as institutional experts whose advice should be followed by their clients. However, the extent to which firms comply with their auditors' advice varies considerably so that, on occasion, firms resist that advice.

Lawrence (2008) suggests that institutions benefit from powerful actors who enforce institutional norms. In the context of the current study, the Big 4 audit firms might be seen to fulfil this role. However, Figure 5.5 presents the institutional environment as a network of interdependent relationships rather than a hierarchy of power. Therefore whilst auditors have a measure of power over their clients' financial reporting practices, at the same time large FTSE firms have economic power over their auditors (see Section 3.2.1) and firms are therefore able to resist normative pressure. This resistance is shown in Figure 7.5.

Figure 7.5

Resistance to normative pressure



DiMaggio and Powell (1983) argue that normative pressure can arise both outside and inside an organisation. External normative pressure is exerted by professional advisors such as auditors. Internal normative pressure arises because senior managers are often professionally qualified and therefore have undergone the same professional training programmes as each other. This is the case in the current study since many of the CFOs and GFCs of large firms are qualified accountants, often Big 4 trained. Further, some CFOs were audit partners in Big 4 firms before moving into industry (as was the case for three of the seven CFOs shown in Table 6.4). Consequently they might be expected to have similar values to their auditors so that the influence of normative pressure is magnified.

On the other hand, CFOs and GFCs who have worked as audit partners or managers in a Big 4 firm are very aware of the way their auditors work and therefore know how to resist their advice. Beattie *et al.* (2004) highlight the complexity of the audit process and the interactions between the audit engagement partner and CFO. They conclude that in order to negotiate successfully with clients, audit partners need a high level of technical knowledge and also interpersonal skills. Therefore, on moving into industry, CFOs (and GFCs) can have the knowledge and skills which are necessary to resist advice from auditors.

The tactics which managers use to resist their auditor's advice include consulting with other audit firms. Rather than getting similar advice, managers recognise that different audit firms can take different approaches when interpreting accounting standards:

> "If there is a technical issue that [the auditors] push back at us on, we try and put the business case first. If it gets very technical, we may sound out some other firms … I think people are adapting to recognise that there is more interpretation in terms of applying the standards than there was in the early days. Although different firms take different approaches, that's very sure." (OM3) [early adopter]

> "I think it's good for us to do it ourselves and even to try and take in other views. … I think sometimes having other people involved, or keeping a degree of independence ourselves, and maybe conferring with others – I don't say we would do that very much – that can be appropriate and there are still areas of uncertainty or optionality or whatever that exist." (OM1) [not an early adopter]

One reason that firms resist their audit firms' advice and spend time looking into an accounting treatment themselves is because managers believe that an audit firm may advise too much disclosure in order to protect its own reputation. Additional, and possibly 'unnecessary', disclosures make the accounting process more inefficient and potentially provide too much information to competitors which competitors may not then be required by their auditors to provide in their own financial statements:

> "We like to have looked at something first ourselves to have formed a view and then go back to them [the auditors] because there is always a risk with auditor relationships that

> if you just put everything onto them, you end up with a best practice disclosure treatment, for example, which may not be in your best interests." (M9) [early adopter]

The willingness to resist the auditor's advice to adopt from the mandatory date (remain in I_1) means that firms are in a position to adopt a new standard early and escape from the *status quo* (move into I_2) when managers consider this to be beneficial.

7.5 Reasons for escaping from the status quo

Table 7.1 shows that a number of firms adopted IFRS 6, IFRS 8 and/or the package of consolidation standards early. Nørreklit *et al*. (2006; 2010) propose that research methodology should consider the possibilities which individuals or organisations use to construct their reality. Therefore the specific requirements of these standards and the accounting possibilities which they provide are considered in the following sections in order to identify the efficiency, economic and other strategic benefits which may exist for firms reporting under the new standards. The following sections provide evidence for the influences of I_2 which cause a firm to exploit the choice between regulatory environments I_1 and I_2 by adopting a new standard early.

7.5.1 IFRS 6: Exploration for and evaluation of mineral assets

Section 4.4.1 has shown how some authors believe that the requirements of IFRS 6 resulted from the pressure brought to bear on the IASB by the large firms in the oil and mining industries, and their Big 4 auditors (Cortese and Irvine, 2010; Cortese *et al*., 2010; Noël *et al*., 2010). The result was that the reporting regime of IFRS 6 suited many extractive firms' reporting goals. The influences which resulted in the favourable requirements of IFRS 6, and which, in turn caused a number of firms to adopt the new standard early are illustrated in Figure 7.6.

Table 7.1 shows that IFRS 6 was only relevant to eighteen sample firms when it was introduced. Fifteen of these firms (83.3%) adopted IFRS 6 early. (IFRS 6 had no material impact on the three firms which did not adopt early. These firms already used the successful efforts method and therefore did not have to write off exploration and evaluation expenditure on the introduction of IFRS.) Analysis of annual reports did not reveal reasons why firms adopted IFRS 6 early although eight of the fifteen early adopters disclosed that early adoption of the new standard had no impact on their accounts. Therefore the analysis of interview data collected in the QUAL phase is necessary to explain the observed quan result. Interviewees include three GFCs whose firms adopted IFRS 6 early.

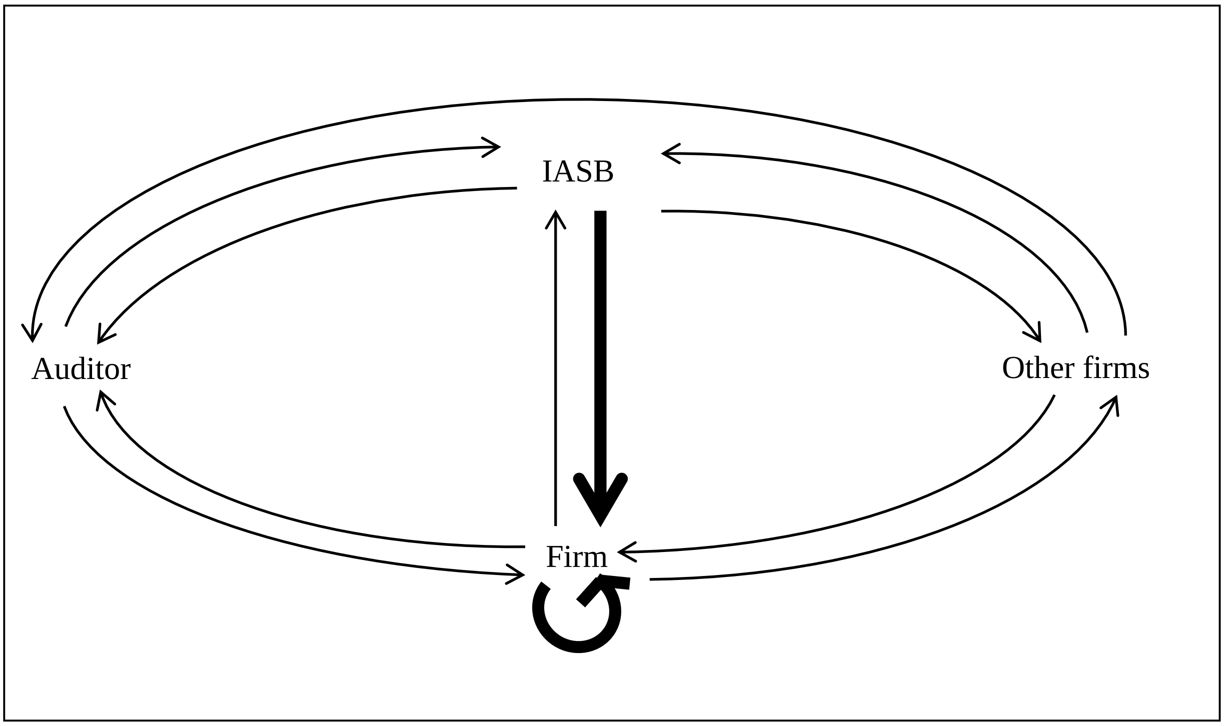
It is possible that IFRS 6 was adopted early because it required little change in accounting practice and therefore provided an efficient solution to the potential transition problems of reporting under IFRS. As explained by two managers:

> "IFRS 6 didn't say anything. It said carry on doing what you're doing essentially. 'We [the IASB] don't know what to do. Carry on doing what you're doing.' " (OM1) [IFRS 6 was not applicable to this firm]

> "… the method of accounting we used for exploration expenditure for example under Australian and UK GAAP was acceptable under IFRS 6 but was questionable in the absence of 6. So had we not adopted it early, it's likely we would have had to change our accounting for a period of time until 6 became mandatory and then we would have been able to go back again. In fact there's a risk we couldn't have gone back because GAAP would have changed and would have moved on. So we really adopted 6 early in order to preserve and maintain the method of accounting we had in place." (M4) [early adopted IFRS 6]

Figure 7.6

Early adoption of IFRS 6



By adopting IFRS 6 early, extractive firms did not have to comply with other requirements within IFRS when accounting for their exploration activities to find oil or mineral deposits. For example, the extractive firms were able to capitalise exploration costs before a probable future economic benefit could be demonstrated as would have been required for the capitalisation of development expenditure under IAS 38: *Intangible assets*. Additionally, firms avoided the need to apply the more stringent impairment regime of IAS 36: *Impairment of assets* and therefore reduced the possibility of having to recognise impairment losses in relation to extraction assets. (See Section 3.5.1.) This would have put firms at a disadvantage compared to their US peers:

> "…we capitalise exploration costs when we're looking for oil and under IFRS you wouldn't be allowed to do that. You'd have to write it all off because you wouldn't be sure whether you'd find oil or not and whether you have an asset. US GAAP allows you to capitalise and then write it off if you find there's nothing there afterwards. That would be a big change in accounting if everybody in the EU had to expense those costs. It would be completely incomparable with other companies …" (M5) [early adopted IFRS 6]

Extractive firms were therefore motivated to bring forward the opportunity to implement this beneficial standard because it suited their organisational goals in relation to financial reporting to do so.

7.5.2 IFRS 8: Operating segments

Table 7.1 shows that 24 out of 158 sample firms (15.2%) adopted IFRS 8 early. This result may be benchmarked against the existing literature as follows: Crawford *et al*. (2012) found that 26 out of 150 financial and non-financial FTSE 350 firms (17.3%) adopted IFRS 8 early; Nichols *et al*. (2012) found that 32 out of 335 EU firms (9.6%) did so. (See Section 4.4.2.)

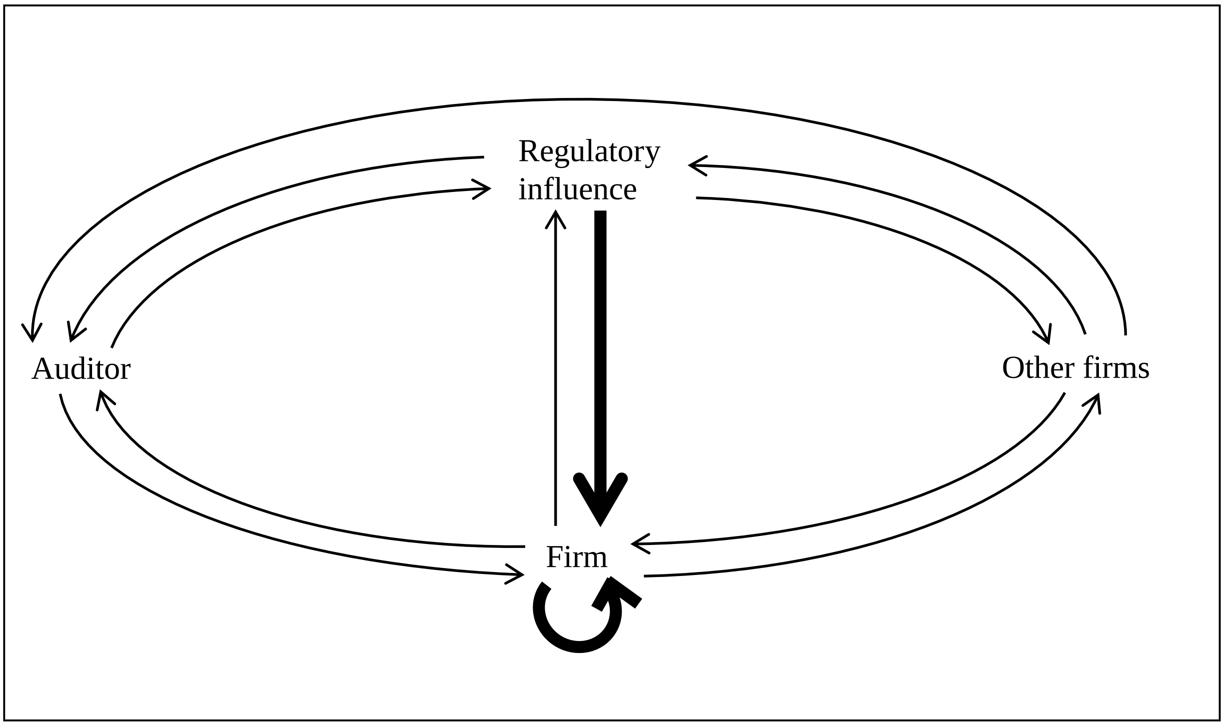
Figure 7.7 illustrates how strategic considerations caused some firms to comply with the coercive pressures of I_2 by adopting IFRS 8 before the mandatory date. IFRS 8 was issued as part of the IASB-FASB convergence project and the development and requirements of the new standard have been discussed in Section 3.5.2. Although the IASB issued ED 8: *Operating segments* in advance of IFRS 8 as part of its normal consultation process, the final standard adopted the requirements of the US standard SFAS 131: *Disclosures about segments of an enterprise and related information* so that firms, their auditors and other interested parties were not able to influence the IASB on this occasion (Crawford *et al*., 2014).

One of the criticisms of IFRS 8 is that it allows firms to create their own measurements of segmental profit (Crawford *et al*., 2014; Nichols *et al*., 2012). Firms can do this by using a non-IFRS accounting policy to measure certain items or by the reallocation of expenses. The freedom surrounding the measurement of reported segmental profits may provide one reason why its early adoption was relatively popular when compared with the majority of standards in Table 7.1. However, upon implementation of IFRS 8, only one of the 158 sample firms reported their segmental profits using a non-IFRS accounting policy (the use of a single rate of foreign exchange to translate the transactions and balances for overseas operations). On the other hand, 105 firms reported segmental profits with certain items excluded (for example, restructuring and finance costs). However, central costs could also be excluded from segmental expenses under IAS 14 (Revised) and so this may not always provide the reason for early adoption of IFRS 8.

Instead, the reason why a number of firms early adopted IFRS 8 may have been because it enables users to view segmental information 'through the eyes of management'.

Figure 7.7

Early adoption of IFRS 8



Several interviewed managers highlighted how IFRS 8's approach potentially provides the opportunity for a more efficient accounting process by aligning external and internal reporting and thereby removing the need for some internal reconciliations. As two managers explained:

> "Anything that moves the way you report externally closer to the way you report internally is going to be beneficial because you're not having to reshape numbers and you're not having to discuss internally why the number X is different externally. It aligns reporting and performance better." (M1) [did not adopt IFRS 8 early]

> "… we did early adopt that one [IFRS 8] because it was identical to the US requirement. In those days we still had to do a reconciliation to US. … We adopted the standard … before it was required. This was partly because it aligned us with our peers in the US but mainly because it meant we could stop producing data under the old standard, IAS 14. The great advantage of IFRS 8 is that one reports externally the same information as used internally. Producing IAS 14 data and then trying to explain segment results in a different way added unnecessary cost and complexity." (M5) [early adopted IFRS 8]

Manager M5's comment also shows how adopting IFRS 8 early produced greater alignment with US firms because IFRS 8 was based on the US standard. Early adoption was therefore motivated by a desire to comply with reporting requirements in the US (a coercive pressure from a third environment (I_3) the force of which was enhanced through efficiency considerations) as well as a desire to be similar to peer firms in I_3 (a mimetic pressure). This observation supports the conclusion in Section 8.3.2 that institutional pressures can be difficult to distinguish.

When IFRS 8 was introduced, the number of reported segments was expected to increase because of the reduction in the amount of discretion given to managers to aggregate segments (Berger and Hann, 2007; Nichols *et al.*, 2012). However, this increase is not always observed as firms may, in fact, have greater scope under IFRS 8 to manipulate the identification of reportable segments to the extent that some may report only one segment:

> "Some firms just have one segment because they don't want to give information to competitors. They don't want to give margin away and segmental information gives margin. It comes back to best practice. If there's other companies out there that say they've got one segment, then there's safety in numbers. They get around it by saying 'Make sure that the Board don't get a paper that gives a breakdown.' " (OM3) [did not adopt IFRS 8 early]

It seems impossible to state definitively whether reporting under IFRS 8 provides a greater or lesser amount of commercially sensitive information to competitors when compared to IAS 14

(Revised). Whilst IFRS 8 introduced requirements for information in relation to the existence of major customers and the amount of revenue which arises in the country where a firm's head office is situated, some information need not be disclosed if it is not regularly provided to the CODM:

> "I am aware of various cat and mouse games going on where companies will try and argue that the chief operating officer had less than you might think purely to avoid releasing that degree of competitive information to the market." (Aud1)

The foregoing analysis serves to illustrate that firms may have adopted IFRS 8 early for strategic reasons because they saw an opportunity to hide certain information from competitors. This includes concealing information relating to those segments with high profits (Nichols *et al.*, 2013). In addition, Nichols *et al*. (2013) suggest that managers may use segment disclosures to hide information on poorly performing segments from owners.

Section 7.3.3 explains that managers believe that a new standard can provide a way for firms to correct an 'inappropriate' accounting treatment without highlighting the past error. Early adoption of IFRS 8 could therefore be viewed from a sociological perspective to the extent that a firm might use it to cover up the real reason why it amended its segmental reporting in advance of the mandatory date. This would have been with the aim of protecting the firm's reputation within the environment. A change may have been required because of external criticism by the FRC or the auditor, or may have arisen out of an internal review of accounting practice. There would be no need to disclose the real cause of the change because the new standard would provide a legitimating reason:

> "I would imagine where those did do it [adopt IFRS 8 early], it was simply because they had already probably come under some pressure that their segmental reporting wasn't great and that they saw this as an opportunity to revisit their internal management reporting systems." (OM2) [did not adopt IFRS 8 early]

The above analysis shows that there are multiple reasons why firms adopted IFRS 8 early. These include the freedom which IFRS 8 gives managers to determine segments in order to hide information on successful segments from competitors. Also, the adoption of IFRS 8 made segmental reporting in the financial statements a more efficient process for many firms because much of the information required by the standard reflects information which is made available to senior management.

7.5.3 Consolidation standards

Table 7.1 shows that 45 out of 158 sample firms (28.5%) adopted the package of consolidation standards[35] early. The early adoption of these standards provides an example of acquiescence with authoritative and also coercive pressures from regulatory influences (Figure 7.8).

Section 3.5.3 has described how the consolidation standards were issued by the IASB with an effective date of 1 January 2013 but were subsequently endorsed by the EC with an effective date of 1 January 2014. Countries such as Australia and South Africa require listed firms to use IFRS as published by the IASB and so adoption was mandatory in 2013/14 for a firm with an Australian or South African listing. These firms are not included in the 45 early adopters shown in Table 7.1.

In 2007 the US announced that foreign companies may file IFRS financial statements without the need for reconciliation to US GAAP (SEC, 2007). The SEC's definition of IFRS includes IFRSs issued by the IASB (and IASs issued by the IASC which continue to be in force). Therefore foreign firms with a full US listing, and also those with Level II or III American Depositary Receipt (ADR) programmes, have to comply with the 2013/14 published effective date for the consolidation standards or else they must provide a reconciliation to US GAAP in their US filing. This effectively means that firms would have to prepare two sets of accounts. This inefficient duplication of effort may explain why these firms adopted early:

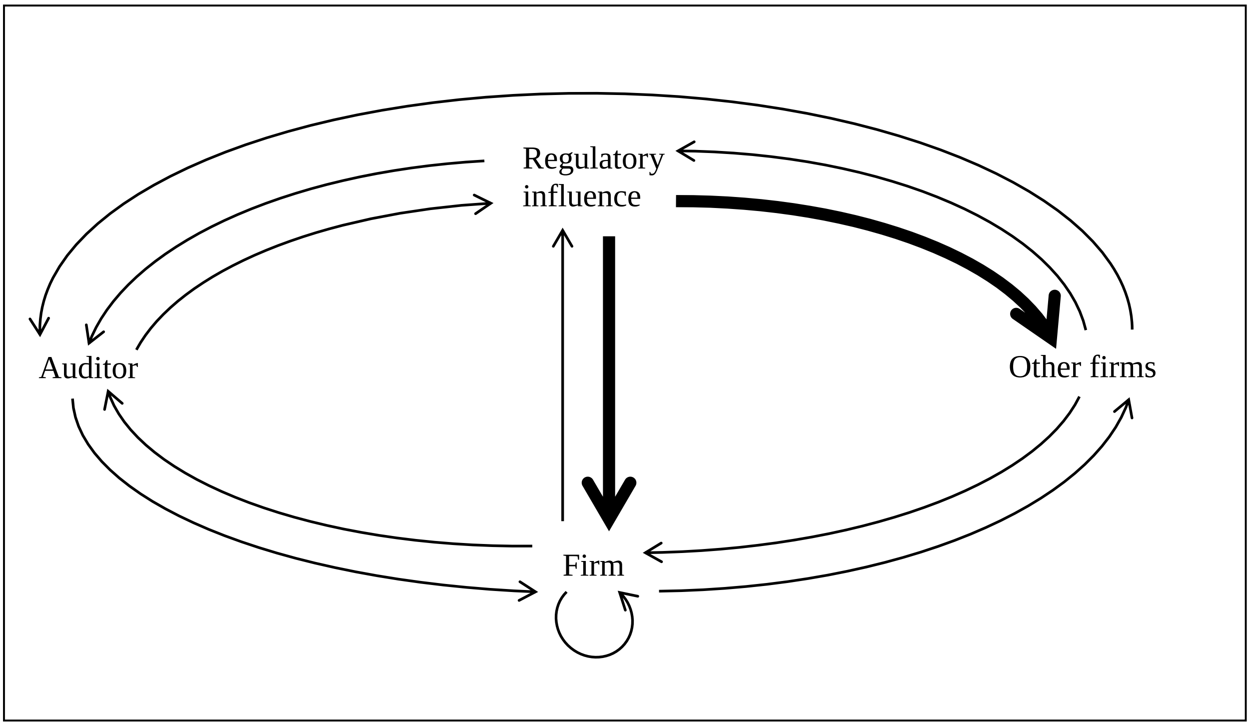
> "… we have to consider the regulatory environment. ... We are listed in the US and therefore must file financial statements that comply with IFRS irrespective of the EU's endorsement (otherwise we would either have to file a different set of statements or provide a reconciliation to written IFRS). In practice this has not been an issue, except that recently we had to adopt IFRS 10 to 12 in 2013 and could not consider the option provided by the EU to delay one year." (M5) [early adopted the consolidation standards]

.

[35] IAS 27 (Revised): *Separate financial statements (2011)*, IAS 28 (Revised): *Investments in associates and joint ventures (2011)*, IFRS 10: *Consolidated financial statements*, IFRS 11: *Joint arrangements* and IFRS 12: *Disclosure of interests in other entities*

Figure 7.8

Coercive pressure to adopt the consolidation standards early



The fact that a number of firms were required to adopt in 2013/14 may explain why some other firms adopted early as they were influenced to copy the new practice (a response to mimetic pressure). Also, auditors had to become familiar with the new standards a year before the EU's mandatory date and the normative pressure on firms not to adopt early may have decreased. One manager was asked why his/her firm adopted the consolidation standards early. His/her answer may be contrasted with the views documented in Section 7.4.2 where auditors are usually observed to recommend that firms wait until the mandatory date.

> "Good question. I guess we followed the advice of our auditors in doing so really. I guess that's the key rationale." (M9) [early adopted the consolidation standards]

The 45 early adopters of the consolidation standards include a number of firms with no overseas listing. The early adopters also include firms with Level I ADR programmes in the US. These firms need not file IFRS accounts in the US and need not prepare a reconciliation to US GAAP. Their early adoption of the consolidation standards might have been to follow IFRS as best practice for firms with a full US listing and might therefore be viewed as compliance with a coercive (non-authoritative) pressure to increase legitimacy in a third environment (I_3)

Another reason for adopting the consolidation standards early was in order to avoid a duplication of effort in 2014/15 where a company acquired a new joint venture or subsidiary in 2013/14 which would have to be treated differently in 2014/15 under the requirements of the new standards. Rather than consolidate on one basis in 2013/14 and have to change (and restate comparatives) in 2014/15, a group may have early adopted these standards in order to make the reporting process more efficient over the long term.

> "… they don't have to do an adjustment in future … if they're creating joint ventures or taking over companies. It's the one step two step thing that often drives people … I'm not sure what adjustments these companies would have to make under IFRS 3[36] but it's possible that if they went under the old standard and accounted that way, then come adoption they're going to have to change so why wouldn't they just change as they go?" (IASB)

> "… a change in IFRS could affect the appraisal of a proposed future transaction for a company such that there would be an advantage to early adopting a standard to ensure consistent reporting from one period to the next without restating prior years' results. [The company's] early adoption of the new and revised consolidation standards (IFRS 10 to 12, IAS 27, IAS 28) facilitated consistent year on year reporting with regard to a new joint operation." (M6) [adopted the consolidation standards 'early' in 2013/14 because of an overseas listing]

> "We bought a number of businesses and JVs last year and the auditors wanted to ensure that the classification we adopted wouldn't change a year later with the new rules so we had to assess the new businesses under the new rules and the old rules. We suggested that as we'd done the work we may as well say to readers there would be no change. As they had done the necessary audit work, the auditors agreed." (OM3) [early adopted the consolidation standards]

The quotation from OM3 shows how the perceived efficiency gains of reporting new acquisitions under the new standards without the need to change in 2014/15 provided the impetus to negotiate with the auditors, to resist their usual advice to wait until adoption became mandatory and instead, to adopt early. This also enabled the firm to provide useful information to investors regarding the firm's future reporting, consistent with an organisational goal of providing relevant (predictive) information in the financial statements. Some firms

[36] IFRS 3: *Business combinations* includes requirements on the recognition and measurement of the assets and liabilities acquired in a business combination including how to measure goodwill.

assessed whether there might be an efficiency or strategic reporting benefit in adopting the consolidation standards early when their firms had recently acquired a new group entity. The consolidation standards therefore illustrate how there can be multiple reasons for the early adoption of new standards. Further, Manager M8b explained that whilst his/her firm did not adopt these standards until the mandatory date, the deals surrounding the acquisitions of new group entities in recent years have been structured so as to optimise reporting under the new standards.

7.5.4 Other standards

Table 7.1 shows that small numbers of firms early adopted IFRS 7: *Financial instruments – disclosures* (four firms), IAS 24 (Revised): *Related party transactions* (two firms) and IAS 19 (Revised): *Employee benefits* (two firms).

One of the reasons for the 2009 revisions to IAS 24 was to remove the requirement for entities under the control or significant influence of a particular state to disclose transactions with entities 'controlled' by the same state. Appendix E shows that Kazakhmys PLC adopted IAS 24 (Revised) early in 2010. The company's 2010 financial statements show that the Government of the Republic of Kazakhstan owned 26% of the company's ordinary shares. The financial statements for the previous year disclose that, *inter alia*, the company undertook arm's length transactions with other entities controlled by the Government of Kazakhstan (for example, the purchase of electricity and the payment of tax). By adopting IAS 24 (Revised) early, the company was no longer required to disclose these arm's length transactions making the reporting process more efficient.

IAS 19 (Revised) removed the option of taking a corridor approach to recognising actuarial gains and losses in respect of defined benefit pension schemes. The standard therefore had a potential impact on a firm's net assets where a firm had previously used the corridor approach. Both of the firms which adopted IAS 19 (Revised) early already recognised actuarial gains and losses immediately in other comprehensive income, consistent with the requirements of the revised standard and therefore their net assets were not adversely affected upon implementing IAS 19 (Revised). The reason for early adoption is not clear from the financial statements but the decision may have been driven by convenience (if a manager expected the following year to be particularly busy) or perhaps it was to reassure investors that net assets would not fall following adoption of the revised standard.

Manager M9 was asked why his/her firm adopted one of these standards early. (S)he explained that the standard had minimal impact on the firm's accounts but it was felt to be a topic which was important within the environment and therefore the firm did not want to be seen to wait until the mandatory date:

> "… from time to time there'll be hot topics that will be high on the agenda of, I guess, our audit firm and [topic] at that time I remember was very much a hot topic. It was seen as best practice to adopt that standard and therefore as much as we don't necessarily want to be on the frontline, we don't want to be behind the curve because if, in a way, you're seen not to adopt at a certain time, there could be questions as to why you wouldn't divulge the information that a standard requires. I do very much remember it being a hot topic and it certainly would have been brought to the attention of our audit committee and therefore on our radar." (M9) [early adopter]

This answer reflects a strategic approach to legitimacy where a firm considers how important a new standard is and whether a firm's reputation might be harmed if adoption was not until the mandatory date. M9's answer also shows the potential power of a professional advisor such as the auditor to define what is important within the institutional environment.

7.6 Future standards

This project focusses on the eight new or revised 'accounting standards' which have become effective since the mandatory adoption of IFRS by EU-listed firms. Whilst the data in Table 7.1 may indicate that early adoption is relatively unpopular, managers regularly assess the impact of new standards and, *inter alia*, consider whether there might be any benefit in adopting them before the mandatory dates:

> "The default position is 'Don't do it.' We look at every standard. We look at it through the ED process, then the draft standard and then the final standard and we form views as to whether there's merit in adopting early." (M4) [early adopter]

> "We've had the discussion on some standards but it's been a fairly short discussion. 'Is there any benefit of us adopting this early? What are the impacts?' " (M15) [early adopter]

If there is no perceived benefit, adoption is generally from the mandatory date.

The IASB (2015a) has an ongoing programme of updating IFRS and is continually issuing new and revised accounting standards. The findings of this research indicate that future standards might be early adopted where they provide efficiency, economic or other strategic benefits which are consistent with a firm's organisational goals. Interviewees were therefore asked whether they thought that any particular standards might be adopted early by firms in future. The two standards which were mentioned by interviewees were the new revenue and anticipated leases standards.

7.6.1 IFRS 15: Revenue from contracts with customers

IFRS 15 was issued in May 2014 and will replace IAS 18: *Revenue* and also IAS 11: *Construction contracts*. The new standard has been issued as part of the IASB-FASB convergence project and aims to provide more detailed guidance on revenue recognition within IFRS. Specifically IFRS 15 provides improved guidance on revenue recognition for multiple-element arrangements.

IFRS 15 is an important standard because its adoption might have a material impact on reported revenues for some firms. Further, the IASB recognise that preparers have questions about how to implement the new standard and therefore, for the first time, the IASB and FASB have set up a joint Transition Resource Group (TRG). The need for the TRG shows why managers sometimes prefer to copy the practices of other firms because the requirements of a new standard are not always clear and there may be areas which require further guidance:

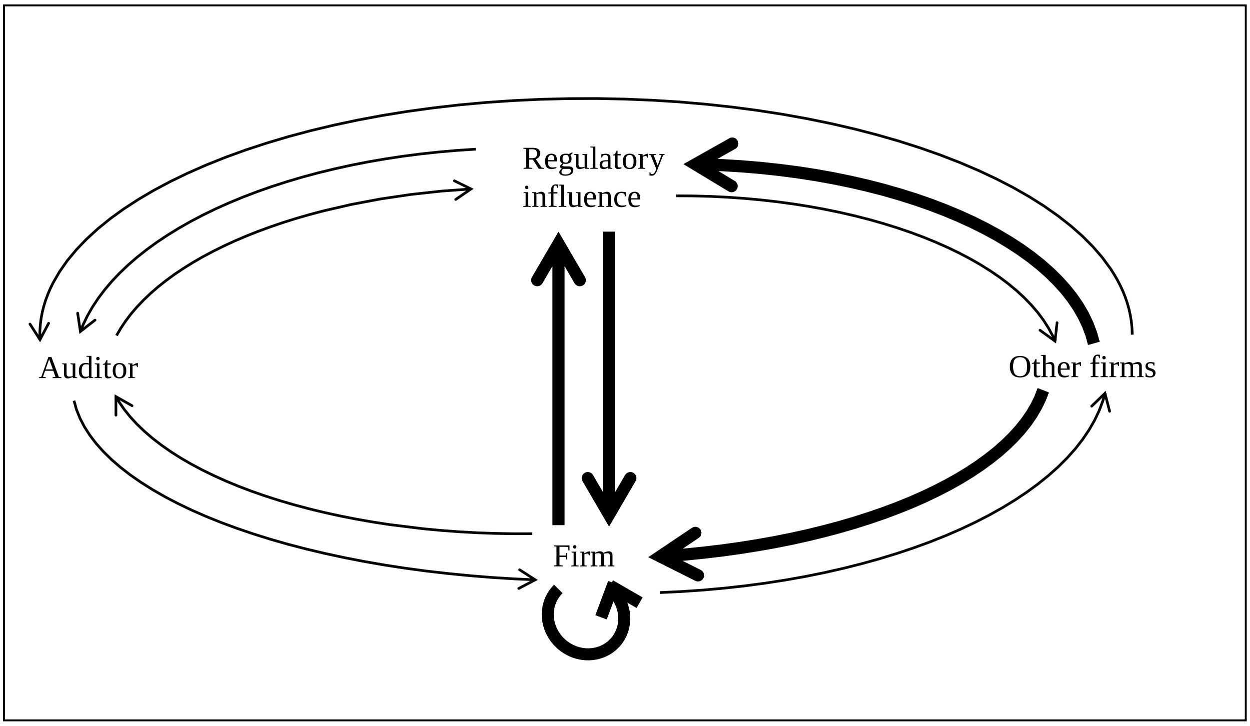
> … we're setting up an advisory body … There'll be about twenty-five people on it. It's not a decision making body but it will listen to any problems that people think they have with the revenue standard – application problems. Hopefully most of them, they'll be able to say, 'Well, if you read paragraph such-and-such, you could work this out,' but if there are real problems, then they have to refer them to the boards for a solution but we're hoping that will help – let people air their problems at least." (IASB)

The TRG therefore gives firms the opportunity to receive advice from the standard setters and also to learn from each other about how to implement the new standard (IASB, 2015c). Arising out of the TRG discussions, the IASB is proposing amendments to IFRS 15 by including additional clarifications of its requirements and illustrative examples. The standard was originally issued with a 1 January 2017 effective date but because of the potential amendments, the IASB (2015e) proposes to defer the effective date to 1 January 2018 (subject to EU endorsement). This date gives firms time to gather the information which they will need in order to present revised comparative information including any additional disclosures which are required by the new standard. Early adoption of IFRS 15 is permitted by the IASB. The potential for firms to influence the IASB via the TRG is shown in Figure 7.9. Further, interview comments on IFRS 15 provide evidence regarding how managers actively think about the requirements of a new standard and the extent to which these requirements are aligned with firms' organisational goals in relation to their financial reporting. At the same time, managers consider the possible reporting practices of peer firms. These strategic and mimetic influences are also shown in Figure 7.9.

Manager M8b and Auditor Aud2 both commented that the development of IFRS 15 has been followed closely by managers (and audit committees) as they have considered its impact on reported revenues. Also new contracts which are currently being written may be informed by the standard's requirements in order to optimise the reporting of future revenues.

Figure 7.9

Institutional influences relating to IFRS 15



The following comments show how managers expect other firms to consider the possible benefits of adopting IFRS 15 early. Quotations from Managers M7 and OM1 also indicate that they are considering early adoption themselves:

> "… depending on what the answer is, if there's a benefit to their P&L, then maybe that's something they want to push and prioritise and do early but I guess revenue is so fundamental that you would expect, if it's got a significant impact, it would take a bit of time to embed." (M15) [early adopter]

> "On revenue recognition, we'll consider it. Yes. … What's the best answer? If the best answer is to do it slightly differently, then I can see there might be an incentive to get to that answer quicker - what is the best for reporting the performance of the company not sort of bias. Some companies might do that but we wouldn't. That's a bit unsubtle." (M7) [early adopter]

> "… there may be an internal benefit coming from it [IFRS 15] and therefore let's get on with it. … That one we may [adopt early]." (OM2) [not an early adopter]

Therefore firms might adopt IFRS 15 early because that gives them some sort of benefit (for example, by increasing reported revenues and profits). However, one manager explained that his/her firm is considering early adoption before the mandatory date for efficiency reasons:

> "If we work through it [IFRS 15] and we're pretty comfortable that we've finished all the work we need to do, we'll probably start getting our businesses to give any additional disclosures and start applying the policy internally as soon as we feel ready to do that. That might be in 16 for example. If we're happy during 15, we might get people doing it at the start of 16 just because it gives people a chance to start reporting something over a period and once it's reported for real, it's more likely to be accurate so it gives businesses a chance to get used to it. So depending on our level of comfort, we may be all ready to go by 16 and in that case we might early adopt. … We'll probably be running a process almost in parallel until it got to the point where we didn't think that parallel running was necessary and we had a lot of confidence in the numbers. We might just early adopt being driven by a practical consideration." (M12) [not an early adopter]

Alongside considering the impact of IFRS 15 on the measurement of reported revenues and the benefits of early adoption, some managers indicated that, whatever the benefits, they probably would not adopt before their peers because of the possibility of incorrect implementation:

> "Revenue I suspect will be so fundamental that people will want to make sure they've got it right. I don't think people will early adopt on revenue until they've sussed out what the rest of the industry that they're in are doing." (OM3) [early adopter]

On the other hand, firms would not want to be left behind if their peers were to adopt IFRS 15 early:

> "… were [IFRS 15] to have a significant impact, it might be something we'd look at quite closely and kind of keep an eye on what the rest of the sector does as well." (M2) [not an early adopter]

> "That will be the time when it will be more interesting to talk to our peer group companies about what they're doing and how they're interpreting the words to make sure that we're not going to do anything inconsistent." (M16) [not an early adopter]

Managers retain an awareness of what other firms are doing so that strategic arguments consistent with Oliver's (1991) organisational goals hypothesis (related to the goal of reporting increased revenues) and DiMaggio and Powell's (1983) institutional arguments relating to mimicry (preferring to copy other firms) appear to come together to explain firms' behaviours.

7.6.2 Leases ED[37]

In 2010 the IASB issued a *Leases* ED. In May 2013 the IASB issued a revised ED and the Board are currently reviewing this area of accounting. The main change in the new *Leases* standard is expected to be the removal of the distinction between operating and finance leases which is currently in the existing standard IAS 17: *Leases*. Following the IASB's deliberations on comment letters received in response to the ED, the new standard is expected to require lessees to bring all leases onto the statement of financial position (balance sheet) (except for leases of small assets and leases with lease terms below twelve months) (Ernst & Young, 2015).

Interviewed managers appear to be well briefed on the potential new *Leases* standard even though its issue has been postponed and it is still under consideration by the IASB. For lessors, the new standard may have commercial implications if their customers report under IFRS and are reluctant to lease equipment which may have to be included on the balance sheet in future:

[37] This discussion reflects the position at the time of the field work and analysis of interview data. Subsequently in January 2016 the IASB issued IFRS 16: *Leases*.

> "… the one we've been thinking about most in advance is the leasing standard … it's one of those that may have an impact but it may not. There's an asset transfer going to our customers. We're quite sensitive to that type of arrangement getting caught by the leasing standard. We've done some work in advance with our auditors and with our European industry association. … Let us say hypothetically it had such a big impact on the way that we account for the way that we do business. Let's say the standard implied that our customers had to put all their assets that we're renting service rental to them on their balance sheet and that had such an impact on our business. We might not adopt it early but we'd certainly feel like we'd have to let our shareholders understand the implications. The key is for the shareholders to understand the impact this is going to have, how this will impact on our reporting." (M1) [not an early adopter]

Lessees are mindful of the effect that reporting under the new standard may have on key financial ratios and therefore companies might not be expected to want to adopt it early. However, Manager M4 appeared to welcome the new standard and the potential efficiency benefit of a mandatory requirement to include the asset and liability for all leases on the balance sheet:

> "I know we'd like to early adopt the new leasing standard but it doesn't exist yet. I say that because obviously we waste so much time in the debate around operating and finance lease qualification. If they get a new standard which gets rid of that distinction and allows us to treat all leases the same, then I think we'd be tempted to jump on that pretty quickly even though there's huge politics around that one because you've got to bring stuff on balance sheet. To be honest, we don't really care about that. We care more about making life easier, I guess. So if they do make it simple, we'll be tempted to jump on that one early." (M4) [early adopter]

Manager M7 commented that firms should consider whether to adopt the new standard early if it is issued. Any related consultation exercise may extend beyond the accounting team to other colleagues:

> "Would some people go early on leases? I imagine some will. I imagine some won't. … That is one we will have a serious think about when we will adopt it. We will be talking to all our internal stakeholders on that because Treasury would be important in any decision on that because it will affect our internal processes as well as our external reporting and our Finance teams around the world in terms of 'How long is this going to take?'. Something of that magnitude I would imagine that everyone will just stop and think carefully about what's the right timescale for us to do this? I think you'd be crazy not to do that." (M7) [early adopter]

Whilst the facts shown in Table 7.1 suggest that firms tend not to adopt new standards early, this study finds that the reality is that managers regularly assess the impact of future standards, identify the accounting possibilities which they provide and, *inter alia*, consider whether there might be a benefit in early adoption. However, to date the IASB do not consider that the option to early adopt has caused a large number of firms to 'cherry pick' and to present biased information in the financial statements, and therefore the option continues to be available as new standards are issued:

> "That's [Cherry picking's] the argument against allowing early adoption but we don't see it as … very widespread or having a huge impact on the market. Where we allow early adoption, we obviously consider that the advantages of allowing people to do it early outweigh the disadvantages of comparability and cherry picking and that sort of thing." (IASB)

Early adoption may (sporadically) be observed to be more popular in the future where managers believe that there is a possible benefit which may arise through reporting under a new standard, particularly where firms have used their influence to shape a standard's requirements.

7.6.2.1 Power of firms over the IASB

The influence of large firms over the IASB is shown in Figure 7.10. The relationship between the IASB and the large extractive firms has been discussed in Section 7.5.1 in the context of the favourable accounting regime provided for these firms by IFRS 6. The proposed new *Leases* standard has been postponed while the IASB consider the comments received from the large leasing firms which are concerned about the effect that the new standard might have on their businesses:

> "One of the reasons the leasing standard is delayed is the leasing industry got itself together and thought 'Blimey, we don't like the sound of this. All these companies that think they're doing it off balance sheet are going to stop using us.' " (OM1) [not an early adopter]

The IASB also plans to issue a new accounting standard relating to insurance contracts. Two insurance EDs have been issued so far and the IASB are currently deliberating over the comments received, *inter alia*, from the large insurance companies:

> "Insurance companies are coming just now and we haven't even finished the standard yet but they're saying, 'You realise this is going to be big changes for us, big changes in systems, and we're going to need a fair amount of time'. We have to listen. We have to be realistic. It is hard for them. Particularly for insurance, there'll be whole

> new processes to install. It'll take them time. They're big companies – international." (IASB)

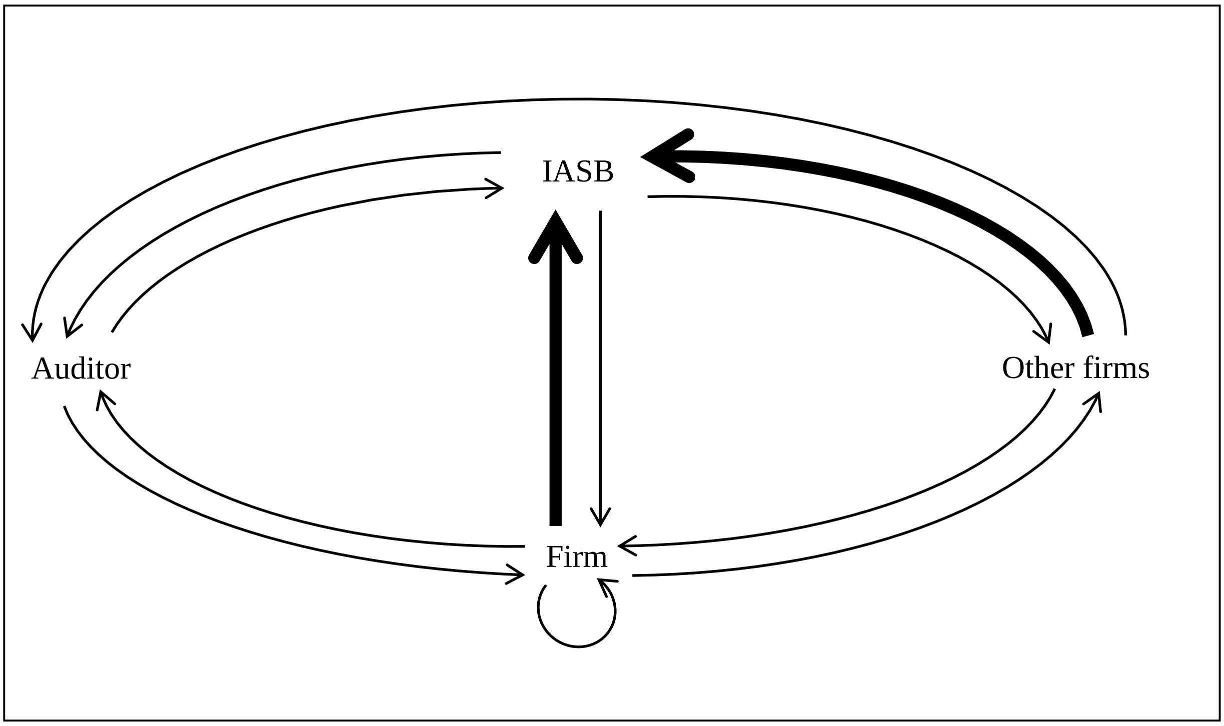
Whilst this investigation focusses on non-financial firms, this comment by the IASB reflects the complex relationships which can exist between the IASB and firms which report under IFRS.

Although the requirements of new and revised accounting standards are set by the IASB, throughout the IASB's consultation processes across various accounting issues, large firms may attempt to shape the regulations within the IFRS accounting environment:

> "… on leases we've met with them [the IASB]. IFRS 11 we met them and stuff like that. We meet them individually. We meet as an industry group with our peer accountants in our peer companies and the IASB comes to those meetings. We sometimes meet with the SEC as well in those sorts of forums and talk about these sorts of things. We're quite active in that respect." (M7) [early adopter]

Figure 7.10

Influences on the IASB by large firms



This manipulation of institutional norms (through the influence or control tactics described by Oliver (1991)) sets the stage for a possible early move to I_2 where the requirements of a new standard are consistent with a firm's organisational goals in relation to its external reporting.

7.7 Institutional pressures: a summary

Whilst some firms move into I_2 before the mandatory date where managers perceive this to be beneficial, this study finds evidence that the mimetic and normative pressures which are described by DiMaggio and Powell (1983) exist within I_1 and generally influence firms to retain the *status quo* and acquiesce to the current regulation (Oliver, 1991). Rather than becoming more similar by adopting a new practice, firms appear similar because they regularly fail to adopt a new practice early (Boxenbaum and Jonsson, 2008; Meyer and Rowan, 1977). Alongside efficiency and economic explanations, many managers say that they are reluctant to adopt early because of the possibility of incorrectly implementing a new standard. Errors in the annual report and accounts might damage a firm's reputation (legitimacy within its environment). Twelve interviewed managers also said that they get the impression that their auditors are against early adoption because of the possibility of implementation error and concern for their own reputations as auditors. Therefore this research finds that auditors tend to act as agents of I_1, the current environment, rather than promote the new (improved) accounting practice of I_2.

However, there are factors which cause a firm to escape from I_1 and become part of I_2 before the mandatory transition date. Early adoption may benefit a firm if that makes the reporting process more efficient or it has the potential to result in economic gain (Oliver, 1991). Early adoption may also be an attractive proposition for managers where the requirements of a new standard are consistent with a firm's organisational goals in relation to its financial reporting. These perceived benefits and reporting opportunities may cause a firm to focus on the possibilities provided by the incoming regulations, to submit to the coercive pressure of I_2, and to resist the normative and mimetic pressures of $I_{1.}$ Those standards which include a favourable reporting regime might therefore be adopted early, particularly where firms have contributed to the standard setting process so as to influence the requirements of a new standard. (An example is the influence of the large oil companies which is believed to have led to the favourable reporting requirements of IFRS 6 (Cortese *et al*., 2010)).

On the basis of the discussion of results in the preceding sections, institutional arguments are judged to be able to provide a number of explanations for the timing of the adoption of accounting standards by firms.

7.8 The Framework

This thesis views accounting standards as regulatory pillars of the institutional environment. However, IFRS also includes the IASB's (2010a) Framework along with the standards. The Framework outlines the concepts which underpin the preparation of 'IFRS-compliant' financial statements and therefore sets out the institution's core values in relation to financial reporting. Erb and Pelger describe the Framework as *"a form of institutional thinking which limits both the definition of, and solutions to, accounting problems"* (2015, p13). It should therefore provide a cognitive pillar within the institutional environment. Before summarising the results and discussion in this chapter, Section 7.8 will consider the extent to which the Framework actually affects the accounting choices made by managers and therefore whether it is an influence on the timing of adoption of new standards.

Only one manager said that (s)he regularly refers to the Framework for guidance when making accounting decisions. This manager was a member of a national accounting standards board which may explain his/her special interest in the concepts outlined in the Framework. One of the reasons given by other managers for not referring to the Framework is that they consider it to be too theoretical for them to use in practice.

> "I think we're off down a bit of an academic path with some of the standard setting these days. I think we've lost sight of how people manage businesses and what they do and we've got a lot of complicated concepts that are not relevant to general businesses …" (OM4) [not an early adopter]

Another reason is that managers disagree with some of the emphases and concepts contained within the Framework:

> "The Conceptual Framework as far as I'm aware is currently being reviewed and has been completely hijacked by IFRS. They're getting rid of stewardship and have got this ridiculous focus on fair value. We've lost the concept of prudence; we've lost the concept of materiality. … I just think it's dangerous that we don't have those fundamental concepts which certainly I was trained on and are embedded in my

> thinking whenever I prepare a set of accounts: consistency and prudence and relevance and all that." (OM2) [not an early adopter]

In their presentation of a pragmatic constructivist view of reality, Nørreklit *et al*. (2010) argue that individuals choose to act on those possibilities which are aligned to their values. (See Section 2.2.2.) A manager's values may arise from numerous sources but when CFOs and GFCs prepare accounts under IFRS, a user's expectation may reasonably be that preparers' values come from the Framework. However, this study finds that CFOs or GFCs generally do not tend to adopt all of the concepts within the latest version of the Framework into their own values but, instead, managers tend to retain the concepts and principles which they learned in the past so that they effectively build their own 'conceptual framework' which incorporates elements of previous frameworks:

> "I'm someone who qualified twenty years ago so my thinking is always about, 'Is it true and fair?' I come from that school. … 'Is it true? Is it fair? Is it sensible? Is it reasonable? Does it fairly reflect what is actually happening in the business?' I suppose that's the only kind of conceptual framework I would refer to." (M14) [not an early adopter]

> "With the training you have and the experience, you tend to know what is the right answer. ... what is the fair answer." (M1) [not an early adopter]

> "I've obviously got a huge amount of grounding in the concept of conceptual frameworks just based on my past experience so it's not something I would refer to I'm afraid." (M16) [not an early adopter]

In particular, managers tend to retain the concept of prudence in their thinking in place of the fundamental characteristic of faithful representation in the current version of the IASB's (2010a) Framework. This may reflect the fact that prudence is retained as an aspect of reliable information according to IAS 8: *Accounting policies, changes in accounting estimates and errors.* Managers' understanding of prudence tends to be focussed on the level of provisions rather than the content and presentation of information within the accounts. (As a result of comments received on an earlier discussion paper, in its ED of revisions to the conceptual framework, the IASB (2015d) propose to reintroduce a reference to the concept of prudence as supporting neutrality.)

The Framework identifies faithful representation as a fundamental characteristic of useful information. Information which is faithfully represented is "*complete, neutral and free from error"* (IASB, 2010a, para QC12). This means that information within the financial statements should be unbiased and without any attempt to influence whether information is received favourably (or unfavourably) by users (IASB, 2010a, para QC14). However, managers appear to be free from any unwelcome constraints which might be imposed by the concepts within the Framework as they make their accounting choices. This means that a firm may choose to escape from the requirements of I_1 and move into I_2 early where that provides the opportunity to report increased earnings to shareholders despite the assertion in the IASB's (2010a) Framework that useful information is faithfully represented.

7.9 Chapter summary

Chapter 7 has presented the synthesis of results from the quantitative and qualitative phases of this mixed methods investigation. The research has used an explanatory sequential quan→QUAL mixed methods design where the qualitative analysis of interviews has been used to explain the numbers of incidences of early adoption observed in the quan phase. This research has used an inductive method and develops theoretical arguments from the qualitative analysis of observations. The QUAL phase is therefore dominant because it is largely the interpretation of interviews which leads to the thesis' contributions to institutional theory (Morse, 2008).

The results of the quan phase show that firms generally tend to adopt new and revised accounting standards from the mandatory effective dates. This finding is validated and explained through the analysis of interviews where managers commented that they would not normally adopt early unless they could see some benefit in doing so. Arising from interview data, Table 7.3 summarises managers' views on the disadvantages of early adoption which provide explanations for adoption from the mandatory effective dates. The numbers of managers whose firms were observed to early adopt any standard(s) in the quan phase are shown in Table 7.3 as part of the integration of the two phases.

On the other hand, the quan results presented in Table 7.2 show that 66 firms adopted at least one standard early in the period under review. Because the disclosures in the accounts do not provide adequate explanations for early adoption (see Section 6.3.3.1), the motivations for early adoption have been explored using the qualitative analysis of interviews. Table 7.4 therefore summarises interviewed managers' views on the advantages of early adoption. This provides some explanation for early adoption as a general principle and therefore the observed quan results. Again, Table 7.4 shows the numbers of managers whose firms early adopted any standard(s) in the quan phase as part of the integration of results. However, Section 7.5 has shown how the reasons for early adoption vary between standards so that it is has been necessary to move beyond general views in Table 7.4 and to consider particular standards. Therefore, as further synthesis of the results of the two phases of the investigation, Table 7.5 shows the quan and QUAL results relating to the incidences and explanations for early adoption of individual standards together in a joint display (Creswell, 2015).

This study uses institutional arguments to provide its primary theoretical framework and therefore Section 7.7 has summarised how mimetic and normative institutional pressures cause firms not to adopt new standards before their mandatory effective dates. However, within an institutional environment, not every practice is necessarily the result of (irrational) institutionalisation and there are sometimes rational explanations as to why a firm does not adopt a new standard before the mandatory date. Rational reasons for adopting new standards from their mandatory dates include a lack of resources (especially among FTSE 250 firms which sometimes run a relatively small head office with a lean financial reporting function), a reluctance to incur the additional audit costs which managers suspect may arise as auditors learn about the new standard and pass on these costs to any early adopters, and competition costs where a new standard requires increased disclosure of commercially sensitive information.

Within an institutional environment, existing practices may therefore be retained for ‘rational’ reasons based on cost or efficiency considerations, or they may be retained in order to meet an organisation’s own strategic goals (Lounsbury, 2008; Oliver, 1991). Also, managers might not make an active decision to wait until the mandatory date but this can result from the lack of a positive decision to adopt early. Adoption from the mandatory date can therefore be the default position which is consistent with Powell and DiMaggio’s argument that:

> … everything that happens is not necessarily intended … every outcome is not the result of a conscious decision process (1991, p179).

This reflects the passive approach contained within arguments relating to the taken for granted (habitual) nature of institutional norms including current practice (Meyer and Rowan, 1977; Oliver, 1991).

Table 7.5

Joint display of integration of quan and QUAL results to explain early adoption

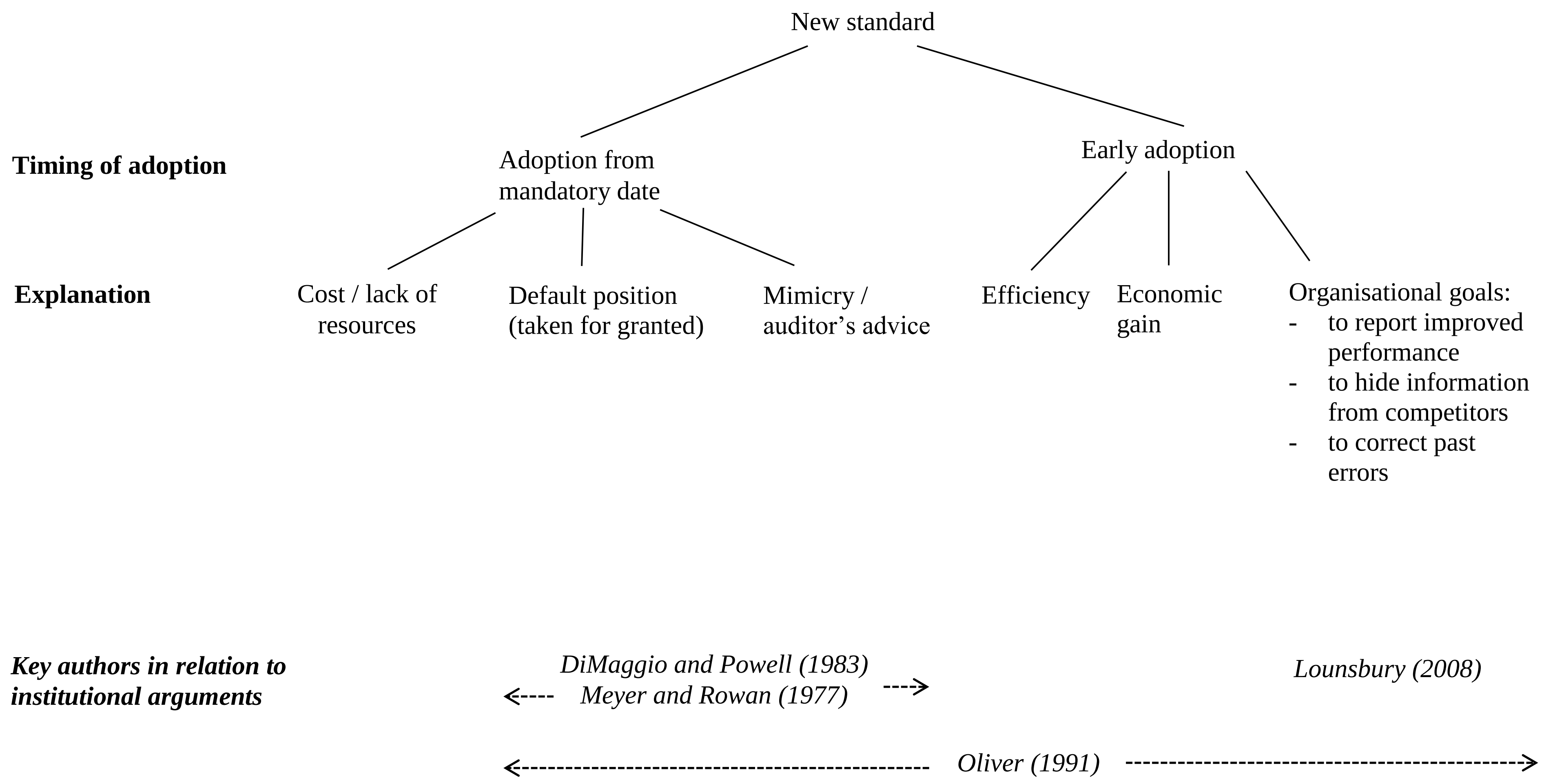
Standard (Reference to discussion of results)	**Quan result:** **Number of early adopters / relevant firms**	**QUAL result:** **Reasons for early adoption**
IFRS 6: *Exploration for and evaluation of mineral assets* (7.5.1)	15/18	No need to change accounting practice Capitalisation of costs
IFRS 8: *Operating segments* (7.5.2)	24/158	No need for internal reconciliations Hide information on poorly performing segments from shareholders Hide information on successful segments from competitors Legitimising choice to cover incorrect segmental reporting in the past Alignment with US peers Legitimising choice to be seen to adopt early Improved reporting of segments through 'eyes of management'
Consolidation standards (7.5.3)	45/158	Avoid need for reconciliation to US GAAP Avoid need to change comparatives in following year where group structure changed in the period Reporting more relevant (predictive) information
IAS 24 (R): *Related party disclosures* (7.5.4)	2/158	No need for state-controlled entities to disclose arm's length transactions with other entities under that state's control
IAS 19 (R): *Employee benefits* (7.5.4)	2/158	Legitimising choice to be seen to adopt early
IFRS 7: *Financial instruments: disclosures* (7.5.4)	4/158	
Future standards		
IFRS 15: *Revenue from contracts with customers* (7.6.1)	?	Avoid need to run parallel systems Increase reported earnings and improve key ratios Improve quality of reporting firm's performance
IFRS 16: *Leases* (7.6.2)	?	Avoid need to classify leases

Figure 7.11 attempts to summarise the reasons presented in this chapter which explain why a manager may choose to adopt a new or revised standard from the mandatory date or to adopt it early. This includes identifying the relevant institutional arguments used in this thesis to attempt to explain the choice made.

Chapter 8 will now present the conclusion to this study by answering the research questions and presenting the contributions to knowledge, theory and methodology which this thesis is believed to make.

Figure 7.11

Explanations for the timing of adoption of a new accounting standard



8. CONCLUSION

8.1 Chapter overview

Chapter 8 contains the conclusion for this research. First, Section 8.2 presents the answers to the overarching and subsidiary research questions (see below) and presents reasons which explain the particular financial accounting choice whether to adopt a new or revised standard before the mandatory date or to it adopt early. This section identifies institutional factors which influence firms not to adopt accounting standards before the mandatory effective dates and also the efficiency, economic and strategic reasons which induced firms to adopt specific standards early. Second, the thesis' theoretical and empirical contributions to the institutional literature, its contribution to knowledge of accounting and its contributions to research methodology are set out in Sections 8.3, 8.4 and 8.5 respectively. Section 8.6 then discusses the limitations of the project and includes suggestions for future research.

8.2 The financial accounting practices of large firms

The aim of this research project has been to answer the overarching research question (RQ): *What factors can explain the timing of the adoption of accounting standards by large firms?*.

In order to meet this overarching aim, the thesis also presents the answers to two subsidiary research questions being RQ1: *Which new IFRSs and revised IASs were adopted early and by how many firms?* and RQ2: *What are the influences on the preparers of financial statements with reference to the decision whether to adopt a new standard from the mandatory effective date or to adopt early?*.

First, RQ1 has been answered using a quantitative analysis of archived data collected from the annual accounts for 158 non-financial FTSE 350 firms over the nine accounting periods from 2005/6 to 2013/14 inclusive. This meets RO2: *To use quantitative analysis of archived data collected from annual reports to identify the timing of adoption of new and revised standards in the period from 2005 to 2014*. Findings are that firms tend not to adopt new standards early with 92 out of 158 sample firms (58.2%) consistently adopting from the mandatory dates and the maximum number of 'standards' adopted early observed to be three out of a possible eight (by only two firms). However, exceptions to this general tendency are observed, particularly regarding IFRS 6: *Exploration for and evaluation of mineral assets* (early adopted by 83.3% of sample extractive firms); IFRS 8: *Operating segments* (early adopted by 15.2% of sample firms); and the package of consolidation standards (IFRS 10; IFRS 11; IFRS 12; IAS 27 (Revised); and IAS 28 (Revised)) (early adopted by 28.5% of sample firms). (See Table 7.1.)

This study has used a mixed methods explanatory sequential quan→QUAL design so that the results of the quantitative phase are explained by the results of a second, qualitative phase. Using QUAL data to explain the observed quan result in this way meets RO4: *To integrate the results of the quantitative and qualitative phases in order to identify the factors which explain the timing of the adoption of accounting standards.* Therefore the thesis answers RQ2 using an interpretive approach and identifies a number of influences on the preparers of financial statements with reference to the decision whether to wait until the mandatory effective date to adopt a new standard so that they remain in I_1 (the regulatory environment provided by the old standard) or to adopt early and move into I_2 (the regulatory environment provided by the new standard) before the mandatory date. Interviews with 21 CFOs and GFCs of non-financial FTSE 350 firms, and supplementary interviews with three auditors and a senior IASB board member have been used to consider actors' perceptions of the disadvantages and advantages of early adoption generally, to identify why managers might choose to adopt a particular standard early, and to explore the pressures and influences on firms as they make their financial accounting choices. This meets RO3: *To use qualitative analysis of primary data gathered via interviews with senior financial managers, auditors, and the IASB in order to gain insight into how institutional pressures interact with organisational goals and thereby influence the decision whether to adopt a new standard from the mandatory effective date or to adopt early*.

8.2.1 Adoption from the mandatory effective date

Findings in Section 7.3.2 are that there are a number of reasons why firms adopt new and revised standards from the mandatory dates and do not adopt early. (See Table 7.3.) These reasons include the demands on staff resources and other costs (for example, increased audit fees) which early adoption entails. Managers and auditors believe that early adoption also increases the possibility of making a mistake in implementation with ensuing damage to a firm's (and its auditor's) reputation. However, CFOs and GFCs say that early adoption may sometimes provide the opportunity to prepare the financial statements more cost effectively, or to report strategically (for example, by improving key financial ratios or by providing the opportunity to hide commercially sensitive information from competitors).

8.2.1.2 Institutional factors

This research uses an explanatory framework provided by institutional theory. The theoretical and empirical institutional literature has therefore been reviewed in Chapter 5 in order to gain an understanding of the nature of institutional behaviour including the coercive, normative and mimetic pressures which can influence organisations within a particular environment and the range of possible responses to those pressures (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Oliver, 1991). This meets RO1: *To review the literature in order to gain an understanding of institutional theory's power to explain a particular accounting choice made by firms in a time of transition between regulatory environments*.

In this study firms are observed to be generally reluctant to adopt a new practice, in this case to adopt a new accounting standard early. This can be the 'default' position as firms continue with existing practice through habit (Oliver, 1991). Greenwood *et al*. (2008) argue that an institutional effect can only be said to have occurred if two phenomena are observed. The first of these is the existence of one or all of DiMaggio and Powell's (1983) coercive, mimetic and normative pressures on organisations to comply with an institutional norm. This project finds evidence that FTSE 350 firms experience mimetic and normative pressures to adopt from the mandatory dates as both managers and auditors prefer to imitate the practices of other firms. The second phenomenon identified by Greenwood *et al*. (2008) is that these pressures result in increasing similarity between firms. In this study a reluctance to early adopt is regarded as resulting in isomorphism where firms copy each other's existing practices and thus remain in the mainstream.

Interviews with CFOs and GFCs highlight the influence which the auditors exert over firms. (See Section 7.4.2.) This partially explains the dominant pattern of adoption from the mandatory effective dates observed in Section 7.2 because when firms are considering the timing of adoption of a new standard, early adoption is rarely encouraged and is sometimes actively discouraged by auditors. CFOs and GFCs believe that this is because of the increased risk of error in the financial statements when there is no current practice to copy. This type of error is believed by FTSE managers and auditors to damage an audit firm's reputation. Interviews reveal how managers themselves also prefer to mimic the accounting practices of peer firms. (See Section 7.4.1.) Other firms may not be aware that their accounting practices are being 'copied' in this way or firms may consult together to decide how to implement a new standard, including when to adopt it. This process of consultation may be through relational networks, sometimes just consisting of informal telephone conversations, or it may be more formal so that sector peers (who in most other situations are very much in competition with each other) regularly meet to consider together how and when to apply changes to IFRS. These findings emphasise the influence which the auditors and other firms have, and the complex relationships which exist within the institutional environment.

8.2.2 Early adoption

On the other hand, institutional pressures do not always result in isomorphism because these pressures are just some of the forces on an organisation within its environment. Efficiency considerations and a firm's own strategic objectives sometimes influence managers to resist mimetic and normative institutional pressures and to choose to comply with the pressures of I_2 by adopting a new standard early (Lounsbury, 2008; Oliver, 1991). (See Section 7.5.) This has been observed in relation to IFRS 6, IFRS 8 and the consolidation standards which were adopted early by a number of firms.

8.2.2.1 IFRS 6: Exploration for and evaluation of mineral assets

IFRS 6 was issued in 2004 with an effective date of 1 January 2006. It did not prescribe a specific accounting treatment but it required that a company continued to use its existing accounting policy for extractive activities. Any change in subsequent periods then had to be justified with reference to the improved relevance and reliability of financial information. If IFRS 6 had not been adopted early, on adoption of IFRS in 2005/6 a firm may have been required to make significant changes to its accounting which would have involved increased accounts preparation cost. Therefore efficiency considerations might explain why some firms adopted the standard early.

IFRS 6 provided a favourable reporting regime for the oil and gas, and mining firms in relation to their exploration activities. (See Section 7.5.1.) Specifically, compliance with the standard exempts firms from the general requirements of IAS 36: *Impairment of assets* regarding when an impairment review is required. Compliance with IFRS 6 also allows the capitalisation of exploration and evaluation costs earlier than would be permitted by the requirements of IAS 38: *Intangible assets*. This allows extractive firms which comply with IFRS to prepare their financial statements on the same basis as American firms because US GAAP allows exploration costs to be capitalised initially and then written off later if a company subsequently does not find oil or a mineral resource (Ernst & Young, 2009). For some firms not adopting IFRS 6 early would have meant the write off of exploration assets and reduced profits. This would not be consistent with a strategy of reporting the desired level of profits to global investors (who might see the American extractive firms as performing better) or to existing shareholders (who might question management's stewardship of the company).

8.2.2.2 IFRS 8: Operating segments

IFRS 8 requires companies to define their segments on the basis used internally to assess segmental performance and to make decisions about the allocation of resources between segments (IFRS 8, para 5(b)). Any firm which did not adopt IFRS 8 early continued to comply with the predecessor standard, IAS 14 (Revised): *Segment reporting*, which required firms to disclose both business and geographical analyses of segments. Because IAS 14 (Revised) required firms to analyse their segments on an alternative basis to that used internally, compliance potentially involved a duplication of effort with two different segmental analyses for internal management and external reporting purposes. Therefore compliance with IFRS 8 was more cost efficient in terms of accounting effort for many firms. Efficiency considerations may therefore explain early adoption of IFRS 8 in a number of cases.

Another potential benefit of adopting IFRS 8 early was provided by changes in the required disclosures. These changes included a reduction in the mandatory disclosure of some geographical information. Further, under IFRS 8 firms may disclose segmental information using non-IFRS measures which makes it possible for managers to manipulate their measurements of segmental profits. Early adoption of IFRS 8 therefore provided some firms with the opportunity to report strategically. This included the opportunity to give incomplete or misleading segmental information to competitors or to shareholders in order to meet firms' organisational goals in relation to segmental reporting (Nichols *et al*., 2013). (See Section 7.5.2.)

8.2.2.3 Consolidation standards

The suite of five consolidation standards (IAS 27 (Revised): *Separate financial statements (2011)*, IAS 28 (Revised): *Investments in associates and joint ventures (2011),* IFRS 10:

Consolidated financial statements, IFRS 11: *Joint arrangements* and IFRS 12: *Disclosure of interests in other entities*) were issued by the IASB in 2011 with an effective date of 1 January 2013. The five standards had to be adopted concurrently as a complete package. The consolidation standards illustrate how there can be a number of reasons for the early adoption of new standards including different institutional pressures arising from I_3 (an additional regulatory environment which arises because of an overseas listing). (See Section 7.5.3.) The EC postponed the effective date of these standards until 1 January 2014, a year later than the date written in the standards issued by the IASB. A significant reason for the apparent early adoption of these standards before the EU's mandatory date was therefore the misaligned effective dates for firms with overseas listings. For example, for a firm with an Australian listing adoption was mandatory in 2013/14 and therefore a response to an authoritative institutional pressure from I_3. On the other hand, for a firm with a US listing, early adoption in 2013/14 was 'voluntary' (although that firm would have to provide a reconciliation to US GAAP if it did not adopt early). Early adoption of the consolidation standards might therefore have arisen as a response to a (non-authoritative) coercive pressure from an alternative regulatory environment.

For many firms which adopted the consolidation standards in 2013/14 there was no material impact according to the disclosures in the financial statements. However, a reason the new standards were introduced by the IASB was to address concerns relating to the use of non-consolidated entities as vehicles for off-balance sheet financing. Early adoption might therefore be explained using legitimacy arguments as managers perceived that they should not be seen to wait until compliance became mandatory in this case because of the importance of the issue among constituents, especially where adoption of the new standards required very little additional accounting resource. Another possible reason for adopting the consolidation standards early was in order to avoid an inefficient duplication of effort in 2014/15. This scenario would arise when a company acquired a new joint venture or subsidiary entity in 2013/14 where that entity would have to be treated differently in 2014/15 under the new standards.

8.2.2.4 Other standards

The observation that firms generally do not adopt new accounting standards until they become mandatory does not mean that firms are underprepared for changes to IFRS. (See Section 7.6.) Throughout the consultation process which precedes the issue of a new or revised standard, managers actively consider how that standard will affect their firms. These considerations include whether there might be any commercial effects on the business. An example of this is whether a future *Leases* standard which would require equipment leases to be recorded on the statement of financial position (balance sheet) might make customers reluctant to lease assets. (See Section 7.6.2.) The requirements of an anticipated standard can also have an impact on new contracts as they are drawn up. For example, some contracts with customers are already being drafted with reference to how they will affect future reported revenue under IFRS 15: *Revenue from contracts with customers* (Section 7.6.1) and contract terms for acquisitions of new group entities were drawn up with reference to IFRS 10's definition of control before the standard became effective (Section 7.5.3). In addition to any commercial implications of a new standard, managers also consider how that standard might affect a firm's financial reporting. At this stage, managers (often in consultation with auditors and sometimes with peer firms as well) consider whether the potential merits of a new standard might make it worth adopting early.

8.2.3 The Framework

This research aims to identify the influences on the preparers of financial statements with reference to the decision whether to adopt a new or revised standard from the mandatory effective date or to adopt it early. As well as identifying the various influences to remain in I_1 (retain old standard) or to move into I_2 (adopt new standard), it is also pertinent to state that, on the basis of this research, the IASB's (2010a) Framework does not appear to influence this decision. (See Section 7.8.) In this thesis the Framework is viewed as a cultural-cognitive pillar of the institutional environment. This is because the Framework does not include 'rules and regulations' but instead it sets out the concepts which should assist the IASB as they draft new standards and also practitioners as they prepare financial statements. The Framework therefore provides guidance on how accountants should think and act but its power to affect accounting practice rests on whether individual accountants believe that guidance to be relevant and important. The Framework might therefore be a potential influence on managers as they make accounting choices, including the decision when to adopt a new standard.

This study finds very little evidence that the senior accounting managers of large firms consider the Framework when preparing their firms' financial statements. For many interviewed CFOs and GFCs the IASB's latest version of the Framework is observed to be irrelevant so that it does not assist or guide them as they prepare their firms' financial statements. Instead managers appear to construct their own ‘conceptual framework’ and their actions therefore derive from values which they consider important. Those values often reflect the accounting concepts which managers learnt in their own training programmes (sometimes many years ago) which they have then retained throughout their careers. (For example, managers think about the concept of prudence (in terms of increasing the amounts of provisions) rather than the quality of faithful representation included in the latest version of the Framework.) In that sense managers are imprinted with some of the values of an earlier institutional environment.

This thesis argues that firms tend not to adopt new standards before they become mandatory unless managers perceive that there might be either an efficiency, economic or strategic benefit in adopting early. Interviewed managers indicate that these strategic benefits potentially include making the accounts look better to investors and lenders by improving key financial ratios. This means that firms may choose to escape from the requirements of an old standard and adopt a new accounting standard early where that provides managers with the opportunity to report increased earnings to shareholders despite the assertion in the IASB’s (2010a) Framework that useful information is faithfully represented and therefore unbiased and not intended to influence users to receive it positively.

8.3 Contributions to institutional theory

This thesis uses institutional theory as its theoretical framework and shows how large commercial firms are not only motivated by the desire for profit but they are also influenced by the other actors in the institutional environment. There is an emerging literature which uses institutional arguments to explain the accounting practices of commercial firms (Guerreiro *et al*., 2012a; 2012b; Mezias, 1990). However, such studies remain relatively scarce when compared to the large number of institutional studies which focus on not-for-profit organisations in the public sector. This thesis is therefore believed to make a valuable contribution to the institutional literature by showing how, in a particular context, institutional pressures have an impact on, and are responded to by, firms in the private sector.

The thesis is also believed to make several other contributions to the empirical and theoretical institutional literature. These contributions are discussed in Section 8.3.1 *et sequentia* and include the development of institutional theory which meets RO5: *To use the insight gained via* *the qualitative analysis of interview data and the integration of the results of the quantitative and qualitative phases to develop institutional theory*.

8.3.1 The institutional environment

A contribution of this research is the presentation of an alternative perspective on the nature of the institutional environment. In this study the accounting environment for large firms is found to be a complex and symbiotic network of relationships, influences and dependencies. (See Figure 5.5.) The IASB, the Big 4 audit firms and the FTSE 350 are observed to influence each other, and both to exert and to experience pressure as each constituent tries to meet its own strategic aims and attempts to use the other actors within its environment to protect and to enhance its own legitimacy.

As the standard setter, and therefore playing a role in the regulatory infrastructure which affects large firms' financial accounting practices, the IASB exerts coercive pressure on firms to comply with the requirements which it includes in IFRS. However, the IASB is itself dependent on the support of those same firms and their auditors for its own legitimacy to act as standard setter, and also for financial support. Cortese *et al*. (2010) suggest that the IASB were influenced by both the powerful extractive firms and their auditors regarding the requirements of IFRS 6. This type of influence is also believed by some interviewees to apply to the proposed revisions to the *Leases* standard which were objected to by the large leasing companies and have now been postponed. (See Section 7.6.2.)

With their role of pseudo-regulator, the Big 4 audit firms have a measure of power to ensure that their clients comply with IFRS. However, the size of FTSE 350 audit fees (for the FTSE 100 in particular) means that, in turn, firms have considerable economic power over their auditors as the Big 4 pursue their own strategies to gain and to keep large clients. (See Section 3.2.1.) In Section 7.4.2 auditors as professional advisors are observed to be reluctant to urge their clients to adopt early because of the possibility of incorrect adoption. Therefore the auditor does not always act as an institutional agent for the new and improved practice in I_2 as theorised by DiMaggio and Powell (1983). Further, DiMaggio and Powell (1983) suggest that the similar training programmes and qualifications of professionals and managers amplify the effect of normative pressure. However, the findings of this study suggest that similarity between professionals and managers can sometimes diminish the effect of normative pressure. Specifically, where CFOs were once Big 4 audit partners (or GFCs were once Big 4 audit managers), they are aware of the auditors' processes and the influences which are potentially being brought to bear by the auditors and feel equipped to resist those accordingly.

This alternative view of the environment as a network of relationships where each constituent both experiences and exerts pressure and influence is in contrast to the hierarchy of power which has traditionally been described in the literature (DiMaggio and Powell, 1983; Zucker, 1987). (See Section 5.7.1.)

8.3.2 Institutional pressures

This thesis provides empirical evidence in support of DiMaggio and Powell's (1983) argument that coercive, mimetic and normative pressures can be difficult to distinguish. Specifically, the influence of the auditor has traditionally been described as normative but this thesis provides evidence that the pressure exerted by an auditor can also be coercive and mimetic in nature. (See Section 7.4.2.) First, when a new standard becomes effective so that membership of I_2 is mandatory, coercive pressure from the IASB influences firms to adopt a new standard but this is enforced by the auditor as a pseudo-regulator. Second, auditors are found to discourage early adoption and remain in I_1 in part because they prefer their clients to copy the practices of other firms. This mimetic behaviour is encouraged by auditors to minimise the possibility of mistakes in the financial statements. The related pressure is particularly powerful in the interaction between FTSE 250 firms and their auditors because auditors are aware of the limited financial accounting resources which many of these firms have when compared to the FTSE 100 and the client's lack of expertise may result in accounting errors when there is no template of existing practice to follow. Third, the way in which a new standard is adopted by a firm is influenced by the auditor's interpretation of its requirements. This means that the auditor exerts pressure on its client firms to comply with the auditor's idea of best practice. This is the traditional meaning of normative pressure as explained by DiMaggio and Powell (1983).

Further, this thesis provides empirical evidence in relation to Mizruchi and Fein's (1999) suggestion that where firms copy other firms, it is not always appropriate to label such behaviour as exclusively mimetic. Firms are observed to remain in I_1 so that they can copy the practice of their peer group and thereby minimise the possibility of making an error in the period of transition to a new standard when interpretation of the requirements of I_2 are uncertain. However, this behaviour has coercive and normative components as firms consult together about how to comply with the new standard's 'rules' (in response to a coercive pressure from the IASB) and compare and contrast their auditors' normative advice which is often to adopt from the mandatory date. (See Section 7.4.2.)

By presenting evidence of the intertwining of the institutional pressures of coercion, mimicry and normalisation, this thesis makes a contribution to the empirical literature which tends to consider each type of pressure in isolation and therefore does not always reflect the complexity of the institutional environment and the relationships between the actors.

8.3.3 Oliver's (1991) model of strategic responses

This thesis also makes a contribution to the literature in relation to Oliver's (1991) model of strategic responses to institutional processes by using her model to explain a particular financial accounting choice made by commercial firms. Section 5.3.4 shows how most of the existing accounting studies which use Oliver's model within their theoretical framework are set in the context of management accounting by public sector organisations. By setting the current investigation in the context of IFRS, this thesis therefore contributes to the literature by providing empirical evidence of the applicability of Oliver's model to financial accounting by large listed firms.

Another point of departure from the existing literature is that the current study provides empirical evidence of the strategy of avoidance by using an escape tactic as a response to institutional pressures. Findings are that when firms are considering an escape from a particular domain, the institutional pressures in the new domain are important. Managers want to 'escape from' the institutional requirements of I_1 but this means that they must also 'escape to' the institutional requirements of I_2. Oliver's arguments relating to an escape response do not emphasise the significance of the new institutional environment and how this scenario of moving to a new domain can sometimes reflect a positive and strategic response to comply with a new set of institutional norms and values.

Consistent with Oliver's (1991) predictive hypotheses this study finds compliance with institutional practices to be motivated by factors relating to legitimacy, efficiency and economic gain, and organisational goals. However, following the approach adopted by other authors (Abernethy and Chua, 1996; Carmona and Macías, 2001; Carpenter and Feroz, 2001; Modell, 2001), this study does not 'test' Oliver's hypotheses. Rather, the institutional factors and the strategic responses suggested in Oliver's model provide part of the theoretical framework which is used to explain the behaviours of firms in relation to a particular accounting choice in the financial statements. The findings of the study are then used to provide insight into, and to develop, Oliver's arguments regarding the factors which influence organisations either to conform with, or to resist, institutional pressures.

8.3.3.1 Legitimacy

The unique context for this project with the recurring periods of transition between two different regulatory environments I_1 and I_2 enables the researcher to consider the behaviours of firms over nine accounting periods, and in relation to multiple incidences of a particular type of institutional change. Because a longitudinal perspective has been adopted, this study yields evidence that compliance or non-compliance with a new practice cannot necessarily be explained by legitimacy-related institutional arguments when that practice is viewed in isolation. This finding adds another dimension to Oliver's (1991) 'legitimacy hypothesis' in her model of strategic responses to institutional processes.

Efficiency-based and strategic reasons have been used to explain why firms early adopted IFRS 6, IFRS 8 and the consolidation package in the periods of transition to the new standards. Empirical institutional research tends to be set during such times of transition and therefore researchers' observations and conclusions tend to relate to a specific scenario and period (Broadbent *et al*., 2001; Guerreiro *et al*., 2012a; Mezias, 1990). A change of the type considered in this project (that is, moving from an old accounting standard to a new accounting standard) is a phenomenon which arises at a specific time and for a finite duration. In that sense it could be viewed as isolated and something which does not lend itself to generalisation of theory. However, this type of technical change may be regarded as part of a cyclical process (Zaheer *et al*., 1999). The IASB (2015a) has an ongoing programme of updating IFRS and is continually issuing new and revised accounting standards and in that sense changes to IFRS may be regarded as cyclical.

Interviewees believe that legitimacy (or a good reputation) is protected when a firm applies an accounting standard without making any errors. (See Sections 7.3.2, 7.4.1 and 7.4.2.) The old standard (in I_1) and the new standard (in I_2) are both believed by CFOs and GFCs to confer legitimacy provided the standard's requirements are complied with 'correctly'. In addition, findings are that firms sometimes adopt a new institutional practice because the firm believes that it should do so from time to time in order to safeguard legitimacy in a particular environment. (See Section 7.3.3.) Consequently some firms adopted new standards early where those standards had minimal impact because that provided the opportunity for firms to report in the financial statements that they were not waiting until compliance was mandatory. The standards adopted under this scenario did not change either reported earnings or net assets and required few or no additional disclosures.

This approach to the pursuit of legitimacy may be seen as a strategic one as managers try to give the appearance of complying with latest reporting practice whilst not doing so where that would involve significant changes. Oliver's (1991) typology views each new institutional structure or behaviour in isolation. The findings of this study therefore throw light on Oliver's (1991) argument that organisations are more likely to conform to institutional pressures when managers believe that they will achieve increased legitimacy (or social fitness within a particular environment) by doing so. Whilst managers do not think that early adoption of any individual standard is required to preserve legitimacy, some believe that occasionally a gesture of early adoption is necessary within the institutional environment.

8.3.3.2 Efficiency and economic gain

This thesis makes a further contribution by demonstrating how Oliver's (1991) presentation of a single institutional factor of efficiency and economic gain to explain an observed response to institutional pressures benefits from a finer analysis in some settings. Oliver presents efficiency and economic gain as a single concept in her model. By placing this study in the context of IFRS, it has been shown how, in a financial reporting context, the concepts of efficiency and economic gain differ. Efficient financial reporting encompasses a simplified reporting output (for example, with fewer disclosures) and also a quicker accounting process which does not waste the available accounting resource (for example, by continuing with the existing accounting practice). Economic gain may be achieved by reporting improved performance in the financial statements which produces a financial benefit for the firm and/or its managers. This observation suggests that it may be helpful in contexts other than financial accounting to consider the meaning of efficient behaviour and behaviour which results in economic gain and to distinguish between them. This finer classification of the factors which produce particular institutional responses may provide a more useful model to help to explain the behaviours of organisations.

8.3.3.3 Organisational goals

This study provides empirical evidence which demonstrates a practical application of Oliver's suggestion that consistency between organisational goals and institutional practices increases the probability that a new practice will be adopted. In a financial accounting context, it shows how managers may find the impetus to resist the mimetic and normative pressures relating to the current regulation in I_1 and escape to the new regulation in I_2 where that provides the opportunity for managers to report consistently with their organisational goals. These goals include reporting improved performance to investors and hiding commercially sensitive information from competitors.

8.4 Contribution to knowledge

This thesis contributes to knowledge of accounting by large firms by answering the RQ: *What factors can explain the timing of the adoption of accounting standards by large firms?.* In the majority of instances firms adopt a new or revised accounting standard from the date when it becomes mandatory to do so. This can be for efficiency reasons such as the amount of work and therefore the cost involved in adopting a new standard. In addition, institutional pressures to copy the practices of other firms have an impact on both firms and their auditors and these pressures influence firms to stay in the mainstream by adopting new accounting standards from their mandatory dates. On the other hand, firms may find the motivation to resist these pressures and adopt early if they see an efficiency, economic or strategic reporting benefit in escaping to the alternative regulatory environment provided by a new standard.

This thesis explores one aspect of the process of implementing a new standard. It therefore adds to the existing IFRS-related literature which tends to focus on either the period pre-adoption by analysing the standard setting process (Cortese *et al*., 2010; Noël *et al*., 2010) or the post-adoption impact on firms' financial statements (Crawford *et al*., 2012; Nichols *et al*., 2012). The decision when to adopt a new accounting standard sits chronologically between these two scenarios and is another part of the process.

Whilst no existing investigations in the context of early adoption of new IFRSs and revised IASs have been identified, there are a number of US studies relating to early adoption of individual SFASs. By taking an institutional perspective, there is the potential for the current study to add a new dimension to knowledge because these US studies tend to focus on earnings management and apply arguments based on the 'income smoothing' and 'big bath' hypotheses (Gujarathi and Hoskin, 1992). The current study also differs from the existing US literature because it considers the timing of adoption of multiple standards in the nine accounting periods from 2005/6 to 2013/14 and therefore takes a longitudinal view.

A particular strength of this investigation, and therefore the credibility of its contribution to knowledge of accounting, comes from asking the CFOs and GFCs who make financial accounting decisions for large firms about their reasons for early adopting new standards, or waiting until adoption becomes mandatory, so that the findings of this study reflect the views of preparers. This also provides a point of departure from the existing US studies which tend to use statistical analysis of secondary data to investigate relationships between early adoption and firms' characteristics.

8.5 Contributions to methodology

The inclusion of interviews with FTSE 350 CFOs and GFCs makes a contribution to the research methodology in the financial accounting discipline because *inter alia* the problem of access makes interviews with senior managers relatively scarce in the literature. The thesis also makes a methodological contribution to the institutional literature because it differs from many institutional studies by employing an explanatory sequential quan→QUAL mixed methods design. Within this design the qualitative analysis of interviews is used to develop institutional arguments which explain the observed quantitative results. Mixed research methods are employed as part of a pragmatic constructivist methodology which views reality as comprising the four aspects of historical facts, future possibilities, held values and communication with others (Nørreklit *et al*., 2006; 2010). Institutional values, and relationships and communication between constituents are important aspects of an environment. The use of a pragmatic constructivist methodology which allows the researcher to consider these aspects is therefore believed to make another contribution to the institutional body of literature.

Reflecting on the mixing of quantitative and qualitative research methods this thesis, integration has been achieved in the following ways. First, the subsidiary research questions RQ1 and RQ2 reflect quantitative and qualitative approaches respectively leading to research objectives RO2 (quantitative) and RO3 (qualitative) so that a mixed approach was embedded in the research plan. Second, the sample for the qualitative phase and the questions included in the semi-structured interviews in the qualitative phase were both informed by the observed quantitative results. Third, the quantitative results have been used alongside the analysis of interview data in the discussion of results in Chapter 7. This integration includes identifying which managers interviewed in the QUAL phase were from firms which were observed to adopt early in the quan phase. Also, a joint display of the quan and QUAL results has been included in the thesis as Table 7.5 to present explanations for early adoption of individual standards alongside the numbers of early adopters.

Whilst the quantitative and qualitative phases have been integrated in this way, the qualitative phase is dominant over the quantitative phase in this thesis because, using the process of induction, it is mainly the qualitative analysis of interview data which has led to the theoretical contributions presented in Section 8.3 (Morse, 2008). The approach used is therefore described as an explanatory sequential quan→QUAL design where writing QUAL in the upper case indicates the dominance of the qualitative method. However, the research is not believed to be solely qualitative because the quan analysis of annual reports was used to inform the design of the QUAL phase. Further, data collected in both phases is considered to be complementary so that the quan data has been combined with the QUAL data in the discussion of results to enable managers' comments to be interpreted with a greater understanding of context. The quantitative analysis of annual reports has also allowed the issue of early adoption to be addressed more widely than by just considering the early adoption practices of the 21 firms whose CFOs and GFCs participated in an interview (O'Cathain *et al*., 2007). Hence the mixed method approach has achieved both breadth and depth of analysis of the issue of early adoption of accounting standards by large firms.

The use of mixed methods is believed to make a contribution to the existing literature within the financial accounting discipline which is largely quantitative. In this thesis the inclusion of a qualitative approach alongside the objective observation of accounting facts has provided the researcher with the opportunity to explore the values which lay behind the choices made between possible options, and also the way in which relationships and communication with others can affect those choices. The credibility of the qualitative result is enhanced by interviewing experienced and knowledgeable participants, namely the CFOs and GFCs of large firms, partners and a senior manager of Big 4 audit firms, and a senior IASB board member.

8.6 Limitations of the project and suggestions for future research

Chapter 8 has set out the conclusions reached in this research project and has identified the thesis' empirical and theoretical contributions to the institutional literature. It has also presented contributions to knowledge of accounting and to research methodology. Specifically Chapter 8 has provided an answer to the overarching research question by identifying the factors which can explain the timing of the adoption of accounting standards by large firms. Having presented the thesis' original contributions, Chapter 8 will close by setting out some of the limitations of the project and suggesting future research opportunities which arise out of this investigation.

A limitation of any individual research project is that it is placed in one of three research paradigms so that it uses a quantitative, qualitative or mixed methods approach to data analysis. Each of these approaches has its proponents but also its critics. Quantitative research may be criticised because the conclusions reached by a researcher about the reasons for behaviour can be speculative. There can be hidden causes of a particular effect which might be overlooked in the research design and, by remaining detached from participants, participants can be treated as objects and the complexities of their contexts and situations overlooked. On the other hand, qualitative research may also be criticised because it relies on the subjective interpretation of phenomena by participants and also the subjective interpretation of data by a researcher. This research has used mixed methods and therefore partially addresses these weaknesses of quantitative and qualitative approaches. However, a particular limitation of the qualitative findings of this study is that findings arise as the result of interviews with 21 managers which are used to explain the financial reporting behaviours of 158 firms. Whilst the researcher has a measure of assurance that the 21 interviews provide data saturation, the possibility remains that interviews with the managers of other firms who declined to be interviewed may have introduced new themes and explanations for the timing of adoption which have not been identified in this thesis. This issue is not unique to this project but is a limitation of all qualitative research.

Further, any research project suffers from the limitation of being placed in a particular setting and from that setting to aim to either test (deductively) or to develop (inductively) theoretical arguments which may be applied in other contexts. The intention of this project has been to consider the accounting practices of FTSE 350 firms because of the significant role played by these firms in the financial market and therefore their position as important preparers of financial statements. The project was limited to non-financial firms because of the differences between the accounts of financial firms and those from other sectors. Focussing on non-financials also provided the opportunity to include the large mining and oil companies and to consider the reasons for the widespread early adoption of IFRS 6.

An opportunity for further research would therefore be to investigate the extent to which the large financial firms adopt new standards early. The focus of such an investigation might usefully be extended to consider the impact of new standards such as the consolidation standards. This could include the effect on the amount of off balance sheet financing which has now been brought on balance sheet but was previously hidden by leaving entities with high borrowings out of the consolidated accounts. The restriction on the ability to hide borrowings in this way was a reason behind the issue of IFRS 10 and so such an investigation might provide insight into the effectiveness of this change in IFRS.

This study has explored the reasons for Oliver's (1991) suggestions of acquiescence and avoidance (through escape from a particular domain) as responses to institutional pressures. By providing empirical evidence of escape as a strategic response, this study adds to the existing literature which explores Oliver's (1991) model of strategic responses. Future research could be set in contexts other than public sector organisations and investigate avoidance through concealing non-conformity with institutional norms. Also the more resistant responses of defiance and manipulation could be investigated to continue to provide empirical evidence in support of, and to develop, Oliver's (1991) model.

Finally, the continuing use of mixed methods in both financial accounting and institutional studies is encouraged because of the potential opportunity which mixed methods provide to answer some research questions. Mixed methods provide the opportunity to balance the objectivity of a quantitative analysis of facts with the depth of insight which a more interpretive approach to data analysis can give. This is especially the case where the qualitative strand of a mixed methods project includes interviews with the individuals who make financial accounting decisions and/or decide how to respond to the various institutional pressures within a particular environment, as has been demonstrated in this thesis.

9. REFERENCES

Abernethy, MA and Chua, WF (1996), 'A field study of control system "redesign": the impact of institutional processes on strategic choice', *Contemporary Accounting Research,* 13, 2, 596-606

Abrahamson, E (1991), 'Managerial fads and fashions: the diffusion and rejection of innovations', *Academy of Management Review,* 16, 3, 586-612, available from http://www.jstor.org/stable/ 258919 (accessed 10 June 2013)

Amir, E and Livnat, J (1996), 'Multiperiod analysis of adoption motives: the case of SFAS No. 106', *The Accounting Review,* 71, 4, 539-553

Amir, E and Ziv, A (1997), 'Recognition, disclosure, or delay: timing the adoption of SFAS No. 106', *Journal of Accounting Research,* 35, 1, 61-81

Ayres, FL (1986), 'Characteristics of firms electing early adoption of SFAS 52', *Journal of Accounting and Economics,* 8, 2, 143-158, cited in Amir, E and Livnat, J (1996), 'Multiperiod analysis of adoption motives: the case of SFAS No. 106', *The Accounting Review,* 71, 4, 539-553

Bauer, AM, O'Brien, P and Saed, U (2014), 'Reliability makes accounting relevant: a comment on the IASB conceptual framework project', *Accounting in Europe,* 11, 2, 211-217

Bazeley, P (2009), 'Editorial: Integrating data analyses in mixed methods research', *Journal of Mixed Methods Research,* 3, 203-207

Bazeley, P (2007), *Qualitative data analysis with NVivo,* London: Sage Publications Ltd

Beattie, V, Fearnley, S and Brandt, R (2004), 'A grounded theory model of auditor-client negotiations', *International Journal of Auditing,* 8, 1-19

Beattie, V, Fearnley, S and Brandt, R (2000), 'Behind the audit report: a descriptive study of discussions and negotiations between auditors and directors', *International Journal of Auditing,* 4, 177-202

Beattie, V and Smith, SJ (2012), 'Evaluating disclosure theory using the views of UK finance directors in the intellectual capital context', *Accounting and Business Research,* 42, 5, 471-494

Benjamin, JJ, Grossman, SD and Wiggins, CE (1986), 'The impact of foreign currency translation on reporting during the phase-in of SFAS No. 52', *Journal of Accounting, Auditing & Finance,* 1, 3, 177-184

Berg, BL (2009), *Qualitative research methods for the social sciences,* Boston: Pearson Education, 7th edition

Berger, PG and Hann, RN (2007), 'Segment profitability and the proprietary and agency costs of disclosure', *The Accounting Review,* 82, 4, 869-906

Bernard, HR and Ryan, GW (2010), *Analyzing qualitative data: systematic approaches,* Thousand Oaks, California: SAGE Publications, Inc

Bischof, J (2009), 'The effects of IFRS 7 adoption on bank disclosure in Europe', *Accounting in Europe*, 6, 2, 167-194

Botosan, CA (1997), 'Disclosure level and the cost of equity capital', *The Accounting Review,* 72(3), 323-349, available at http://www.jstor.org/stable/pdfplus/248475.pdf (accessed 16 October 2012)

Boxenbaum, E and Jonsson, S (2008), 'Isomorphism, diffusion and decoupling', pp 78-98 in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R , London: Sage Publications Ltd

Bozanic, Z, Dirsmith, M and Huddart, S (2012), 'The social constitution of regulation: the endogenization of insider trading laws', *Accounting, Organizations and Society,* 37, 461-481

Broadbent, J, Jacobs, K and Laughlin, R (2001), ‘Organisational resistance strategies to unwanted accounting and finance changes: the case of general medical practice in the UK’, *Accounting, Auditing & Accountability Journal,* 14, 5, 565-586

Broadbent, J and Unerman, J (2011), ‘Developing the relevance of the accounting academy: the importance of drawing from the diversity of research approaches’, *Meditari Accountancy Research,* 19, 1/2, 7-21

Bryman, A (2007), ‘Barriers to integrating quantitative and qualitative research’, *Journal of Mixed Methods Research,* 1, 8-22

Bryman, A (2004), *Quantity and quality in social research,* London: Routledge

Bryman, A and Bell, E (2011), *Business research methods*, Oxford: Oxford University Press, 3rd edition

Bugeja, M, Czernkowski, R and Moran, D, (2012) ‘Did IFRS 8 increase segment disclosure?’, Working paper, University of Technology Sydney, Sydney, Australia, 2012), cited in Nichols, NB, Street, DL and Tarca, A (2013), ‘The impact of segment reporting under the IFRS 8 and SFAS 131 management approach: a research review’, *Journal of International Financial Management & Accounting,* 24, 3, 261-312

Burlaud, A and Colasse, B (2011), ‘International accounting standardisation: is politics back?’, *Accounting in Europe,* 8, 1, 23-47

Cambridge Dictionaries Online (2014), available from
http://dictionary.cambridge.org/dictionary/british/ (accessed 27 June 2014)

Carmona, S and Macías, M (2001), ‘Institutional pressures, monopolistic conditions and the implementation of early cost management practices: the case of the Royal Tobacco Factory of Seville (1820-1887)’, *Abacus,* 37, 2, 139-165

Carpenter, VL and Feroz, EH (2001), ‘Institutional theory and accounting rule choice: an analysis of four US state governments’ decisions to adopt generally accepted accounting principles’, *Accounting, Organizations and Society,* 26, 4, 565-596

Carruthers, BG (1995), ‘Accounting, ambiguity, and the new institutionalism’, *Accounting, Organizations and Society*, 20, 4, 313-328

Cascino, S, Clatworthy, M, García Osman, B, Gassen, J, Imam, S and Jeanjean, T (2013), ‘The use of information by capital providers: academic literature review’, available from http://icas.org.uk/clatworthy/ (accessed 22 February 2014)

Chapman, CS, Cooper, DJ and Miller, PB (2009a), ‘The institutional environments of accounting’, in Chapman, CS, Cooper, DJ and Miller, PB (2009b), *Accounting, organizations and institutions: essays in honour of Anthony Hopwood*, Oxford Scholarship online, available from http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199546350.001.0001/acprof-9780199546350 (accessed 5 December 2013)

Chapman, CS, Cooper, DJ and Miller, PB (2009b), *Accounting, organizations and institutions: essays in honour of Anthony Hopwood*, Oxford Scholarship online, available from http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199546350.001.0001/acprof-9780199546350 (accessed 5 December 2013)

Collin, SY, Tagesson, T, Andersson, A, Cato, J and Hansson, K (2009) ‘Explaining the choice of accounting standards in municipal corporations: positive accounting theory and institutional theory as competitive or concurrent theories’, *Critical Perspectives on Accounting*, 20, 2 141-174

Competition Commission (2013), ‘Statutory audit services for large companies market investigation’, available from http://webarchive.nationalarchives.gov.uk/20140402161338/http://www.competition-commission.org.uk/assets/competitioncommission/docs/2011/statutory-audit-services/131015_summary.pdf (accessed 14 June 2014)

Confederation of British Business (2015), available from http://www.cbi.org.uk/about-the-cbi/ (accessed 29 July 2015)

Cortese, CL and Irvine, HJ (2010), ‘Investigating international accounting standard setting: the black box of IFRS 6’, *Research in Accounting Regulation*, 22, 87-95

Cortese, CL, Irvine, HJ and Kaidonis, MA (2010), 'Powerful players: how constituents captured the setting of IFRS 6, an accounting standard for the extractive industries', *Accounting Forum,* 34, 76-88

Covaleski, MA and Dirsmith, MW (1988), 'An institutional perspective on the rise, social transformation, and fall of a university budget category', *Administrative Science Quarterly,* 33, 4, 562-587

Crawford, L, Extance, H, Helliar, C and Power, D (2012), 'Operating segments: the usefulness of IFRS 8', ICAS, http://icas.org.uk/crawford/ (accessed 12 February 2013)

Crawford, L, Ferguson, J, Helliar, C and Power, D (2014), 'Control over accounting standards within the European Union: the political controversy surrounding the adoption of IFRS 8', *Critical Perspectives on Accounting, 25,* 304-318

Creswell, JW (2015), *A concise introduction to mixed methods research,* Thousand Oaks, California: SAGE Publications, Inc

Creswell, JW (2009), *Research design: qualitative, quantitative and mixed methods approaches,* Thousand Oaks, California: SAGE Publications, Inc, 3rd edition

Creswell, JW and Plano Clark, VL (2007), *Designing and conducting mixed methods research,* Thousand Oaks, California: SAGE Publications, Inc

Cuijpers, R and Buijink, W (2005), 'Voluntary adoption of non-local GAAP in the European Union: a study of determinants and consequences', *European Accounting Review,* 14, 3, 487-524

Czarniawska, B (2008), 'How to misuse institutions and get away with it: some reflections on institutional theory(ies)', pp 769-782 in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R , London: Sage Publications Ltd

Dellinger, AB and Leech, NL (2007), 'Toward a unified validation framework in mixed methods research', *Journal of Mixed Methods Research,* 1, 309-332

Denzin, NK and Lincoln, YS (2005), ‘Introduction: the discipline and practice of qualitative research’, pp1-32 in *The Sage handbook of qualitative research,* ed. Denzin, NK and Lincoln, YS, Thousand Oaks, California: Sage Publications Inc, 3rd edition

Dey, I (1993), *Qualitative data analysis,* London: Routledge

Dillman, DA (2000), *Mail and internet surveys: the tailored design method,* New York: John Wiley & Sons, Inc, 2nd edition

DiMaggio, PJ and Powell, WW (1983), ‘The iron cage revisited: institutional isomorphism and collective rationality in organizational fields’, *American Sociological Review,* 48, 2, 147-160, available from http://www.jstor.org/stable/pdfplus/2095101.pdf (accessed 10 January 2013)

Djelic, M-L and Sahlin-Andersson, K, (2006), ‘Transnational governance’, Cambridge: Cambridge University Press, 1st edition, cited in Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R (2008), *The Sage handbook of organizational institutionalism,* London: Sage Publications Ltd

Dunn, MB and Jones, C (2010), ‘Institutional logics and institutional pluralism: the contestation of care and science logics in medical education’, *Administrative Science Quarterly,* 55, 114-149

Dunne, T, Fifield, S, Finningham, G, Fox, A, Hannah, G, Helliar, C, Power, D and Veneziani, M (2008), ‘The implementation of IFRS in the UK, Italy and Ireland’, The Institute of Chartered Accountants of Scotland, available from http://icas.org.uk/home/technical-and-research/research-centre/research-publications/the-implementation-of-ifrs-in-the-uk--italy-and-ireland/ (accessed 20 February 2013)

Eisenhardt, KM (1988), ‘Agency- and institutional-theory explanations: the case of retail sales compensation’, *The Academy of Management Journal,* 31, 3, 488-511

Erb, C and Pelger, C (2015), ‘ “Twisting words”? A study of the construction and reconstruction of reliability in financial reporting standard-setting’, *Accounting, Organizations and Society,* 40, 13-40

Ernst & Young (2015), 'New standard on leases is taking shape April 2015' available from http://www.ey.com/Publication/vwLUAssets/EY-applying-leases-apr2015/$FILE/EY-applying-leases-apr2015.pdf (accessed 2 September 2015)

Ernst & Young (2009), 'US GAAP vs. IFRS The basics: oil and gas May 2009' available from www.ey.com/...oilandgas.../ifrsbasics_bb1757_oilandgas_may2009.pdf (accessed 2 September 2015)

European Commission (2014), 'European Parliament backs Commission proposals on new rules to improve the quality of statutory audit', available from http://europa.eu/rapid/press-release_STATEMENT-14-104_en.htm (accessed 30 June 2014)

European Commission (2002), 'Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards', available from http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2002R1606:20080410:EN:PDF (accessed 14 February 2013)

European Financial Reporting Advisory Group (2014), 'The EU endorsement status report', available from http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFRAG_Endorsement_Status_Report_11_February_2014.pdf (accessed March 2014)

European Financial Reporting Advisory Group (2013), 'IFRS 6 – Exploration for and evaluation of mineral resources', available from http://www.efrag.org/Front/p11-8-272/IFRS-6---Exploration-for-and-Evaluation-of-Mineral-Resources.aspx (accessed 8 October 2013)

European Financial Reporting Advisory Group (2011), 'EFRAG requests deferral of the effective dates of IFRS 10, 11 and 12', available from http://www.efrag.org/files/News%20related%20documents/EFRAG_letter_to_IASB_on_IFRS_10_IFRS_11_IFRS_12_IAS_27_and_IAS_28_effective_dates.pdf (accessed 16 June 2014)

Feyerabend, P (1978), *Against method*, Thetford, Norfolk: The Thetford Press Ltd, Verso Edition

Financial Reporting Council (2015), 'Audit Quality Review', available from https://www.frc.org.uk/Our-Work/Conduct/Audit-quality.aspx (accessed 2 January 2015)

Financial Reporting Council (2013), 'ISA 700 (UK and Ireland) (Revised) The independent auditor's report on financial statements', available from https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-700-(UK-and-Ireland)-700-(Revised)-File.pdf (accessed 14 December 2015)

Financial Reporting Council (2010), 'FRRP highlights the challenge of implementing new segmental reporting requirements', available from http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2010/January/FRRP-highlights-the-challenge-of-implementing-new.aspx (accessed 17 November 2013)

Francis, JR, Khurana, IK, Martin, X and Pereira, R (2008), 'The role of firm-specific incentives and country factors in explaining voluntary IAS adoptions: evidence from private firms', *European Accounting Review*, 17, 2, 331-360

Freeman, RE (2010), *Strategic management: a stakeholder approach,* Cambridge: Cambridge University Press, 2nd edition (first published by Pitman in 1984)

Friedland, R and Alford, RR (1991), 'Bringing society back in: symbols, practices and institutional contradictions', pp232-263 in *The new institutionalism in organizational analysis,* ed. Powell, WW and DiMaggio, PJ, Chicago: University of Chicago Press

Friedman, AL and Miles, S (2006), *Stakeholders: theory and practice*, Oxford: Oxford University Press

Grafton, J, Abernethy, MA and Lillis, AM (2011a), 'Organisational design choices in response to public sector reforms: a case study of mandated hospital networks', *Management Accounting Research,* 22, 242-268

Grafton, J, Lillis, AM and Mahama, H (2011b), 'Mixed methods research in accounting', Qualitative Research in Accounting and Management, 8, 1, 5-21

Graham, JR, Harvey, CR and Rajgopal, S (2005), 'The economic implications of corporate financial reporting', *The Journal of Accounting and Economics*, 40, 1-3, 3-73

Gray, DE (2014), *Doing research in the real world*, London: Sage, 3rd edition

Greenwood, R, Hinings, CR and Whetten, D (2014), 'Rethinking institutions and organizations', *Journal of Management Studies*, 51,7, 1206-1220

Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R (2008), *The Sage handbook of organizational institutionalism*, London: Sage Publications Ltd

Greenwood, R, Suddaby, R and Hinings, CR (2002), 'Theorising change: the role of professional associations in the transformation of institutionalised fields', *The Academy of Management Journal*, 45, 1, 58-80

Guerreiro, MS, Rodrigues, LL and Craig, R (2012a), 'Voluntary adoption of International Financial Reporting Standards by large unlisted companies in Portugal - institutional logics and strategic responses', *Accounting, Organizations and Society*, 37, 7, 482-499

Guerreiro, MS, Rodrigues, LL and Craig, R (2012b), 'Factors influencing the preparedness of large unlisted companies to implement adapted International Financial Reporting Standards in Portugal', *Journal of International Accounting, Auditing and Taxation*, 21, 169-184

Guest, G, Bruce, A and Johnson, L (2006), 'How many interviews are enough? An experiment with data saturation and variability', *Field Methods*, 18, 59-82

Gujarathi, MR and Hoskin, RE (2003), 'Modelling the early adoption decision: the case of SFAS 96', *Review of Accounting and Finance*, 2, 4, 63-86

Gujarathi, MR and Hoskin, RE (1992), 'Evidence of earnings management by the early adopters of SFAS 96', *Accounting Horizons*, 6, 18-31

Hines, RD (1989), 'The socio-political paradigm in financial accounting research', *Accounting, Auditing and Accountability Journal*, 2, 1, 52-76

Hirsch, P (2008), 'Been there, done that, moving on: reflections on institutional theory's continuing evolution', pp783-789 in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R , London: Sage Publications Ltd

Hirsch, P and Lounsbury, M (1997), 'Ending the family quarrel: toward a reconciliation of "Old" and "New" institutionalisms ', *American Behavioral Scientist,* 40, 4, 406-418

Hoogervorst, H (2012), 'The imprecise world of accounting', available from http://www.ifrs.org/Alerts/Conference/Pages/HH-speech-Amsterdam-June-2012.aspx (accessed 17 September 2013)

Howe, KR (1988), 'Against the quantitative-qualitative incompatibility thesis or Dogmas die hard', *Educational Researcher,* November, 10-16

Hybels, RC (1995), 'On legitimacy, legitimation, and organizations: a critical review and integrative theoretical model', *Academy of Management Journal*, Special issue: Best papers proceedings, 1995, 241 – 245, cited in Tilling, MV (2004), 'Refinements to legitimacy theory in social and environmental accounting', Commerce research paper series No 04-6, ISSN 1441-3906, available from http://www.flinders.edu.au/sabs/business-files/research/papers/2004/04-6.pdf (accessed 2 January 2013)

Hyvönen, T, Järvinen, J, Pellinen, J and Rahko, T (2009), 'Institutional logics, ICT and stability of management accounting', *European Accounting Review,* 18, 2, 241-275

Iatridis, GE and Joseph, NL (2006), 'Characteristics of UK firms related to timing of adoption of Statement of Standard Accounting Practice No. 20', *Accounting and Finance,* 46, 429-455

IFRS Foundation (2015), 'Annual report 2014', available from http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Annual-reports/Documents/IFRS-Foundation-Annual-Report-2014.pdf (accessed 29 June 2015)

IFRS Foundation (2014), http://www.ifrs.org/Pages/default.aspx (accessed 9 April 2014)

Ihantola and Kihn (2011), 'Threats to validity and reliability in mixed methods accounting research', *Qualitative Research in Accounting & Management,* 8, 1, 39-58

Institute of Chartered Accountants in England and Wales (2014), 'The effects of mandatory IFRS adoption in the EU: a review of empirical research', available from http://www.icaew.com/en/technical/financial-reporting/information-for-better-markets/ifbm-reports/the-effects-of-mandatory-ifrs-adoption-in-the-eu (accessed 24 January 2015)

International Accounting Standards Board (2015a), 'Work plan for IFRSs', available from http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx (accessed 2 September 2015)

International Accounting Standards Board (2015b), 'About the IFRS Foundation and the IASB', available from http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx (accessed 21 February 2015)

International Accounting Standards Board (2015c), 'Transition resource group for revenue recognition', available from http://www.ifrs.org/About-us/IASB/Advisory-bodies/Joint-Revenue-Transition-Resource-Group/Pages/Meetings.aspx (accessed 23 March 2015)

International Accounting Standards Board (2015d), 'Exposure draft ED/2015/3 Conceptual framework for financial reporting', available from http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/ED_CF_MAY%202015.pdf (accessed 10 July 2015)

International Accounting Standards Board (2015e), 'IASB votes to defer the effective date of the new revenue Standard', available from http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-votes-to-defer-the-effective-date-of-the-new-revenue-Standard.aspx (accessed 30 June 2015)

International Accounting Standards Board (2012a), 'Due process handbook for the IASB', available from http://www.ifrs.org/How-we-develop-standards/Documents/DueProcessHandbookIASB2012.pdf (accessed 14 February 2013)

International Accounting Standards Board (2012b), 'Post implementation review of IFRS 8', available from http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/Pages/IFRS-8.aspx (accessed 11 November 2013)

International Accounting Standards Board (2012c), 'Feedback statement: agenda consultation 2011', available from http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/Documents/Feedback-Statement-Agenda-Consultation-Dec-2012.pdf (accessed 18 December 2013)

International Accounting Standards Board (2012d), 'Consolidation and disclosure', available from http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/Consol-disclosure/Pages/Consol-dis.aspx# (accessed 29 September 2014)

International Accounting Standards Board (2011a), 'Effective date and transition methods, Comment letter summary', available from http://www.ifrs.org/Meetings/Pages/IASB-FASB-2-March-2011.aspx (accessed 20 March 2013)

International Accounting Standards Board (2011b), 'Effective dates and transition methods, Cover memo', http://www.ifrs.org/Meetings/Pages/IASB-FASB-2-March-2011.aspx (accessed 20 March 2013)

International Accounting Standards Board (2011c), 'Comment letters on Request for views', available from http://www.ifrs.org/Current-Projects/IASB-Projects/Effective-Dates/Requestview1010/Comment-letters/Pages/Comment-letters.aspx (accessed 13 March 2013)

International Accounting Standards Board (2010a), 'Conceptual framework for financial reporting 2010', available from http://www.ifrs.org (accessed 27 December 2012)

International Accounting Standards Board (2010b), 'Request for views', available from http://www.ifrs.org/Current-Projects/IASB-Projects/Effective-Dates/Requestview1010/Pages/Request-for-views.aspx (accessed 13 March 2013)

International Accounting Standards Board (2006), 'Comment letters', available from http://www.ifrs.org/Current-Projects/IASB-Projects/Segment-Reporting/Exposure-Draft-and-Comment-Letters/Comment-Letters/Pages/Comment.aspx (accessed 11 November 2013)

International Accounting Standards Committee (2000), 'Summary of issues: extractive industries', available from http://www.iasplus.com/en/binary/resource/0011extractsummary.pdf (accessed 26 November 2013)

Jamali, D (2010), 'MNCs and International Accountability Standards through an institutional lens: evidence of symbolic conformity or decoupling', *Journal of Business Ethics,* 95, 617-640

Jensen, MC and Meckling, HW (1976), 'Theory of the firm: managerial behaviour, agency costs and ownership structure', *Journal of Financial Economics,* 3, 4, 305-360, available from http://www.sfu.ca/~wainwrig/Econ400/jensen-meckling.pdf (accessed 11 April 2013)

Jermakowicz, EK and Gornik-Tomaszewski, S (2006), 'Implementing IFRS from the perspective of EU publicly traded companies', *Journal of International Accounting, Auditing and Taxation,* 15, 170-196

Jick, TD (1979), 'Mixing qualitative and quantitative methods: triangulation in action', *Administrative Science Quarterly*, 24, 4, 602-611

Johnson, RB, Onwuegbuzie, AJ and Turner, LA (2007), 'Toward a definition of mixed methods research', *Journal of Mixed Methods Research,* 1, 112-133

Karamanou, I and Nishiotis, GP (2009), 'Disclosure and the cost of capital: evidence from the market's reaction to firm voluntary adoption of IAS', *Journal of Business Finance and Accounting,* 36(7) and (8), 793-821

Kennedy, TK and Fiss, PC (2009), 'Institutionalization, framing, and diffusion: the logic of TQM adoption and implementation decisions among U.S. hospitals', *Academy of Management Journal,* 52, 5, 897-918

Kim, J-B and Shi, H (2012), 'Voluntary IFRS adoption, analyst coverage, and information quality: international evidence', *Journal of International Accounting Research,* 11, 1, 45-76

Kuhn, TS (1970), *The structure of scientific revolutions,* University of Chicago Press, 2nd edition

Kvaal, E and Nobes, C (2012), 'Policy changes and the continuation of national patterns of IFRS practice', *European Accounting Review,* 21, 2, 343-371

Kvaal, E and Nobes, C (2010), 'International differences in IFRS policy choice: a research note', *Accounting and Business Research,* 40, 2, 173-187

Kvale, S and Brinkmann, S (2009) *Interviews: learning the craft of qualitative research interviewing,* Thousand Oaks, California: Sage, 2nd edition

Lambert, R, Leuz, C and Verrecchia, RE (2007), 'Accounting information, disclosure, and the cost of capital', *Journal of Accounting Research,* 45, 2, 385-420

Langer, R and Lev, B (1993), 'The FASB's policy of extended adoption for new standards: an examination of FAS No. 87', *The Accounting Review,* 68, 3, 515-533

Lawrence, TB (2008), 'Power, institutions and organizations', pp 170-197, in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R, London: Sage Publications Ltd

Leech, NL, Dellinger, AB, Brannagan, KB and Tanaka, H (2010), 'Evaluating mixed research studies: a mixed methods approach', *Journal of Mixed Methods Research,* 4, 17-31

Leicht, KT and Fennell, ML (2008), 'Organizational fields: past, present and future', pp 431-448, in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R, London: Sage Publications Ltd

Leuz, C (2003), 'Proprietary versus non-proprietary disclosures: evidence from Germany', available from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=99861 (accessed 22 February 2014)

Loo, ID and Lowe, A (2011), 'Mixed methods research: don't – "just do it" ', *Qualitative Research in Accounting & Management,* 8, 1, 22-38

Lounsbury, M (2008), 'Institutional rationality and practice variation: new directions in the institutional analysis of practice', *Accounting, Organizations and Society,* 33, 349-361

Lounsbury, M (2007), ‘A tale of two cities: competing logics and practice variation in the professionalizing of mutual funds’, *Academy of Management Journal*, 50, 289–307, available at http://www.jstor.org/stable/pdfplus/20159855.pdf?acceptTC=true (accessed 28 March 2013)

Maurer, JG (1971), *Readings in organizational theory: open system approaches,* New York: Random House, cited in Suchman, MC (1995), ‘Managing legitimacy: strategic and institutional approaches’, *Academy of Management Review,* Vol 20, No 3, 571-610, available from http://oa.posterous.com/suchman-1995 (accessed 7 November 2012)

Meyer, JW (2008), ‘Reflections on institutional theories of organisations’, pp 790-811 in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R , London: Sage Publications Ltd

Meyer, RE and Höllerer, MA (2014), ‘Does institutional theory need redirecting’, *Journal of Management Studies,* 51, 7, 1221-1233

Meyer, JW and Rowan, B (1977), ‘Institutionalized organizations: formal structure as myth and ceremony’, *American Journal of Sociology,* 83, 2, 240-363, available from http:///www.jstor.org/stable/2778293 (accessed 22 February 2013)

Mezias, SJ (1990), ‘An institutional model of organizational practice: financial reporting at the Fortune 200’, *Administrative Science Quarterly,* 35, 3, 431-457, available from http:///www.jstor.org/stable/2393312 (accessed 22 February 2013)

Milne, MJ (2002), ‘Positive accounting theory, political costs and social disclosure analyses: a critical look’, *Critical Perspectives on Accounting*, 13, 369-395

Mizruchi, MS and Fein, LC (1999), ‘The social construction of organizational knowledge: a study of the uses of coercive, mimetic, and normative isomorphism’, *Administrative Science Quarterly,* 44, 4, 653-683, available from http:///www.jstor.org/stable/2667051 (accessed 18 February 2013)

Modell, S (2010), ‘Bridging the paradigm divide in management accounting research: the role of mixed methods approaches’, *Management Accounting Research,* 21, 124-129

Modell, S (2001), 'Performance measurement and institutional processes: a study of managerial responses to public sector reform', *Management Accounting Research,* 12, 437-464

Morse, JM (2008), 'A notation system for mixed methods designs', pp149-158 in *The mixed methods reader,* ed. Plano Clark, VL and Creswell, JW, Thousand Oaks, California: Sage Publications, Inc

Nichols, NB, Street, DL and Tarca, A (2013), 'The impact of segment reporting under the IFRS 8 and SFAS 131 management approach: a research review', *Journal of International Financial Management & Accounting,* 24, 3, 261-312

Nichols, NB, Street, DL and Cereola, SJ (2012), 'An analysis of the impact of adopting IFRS 8 on the segment disclosures of European blue chip companies', *Journal of International Accounting, Auditing and Taxation,* 21, 79-105

Nobes, C (2006), 'The survival of international differences under IFRS: towards a research agenda', *Accounting and Business Research,* 36, 3, 233-245

Noël, C, Ayayi, AG and Blum, V (2010), 'The European Union's accounting policy analysed from an ethical perspective: the case of petroleum resources, prospecting and evaluation', *Critical Perspectives on Accounting,* 21, 329-341

Nørreklit, H, Nørreklit, L and Mitchell, F (2010), 'Towards a paradigmatic foundation for accounting practice', *Accounting, Auditing and Accountability Journal,* 23, 6, 733-758

Nørreklit, L, Nørreklit, H and Israelsen, P (2006), 'The validity of management control topoi: towards constructivist pragmatism', *Management Accounting Research,* 17, 42-71

O'Cathain, A, Murphy, E and Nicholl, J (2007), 'Integration and publications as indicators of "yield" from mixed methods studies, *Journal of Mixed Methods Research,* 1, 2, 147-163

O'Hear, A (1989), *An introduction to the philosophy of science,* Oxford: Oxford University Press

Oliver, C (1991), 'Strategic responses to institutional processes', *Academy of Management Review,* 16, 145-179, available from http://www.jstor.org/stable/pdfplus/258610.pdf (accessed 10 January 2013)

Onwuegbuzie, AJ and Johnson, RB (2006), 'The validity issue in mixed research, *Research in the Schools,* 13, 1, 48-63

O'Reilly, M and Parker, N (2012), ' 'Unsatisfactory saturation': a critical exploration of the notion of saturated sample sizes in qualitative research', *Qualitative Research,* 13, 2, 190-197

Oxford Dictionaries (2014), available from http://www.oxforddictionaries.com/definition/english (accessed 7 April 2014)

Palea, V and Maino, R (2013), 'Private equity fair value measurement: a critical perspective on IFRS 13', *Australian Accounting Review,* 23, 3, 264-278

Parsons, T (1956a), 'Suggestions for a sociological approach to the theory of organizations – I', *Administrative Science Quarterly,* 1 (1), 63-85, available from http:///www.jstor.org/stable/2390840 (accessed 27 September 2013)

Parsons, T (1956b), 'Suggestions for a sociological approach to the theory of organizations – II', *Administrative Science Quarterly,* 1 (2), 225-239, available from http:///www.jstor.org/stable/2390988 (accessed 27 September 2013)

Perrow, C (1985), 'Overboard with myths and symbols', *American Journal of Sociology,* 91, 1, 151-155

Phillips, N and Malhotra, N (2008), 'Taking social construction seriously: extending the discursive approach in institutional theory', pp702-720 in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R , London: Sage Publications Ltd

Popper, KR (1991), *The poverty of historicism,* London: Routledge & Kegan Paul, (first English edition published in 1957)

Posner, RA (1974), ‘Theories of economic regulation’, *The Bell Journal of Economics and Management Science,* 5, 2, 335-358, available at http://www.jstor.org (accessed 28 November 2013)

Powell, WW and DiMaggio, PJ (1991), *The new institutionalism in organizational analysis,* Chicago: University of Chicago Press

PricewaterhouseCoopers (2015), ‘Audit firm rotation and tendering in the UK: Piecing together the jigsaw May 2015’, available at http://www.pwc.co.uk/assets/pdf/pwc-client-briefing-on-rotation-and-tendering-in-uk-november-2014_LR.pdf (accessed 2 September 2015)

QSR International (2015), ‘What is NVivo?’, available from http://www.qsrinternational.com/what-is-nvivo (accessed 19 December 2015)

Renders, A and Gaeremynck, A (2007), ‘The impact of legal and voluntary investor protection on the early adoption of International Financial Reporting Standards (IFRS)’ *De Economist,* 155, 1, 49-72, available at http://download.springer.com/static/pdf/53/art%253A10.1007%252Fs10645-006-9041-y.pdf?auth66=1353409502_883b903de47cf163077d9cae013899b4&ext=.pdf (accessed 20 November 2012)

Richardson, L and St. Pierre, EA (2005), ‘Writing: a method of inquiry’, pp959-978 in *The Sage handbook of qualitative research,* ed. Denzin, NK and Lincoln, YS, Thousand Oaks, California: Sage Publications Inc, 3rd edition

Robertson, SP (2008), ‘The qualitative research process as a journey – mapping your course with qualitative research software’, *Qualitative Research Journal,* 8, 2, 81-90

Sale, J, Lohfeld, L and Brazil, K (2002), ‘Revisiting the qualitative-quantitative debate: implications for mixed methods research’, *Quality & Quantity,* 36, 1, 43-53

Saunders, M, Lewis, P and Thornhill, A (2012), *Research methods for business students,* Harlow: Pearson, 6th edition

Sayer, A (1992), *Method in social science: a realist approach,* Oxon: Routledge, 2nd edition

Scott, WR (2008a), *Institutions and organizations: ideas and interests,* Thousand Oaks, California: Sage Publications Inc, 3rd edition

Scott, WR (2008b), 'Lords of the dance: professionals as institutional agents', *Organization Studies,* 29, 02, 219-238

Scott, WR (1987), 'The adolescence of institutional theory', *Administrative Science Quarterly,* 32, 4, 493-511, available at http://www.jstor.org/stable/pdfplus/2392880.pdf (accessed 15 February 2013)

Securities and Exchange Commission (2007), International Series Release No. 1306, 'Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP', available at http://www.sec.gov/rules/final/finalarchive/finalarchive2007.shtml (accessed 25 June 2014)

Selznick, P (1996), ' Institutionalism "old" and "new" ', *Administrative Science Quarterly,* 41, 270-277

Selznick, P (1957), *Leadership in administration: a sociological interpretation,* New York: Harper and Row

Sikka, P (2009), 'Financial crisis and the silence of the auditors', *Accounting, Organizations and Society,* 34, 868-873

Simsek, Z, Labatkin, MH, Veiga, JF and Dino, RF (2009), 'The role of an entrepreneurially alert information system in promoting corporate entrepreneurship', *Journal of Business Research,* 62, 8, 810-817

Spence, AM (2001), 'Signaling in retrospect and the informational structure of markets', http://www.nobelprize.org/nobel_prizes/economics/laureates/2001/spence-lecture.pdf (accessed 6 November 2012)

Stigler, GJ (1971), ‘The theory of economic regulation’, *The Bell Journal of Economics and Management Science,* 2, 1, 3-21, available at http://www.jstor.org (accessed 28 November 2013)

Stolowy, H, Lebas, MJ and Ding Y (2013), *Financial accounting and reporting: a global perspective*, Singapore: Seng Lee Press, 4th edition

Suchman, MC (1995), ‘Managing legitimacy: strategic and institutional approaches’, *Academy of Management Review,* 20, 3, 571-610, available at http://www.jstor.org/stable/pdfplus/258788.pdf (accessed 10 January 2013)

Suddaby, R (2010), ‘Challenges for institutional theory’, *Journal of Management Inquiry,* 19,1, 14-20

Teddlie, C and Tashakkori, A (2009), *Foundations of mixed methods research: integrating quantitative and qualitative approaches in the social and behavioural sciences,* Thousand Oaks, California: SAGE Publications, Inc

Teddlie, C and Yu, F (2007), ‘Mixed methods sampling: a typology with examples’, *Journal of Mixed Methods Research,* 1, 77-100

The Hundred Group (2015), http://www.the100group.co.uk/about-us.aspx (accessed 29 July 2015)

Thornton, PH and Ocasio, W (2008), ‘Institutional logics’, pp 99-129 in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R , London: Sage Publications Ltd

Tilling, MV (2004), ‘Refinements to legitimacy theory in social and environmental accounting’, Commerce research paper series No 04-6, ISSN 1441-3906, available from http://www.flinders.edu.au/sabs/business-files/research/papers/2004/04-6.pdf (accessed 2 January 2013)

Tolbert, PS and Zucker, LG (1983), ‘Institutional sources of change in the formal structure of organizations: the diffusion of civil service reform’, *Administrative Science Quarterly,* 28, 1, 22-39

Trombley, MA (1989), ‘Accounting method choice in the software industry: characteristics of firms electing early adoption of SFAS No. 86’, *The Accounting Review,* 64, 3, 529-538

Tsalavoutas, I (2011), ‘Transition to IFRS and compliance with mandatory disclosure requirements: What is the signal?’, *Advances in Accounting,* 27, 2, 390-405

Tsalavoutas, I, André, P and Evans, L (2012), ‘The transition to IFRS and the value relevance of financial statements in Greece’, *The British Accounting Review,* 44, 4, 262-277

Verrecchia, RE (2001), ‘Essays on disclosure’, *Journal of Accounting and Economics,* 32, 1-3, 97-180

Warren, RL (1967), ‘The interorganizational field as a focus for investigation’, *Administrative Science Quarterly’,* 12, 396-419, cited in Wooten, M and Hoffman, AJ (2008), ‘Organizational fields: past, present and future’, pp 130-147, in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R, London: Sage Publications Ltd

Watts, RL and Zimmerman, JL (1986), *Positive accounting theory,* New Jersey USA: Prentice-Hall

Watts, RL and JL Zimmerman (1978), ‘Towards a positive theory of the determination of accounting standards’, *The Accounting Review*, 53, 529-538.

Westphal, JD and Zajac, EJ (2001), ‘Decoupling policy from practice: the case of stock repurchase programmes’, *Administrative Science Quarterly,* 46, 2, 202-228

Whittington, G (2008), ‘Fair value and the IASB/FASB conceptual framework project: an alternative view’, *Abacus,* 44, 2, 139-168

Williams, PF (2009), ‘Reshaping accounting research: living in the world in which we live’, *Accounting Forum,* 33, 4, 274-279

Wooten, M and Hoffman, AJ (2008), 'Organizational fields: past, present and future', pp 130-147, in *The Sage handbook of organizational institutionalism,* ed. Greenwood, R, Oliver, C, Sahlin, K and Suddaby, R, London: Sage Publications Ltd

Zaheer, S, Albert, S and Zaheer, A (1999), 'Time scales and organizational theory', *The Academy of Management Review,* 24, 4, 725-741

Zimmerman, JL (2013), 'Myth: external financial reporting quality has a first- order effect on firm value', *Accounting Horizons,* 27, 887-894

Zucker, L (1987), 'Institutional theories of organization', *American Sociological Review,* 13, 443-464, available from http://www.jstor.org/stable/2083256 (accessed 25 January 2013)

Zucker, L (1977), 'The role of institutionalization in cultural persistence', *American Sociological Review,* 42, 5, 726-743, available from http://www.jstor.org/stable/2094862 (accessed 25 January 2013)

10. APPENDICES

A Views on early adoption received by the IASB in response to its Request for Views (IASB, 2010b)

	Constituent *(Standards adopted early)*	**IASB reference [38]**	**Should the IASB continue to allow early adoption?** Yes	**Yes provided related standards adopted together**	**Yes if for all standards**	**No**	**Selective comments**
Non-financial FTSE 350 firms	BT Group PLC *(Consolidation)*	CL144				✓	*"… the potentially differing treatments will reduce comparability between entities and confuse users of financial statements."*
	easyJet plc *(Consolidation)*	CL78			✓		*"… this will enable businesses to align the implementation of standards with other business projects … early adoption … should be applied across the entire suite of standards … so that an entity cannot 'cherry-pick' those it feels improves results at the expense of delaying those that might impact results negatively… early adoption would affect the comparability between entities, however, the ability for entities to apply these standards in the most cost efficient manner should be paramount."*

[38] IASB's (2011c) comment letter reference

	Constituent ***(Standards adopted early)***	**IASB reference**	**Should the IASB continue to allow early adoption?**				**Selective comments**
			Yes	**Yes provided related standards adopted together**	**Yes if for all standards**	**No**	
Non-financial FTSE 350 firms	Shell International *(IFRS 6, IFRS 8, Consolidation)*	CL26		✓			*"The changes resulting from the interdependent standards Fair Value Measurement, Financial Instruments, Revenue from Contracts with Customers, Insurance Contracts and Leases are likely to be significant for many companies; a prolonged period with the option of early adoption would create confusion amongst users of financial statements … Earlier adoption should be permitted for the other standards provided they take account of the interdependencies…"*
	Unilever PLC *(Consolidation)*	CL13				✓	*"… the potential differing treatments will reduce consistency and comparability between entities and confuse users of financial statements."*
	Vodafone Group Plc *(IFRS 7, IFRS 8, Consolidation)*	CL71	✓				*"All entities should have the ability to choose to early adopt the new standards selectively. This will enable entities flexibility to determine the best way to communicate changes to users and to efficiently manage their reporting processes and costs. The benefits are likely to outweigh any disadvantages arising in respect of comparability."*

	Constituent *(Standards adopted early)*	IASB reference	Should the IASB continue to allow early adoption?				Selective comments
			Yes	**Yes provided related standards adopted together**	**Yes if for all standards**	**No**	
Collectives	CBI	CL122	✓	✓			*"Companies should be permitted to early adopt the Standards, but … it might be appropriate if those Standards which are inter-related are early adopted collectively."*
	Hundred Group	CL149		✓			*"… if an individual standard is adopted early then related standards should be adopted at the same time."*
Auditors	BDO	CL 110		✓			*"Working from the premise that the new standards represent an improvement over current standards, it would be sensible for users of financial statements to benefit from the enhanced financial reporting information as soon as preparers are able to provide it."*
	Deloitte	CL 63		✓			*"Without flexibility, the needs of some constituents will not be addressed, thus jeopardizing the quality of financial information produced. We are cognisant of the effect this approach may have on comparability of financial statements but believe that the desire for comparability has to be weighed against the need for quality financial information."*

	Constituent *(Standards adopted early)*	IASB reference	Should the IASB continue to allow early adoption?				Selective comments
			Yes	**Yes provided related standards adopted together**	**Yes if for all standards**	**No**	
Auditors	Ernst & Young	CL 83		✓			*"Early adoption helps to identify practice issues as auditors, users, investors and preparers can all benefit from the lessons learned from the experiences of the early adopters."*
	KPMG	FASB (2011) Letter 65[39]		✓			*"We believe that there should not be any restrictions on early adoption of the new and revised standards on the basis that their adoption is presumed to improve financial reporting."*
	Pricewaterhouse-Coopers	CL 119	✓				*"All new standards … are intended to be improvements in financial reporting and we believe preparers should be allowed to early adopt … An unrestricted early adoption option would provide preparers the flexibility to determine the most appropriate adoption sequence for their circumstances."*
Accountancy bodies	ACCA	CL125				✓	*"We support a ban on early adoption… Our principle reason for not permitting early adoption is to improve the comparability of financial statements."*

[39] Letter not included in IASB's (2011c) comment letters but addressed to both boards and included on the FASB's (2011b) website

	Constituent *(Standards adopted early)*	IASB reference	Should the IASB continue to allow early adoption?				Selective comments
			Yes	**Yes provided related standards adopted together**	**Yes if for all standards**	**No**	
Accountancy bodies	ICAEW	CL 80		✓			*"Early adoption allows those companies with fewer transition challenges to move-over without delay, this is to be encouraged where, as is to be hoped, the new standard is an improvement on current practice. Ultimately, we feel that the benefits to be gained from early adoption outweigh the costs arising from reduced comparability."*
Analysts and Users	CFA Institute	CL 148				✓	*"Allowing entities this option introduces further complexity for investors who rely on comparability in their analysis. Early adoption creates one or more transition periods in which there is a lack of comparability …"*
	Corporate Reporting Users' Forum (CRUF)	CL 147				✓	*"In general, CRUF participants do not favor offering companies the opportunity to early-adopt new standards because doing so would undermine comparability amongst peers."*

Appendix B

IFRSs and revised IASs available for early adoption in the period 2005/6 to 2013/14

Standard **Summary of main changes to earlier IAS / requirements of new IFRS**	**Nature of requirements**		
	Presentation	**Disclosure** Increased (+) Decreased (-)	**Measure-ment**
IAS 1 (Revised) **Presentation of financial statements (2007)** Introduces new (non-mandatory) terminology for the main financial statements Requires a statement of financial position at the start of the earliest comparative period affected by an adjustment or reclassification of items Requires other comprehensive income to be presented with the profit or loss for the period <u>Source</u> http://www.icaew.com/en/technical/financial-reporting/ifrs/ifrs-standards/ias-1-presentation-of-financial-statements#Synopsis (accessed 12 February 2013)	Yes	Yes (+)	
IAS 19 (Revised) **Employee benefits (2011)** Requires immediate recognition of changes in net liability (or net asset) for defined benefit pension plans Requires remeasurements (actuarial gains/losses) to be included as other comprehensive income Requires interest cost and return on plan assets to be calculated using the same discount rate Requires enhanced disclosures regarding defined benefit plans Modifies the recognition and measurement of termination benefits <u>Sources</u> http://www.iasplus.com/en/standards/standard17/#1106 (accessed 12 February 2013) http://www.pwc.co.uk/pensions/issues/ias19-amendments-confirmed-expect-higher-pension-expense-and-greater-balance-sheet-volatility.jhtml (accessed 24 September 2013)	Yes	Yes (+)	Yes

Standard **Summary of main changes to earlier IAS / requirements of new IFRS**	**Nature of requirements**		
	Presentation	**Disclosure** Increased (+) Decreased (-)	**Measure-ment**
IAS 24 (Revised) **Related party disclosures (2009)** Reduces required disclosures relating to government-controlled entities Clarifies the definition of a related party Requires disclosure of commitments to transactions with related parties <u>Source</u> http://www.icaew.com/en/technical/financial-reporting/ifrs/ifrs-standards/ias-24-related-party-disclosures#Synopsis (accessed 12 February 2013) https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/first-impressions/Documents/First-impressions-amendments-IAS-24.pdf (accessed 11 April 2014)		Yes (+/-)	
IFRS 6 **Exploration for and evaluation of mineral assets** States the accounting requirements and disclosures in relation to exploration and evaluation assets (before technical feasibility and commercial viability become demonstrable) and exempts extractive firms from the requirements of IAS 38: *Intangible assets* regarding when expenditure may be capitalised Describes the circumstances when exploration and evaluation assets should be tested for impairment Varies when impairment loss should be recognised from the criteria in IAS 36: *Impairment* <u>Sources</u> http://www.ifrs.org/IFRSs/Documents/IFRS6en.pdf (accessed 12 February 2013) EFRAG (2013)	Yes	Yes (+)	Yes

Standard **Summary of main changes to earlier IAS / requirements of new IFRS**	**Nature of requirements**		
	Presentation	**Disclosure** Increased (+) Decreased (-)	**Measure-ment**
IFRS 7 **Financial instruments: disclosures 2005** Replaces the disclosures previously required by IAS 30: *Disclosures in the financial statements of banks and similar financial institutions* Increases the disclosures previously required by IAS 32: *Financial instruments: presentation* including information on an entity's exposure to risks arising from financial instruments and the entity's policies for managing those risks Source http://www.iasplus.com/en/binary/pressrel/0508ifrs7.pdf (accessed 12 February 20123)		Yes (+)	
IFRS 8 **Operating segments** Introduces a management approach to the definition of reportable segments Removes the requirement to report geographical segments if these are not identified in the reports provided to the chief operating decision maker (CODM) No definition of segmental result so entity may use a non-IFRS measure where that is used for internal reporting Removes the requirement to report other items (for example, segmental liabilities) if these are not identified in the reports provided to the CODM Introduces new requirements in relation to entity-wide disclosures including information regarding major customers (≥ 10% of entity's revenue) Sources Crawford *et al*. (2012) http://www.iasplus.com/en/binary/iasplus/0612ifrs8.pdf (accessed 12 February 2013)		Yes (+/-)	

Standard **Summary of main changes to earlier IAS / requirements of new IFRS**	**Nature of requirements**		
	Presentation	**Disclosure** Increased (+) Decreased (-)	**Measure-ment**
IAS 27* (Revised) **Separate financial statements (2011)** Consolidation aspects moved to IFRS 10 <u>Source</u> http://www.ifac.org/sites/default/files/meetings/files/6201_0.pdf (accessed 23 August 2014)			
IAS 28* (Revised) **Investments in associates and joint ventures (2011)** Includes joint ventures in its scope Disclosure requirements moved to IFRS 12 <u>Source</u> http://www.ifac.org/sites/default/files/meetings/files/6201_0.pdf (accessed 23 August 2014)	Yes		
IFRS 10* **Consolidated financial statements** Clarifies that control is the single basis for consolidation Defines control in relation to principles and the economic substance of relationships between entities <u>Sources</u> http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/Documents/IFRS1012_ConsolidatedFinStatementsDisclosure_UpdatedJanuary2012.pdf (accessed 12 February 2013) http://www.bdointernational.com/Services/Audit/IFRS/Need%20to%20Know/Documents/Need%20to%20Know%20-%20IFRS%2010%20(print).pdf (accessed 23 August 2014)		Yes	Yes

Standard Summary of main changes to earlier IAS / requirements of new IFRS	Nature of requirements Presentation	 Disclosure Increased (+) Decreased (-)	 Measure-ment
IFRS 11* **Joint arrangements** Requires recognition and measurement of assets, liabilities, revenues and expenses from joint operations to be in relation to the interest in the arrangement Requires a joint venturer to recognise its investment using the equity method Sources http://www.ifrs.org/IFRSs/Documents/IFRS11en.pdf (accessed 12 February 2013) http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/first-impressions/Documents/First-impressions-JA-IFRS11.pdf (accessed 24 September 2013)	Yes		Yes
IFRS 12* **Disclosure of interests in other entities** Requires additional disclosures regarding consolidated entities Requires additional disclosures regarding unconsolidated structured entities Source http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/Documents/IFRS1012_ConsolidatedFinStatementsDisclosure_UpdatedJanuary2012.pdf (accessed 12 February 2013)		Yes (+)	
IFRS 13 **Fair value measurement** Defines fair value Single source of requirements relating to fair value Includes a framework for measuring fair value Introduces new disclosure requirements Source http://www.ifrs.org/IFRSs/Documents/IFRS13en.pdf (accessed 12 February 2013)		Yes (+)	Yes

***** IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised) and IAS 28 (Revised) make up a package of five standards relating to consolidations.

C Summary of comments on ED 6 by sample firms and their auditors

	Constituent	IASB reference[40]	Support for retaining existing practice	Suggested changes to ED 6		
				Redefine CGUs to be larger than individual assets	Non-exhaustive list of examples of evaluation expenditure	Allow administration and general overhead costs to be capitalised
Non-financial FTSE 350 firms	Anglo American plc	CL30	✓	✓	✓	✓
	BG Group plc	CL28	✓	✓	✓	✓
	BHP Billiton	CL41	✓	✓		
	BP plc	CL47	✓	✓	✓	✓
	Cairn Energy PLC	CL26	✓	✓		✓
	Shell International	CL43	✓	✓	✓	✓
Auditors	Deloitte	CL44	✓	✓	✓	
	Ernst & Young	CL46	✓	✓		
	KPMG	CL53	✓	✓		✓
	PricewaterhouseCoopers	CL45	✓	✓		

[40] Comment letters available from IASB's archive, available at http://www.ifrs.org/Archive/Pages/Archive-IASB-Project-Comment-Letters.aspx (accessed 27 December 2013)

	Constituent	IASB reference	Support for retaining existing practice	Suggested changes to ED 6		
				Redefine CGUs to be larger than individual assets	Non-exhaustive list of examples of evaluation expenditure	Allow administration and general overhead costs to be capitalised
Accountancy bodies	ACCA	CL34	✓	✓		
	ICAEW	CL27	✓	✓	✓	✓
	The London Society of Chartered Accountants	CL42	✓		✓	✓

D Checklist for collecting secondary data from archived annual reports for quan

A) General			
Firm			
Accounting date			
Sector			
Auditor			
US listing / ADR			
Other overseas listing(s)			
B) Accounting standards	**Date of adoption**	**Early** √	**Memo**
IFRS 6: *Exploration for and evaluation of mineral assets* **Effective 1.1.06**			
IFRS 7: *Financial instruments: disclosures 2005* **Effective 1.1.07**			
IFRS 8: *Operating segments* **Effective 1.1.09**			
IAS 1 (Revised): *Presentation of financial statements (2007)* **Effective 1.1.09**			
IAS 24 (Revised)*: Related party disclosures (2009)* **Effective 1.1.11**			
IAS 19 (Revised): *Employee benefits (2011)* **Effective 1.1.13**			
IFRS 13: *Fair value measurement* **Effective 1.1.13**			
IAS 27 (Revised): *Separate financial statements (2011)* IAS 28 (Revised): Investments in *associates and joint ventures* IFRS 10: *Consolidated financial statements* IFRS 11: *Joint arrangements* IFRS 12: *Disclosure of interests in other entities* **Effective 1.1.13 (Other listings)** **Effective 1.1.14 (EU-listed only)**			

E Timing of adoption of new IFRSs and revised IASs by sample firms

Firm	Timing of adoption of accounting standard Month Year = Year end date when standard early adopted * = Two years early 0 = From mandatory date								Total
	IFRS 6	**IFRS 7**	**IAS 1(R)**	**IFRS 8**	**IAS 24(R)**	**IAS 19(R)**	**IFRS 13**	**Consol-idation**	
Basic materials (14)									
Anglo American	Dec 05	0	0	0	0	0	0	0	**1**
Antofagasta	Dec 05	0	0	0	0	0	0	Dec 13	**2**
Aquarius Platinum	Jun 06	0	0	0	0	0	0	0	**1**
BHP Billiton	Jun 06	0	0	0	0	0	0	0	**1**
Croda International	n/a	0	0	0	0	0	0	0	**0**
Johnson Matthey	n/a	0	0	0	0	0	0	Mar 14	**1**
Kazakhmys	Dec 05	0	0	0	Dec 10	0	0	0	**2**
Lonmin	0	0	0	0	0	0	0	0	**0**
Morgan Crucible Co (Morgan Advanced)	n/a	0	0	0	0	0	0	0	**0**
Randgold Resources	0	0	0	0	0	0	0	Dec 13	**1**
Rio Tinto	Dec 05	0	0	0	0	0	0	0	**1**
Synthomer (Yule Catto & Co)	n/a	0	0	0	0	0	0	0	**0**
Vedanta Resources	Mar 06	0	0	0	0	0	0	Mar 14	**2**
Victrex	n/a	0	0	0	0	0	0	0	**0**

Firm	IFRS 6	IFRS 7	IAS 1(R)	IFRS 8	IAS 24(R)	IAS 19(R)	IFRS 13	Consol-idation	Total
Consumer goods (21)									
Aga Foodservice Group	n/a	0	0	Dec 08	0	0	0	0	**1**
Associated British Foods	n/a	0	0	0	0	0	0	0	**0**
Barratt Developments	n/a	0	0	0	0	0	0	0	**0**
Bellway	n/a	0	0	0	0	0	0	0	**0**
Berkeley Group Holdings	n/a	0	0	0	0	0	0	0	**0**
Bovis Homes Group	n/a	0	0	0	0	0	0	0	**0**
British American Tobacco	n/a	0	0	0	0	0	0	0	**0**
Burberry Group	n/a	0	0	0	0	0	0	Mar 14	**1**
Carpetright	n/a	0	0	0	0	0	0	0	**0**
Dairy Crest Group	n/a	0	0	0	0	0	0	Mar 14	**1**
Diageo	n/a	Jun 06*	0	0	0	0	0	Jun 14	**2**
GKN	n/a	0	0	0	0	0	0	0	**0**
Imperial Tobacco Group	n/a	0	0	0	0	0	0	0	**0**
Persimmon	n/a	0	0	0	0	0	0	0	**0**
Premier Foods	n/a	0	0	0	0	0	0	0	**0**
PZ Cussons	n/a	0	0	0	0	0	0	0	**0**
Reckitt Benckiser	n/a	0	0	Dec 08	0	0	0	Dec 13	**2**
Redrow	n/a	0	0	0	0	0	0	0	**0**
SAB Miller	n/a	0	0	0	0	0	0	0	**0**
Tate & Lyle	n/a	0	0	0	0	0	0	0	**0**
Unilever	n/a	0	0	0	0	0	0	Dec 13	**1**

Firm	IFRS 6	IFRS 7	IAS 1(R)	IFRS 8	IAS 24(R)	IAS 19(R)	IFRS 13	Consol-idation	Total
Consumer services (44)									
888 Holdings	n/a	0	0	0	0	0	0	0	**0**
British Sky Broadcasting Group	n/a	0	0	0	0	0	0	Jun 14	**1**
Brown (N) Group	n/a	0	0	0	0	0	0	0	**0**
Compass Group	n/a	0	0	Sep 09	0	0	0	0	**1**
Daily Mail & General Trust	n/a	0	0	Sep 09	0	0	0	Sep 14	**2**
DSG International (Dixons)	n/a	0	0	Apr 09	0	0	0	Apr 14	**2**
easyJet	n/a	0	0	0	0	0	0	Sep 14	**1**
Enterprise Inns	n/a	Sep 07*	0	Sep 09	0	0	0	0	**2**
Euromoney Institutional Investors	n/a	0	0	0	0	0	0	0	**0**
Findel	n/a	0	0	0	0	0	0	0	**0**
FirstGroup	n/a	0	0	0	0	0	0	0	**0**
Go-Ahead Group	n/a	0	0	0	0	0	0	0	**0**
Greene King	n/a	0	0	0	0	0	0	0	**0**
Greggs	n/a	0	0	0	0	0	0	0	**0**
Halfords Group	n/a	0	0	0	0	0	0	0	**0**
Hilton Group (Ladbrokes)	n/a	0	0	0	0	0	0	0	**0**
Inchcape	n/a	0	0	0	0	0	0	0	**0**
Informa	n/a	0	0	0	0	0	0	0	**0**
ITV	n/a	0	0	Dec 08	0	0	0	0	**1**
Johnston Press	n/a	0	0	0	0	0	0	Dec 13	**1**
Kesa Electricals (Darty)	n/a	0	0	0	0	0	0	0	**0**
Kingfisher	n/a	0	0	0	0	0	0	0	**0**
Marks & Spencer Group	n/a	0	0	0	0	0	0	0	**0**
Millennium & Copthorne Hotels	n/a	0	0	0	0	0	0	0	**0**

Firm	**IFRS 6**	**IFRS 7**	**IAS 1(R)**	**IFRS 8**	**IAS 24(R)**	**IAS 19(R)**	**IFRS 13**	**Consol-idation**	**Total**
Mitchells & Butlers	n/a	0	0	0	0	0	0	Sep 14	**1**
Morrison (William) Supermarkets	n/a	0	0	0	0	0	0	0	**0**
National Express Group	n/a	0	0	0	0	0	0	0	**0**
Next	n/a	0	0	Jan 09	0	0	0	0	**1**
Pearson	n/a	0	0	Dec 08	0	0	0	Dec 13	**2**
Pendragon	n/a	0	0	0	0	0	0	0	**0**
Photo-Me	n/a	0	0	0	0	0	0	Apr 14	**1**
Rank Group	n/a	0	0	0	0	0	0	0	**0**
Reed Elsevier	n/a	0	0	0	0	0	0	Dec 13	**1**
Sainsbury (J)	n/a	0	0	0	0	0	0	0	**0**
Stagecoach Group	n/a	0	0	Apr 09	0	0	0	0	**1**
Tesco	n/a	0	0	0	0	0	0	0	**0**
Topps Tiles	n/a	0	0	0	0	0	0	0	**0**
Trinity Mirror	n/a	0	0	0	0	0	0	0	**0**
UBM	n/a	0	0	0	0	0	0	Dec 13	**1**
Wetherspoon (J D)	n/a	0	0	0	0	0	0	0	**0**
Whitbread	n/a	0	0	0	0	0	0	0	**0**
William Hill	n/a	0	0	0	0	0	0	0	**0**
Wolverhampton & Dudley (Marstons)	n/a	0	0	0	0	0	0	0	**0**
WPP Group	n/a	0	0	0	0	0	0	Dec 13	**1**
Health (5)									
AstraZeneca	n/a	0	0	0	0	0	0	Dec 13	**1**
GlaxoSmithKline	n/a	0	0	0	0	0	0	Dec 13	**1**
Hikma Pharmaceuticals	n/a	0	0	0	0	0	0	Dec 13	**1**

Firm	IFRS 6	IFRS 7	IAS 1(R)	IFRS 8	IAS 24(R)	IAS 19(R)	IFRS 13	Consol-idation	Total
SkyePharma	n/a	0	0	0	0	0	0	Dec 13	**1**
Smith & Nephew	n/a	0	0	0	0	0	0	Dec 13	**1**
Industrials (47)									
Aggreko	n/a	0	0	0	0	0	0	0	**0**
Ashtead Group	n/a	0	0	Apr 08*	0	0	0	0	**1**
Atkins (WS)	n/a	0	0	0	0	0	0	0	**0**
Babcock International Group	n/a	0	0	0	0	0	0	0	**0**
BAE Systems	n/a	0	0	Dec 08	0	0	0	0	**1**
Balfour Beatty	n/a	0	0	0	0	0	0	0	**0**
BBA Group	n/a	0	0	0	0	0	0	0	**0**
Berendsen (Davis)	n/a	0	0	0	0	0	0	0	**0**
Bodycote International	n/a	0	0	0	0	0	0	0	**0**
Bunzl	n/a	0	0	0	0	0	0	0	**0**
Capita Group	n/a	0	0	0	0	0	0	0	**0**
Carillion	n/a	0	0	0	0	0	0	0	**0**
Cobham	n/a	0	0	0	0	0	0	0	**0**
De La Rue	n/a	0	0	0	0	0	0	0	**0**
Electrocomponents	n/a	0	0	0	0	0	0	0	**0**
Essentra (Filtrona)	n/a	0	0	0	0	0	0	0	**0**
Group 4 Securicor	n/a	0	0	0	0	0	0	0	**0**
Hays	n/a	0	0	0	0	0	0	0	**0**
Homeserve	n/a	0	0	Mar 08*	0	0	0	Mar 14	**2**
IMI	n/a	0	0	Dec 08	0	0	0	Dec 13	**2**
Interserve	n/a	0	0	0	0	0	0	0	**0**
Intertek Group	n/a	0	0	0	0	0	0	0	**0**
Kier Group	n/a	0	0	0	0	0	0	0	**0**
Marshalls	n/a	0	0	0	0	0	0	0	**0**
Meggitt	n/a	0	0	0	0	0	0	0	**0**

Firm	IFRS 6	IFRS 7	IAS 1(R)	IFRS 8	IAS 24(R)	IAS 19(R)	IFRS 13	Consol-idation	Total
Michael Page International	n/a	0	0	0	0	0	0	Dec 13	**1**
MITIE Group	n/a	0	0	0	0	0	0	0	**0**
Morgan Sindall	n/a	0	0	0	0	0	0	0	**0**
Northgate	n/a	0	0	0	0	0	0	0	**0**
Premier Farnell	n/a	0	0	0	0	0	0	0	**0**
Regus Group	n/a	0	0	0	0	0	0	0	**0**
Renishaw	n/a	0	0	0	0	0	0	0	**0**
Rentokil Initial	n/a	0	0	0	0	0	0	0	**0**
Rexam	n/a	0	0	0	0	0	0	0	**0**
Rolls-Royce Group	n/a	0	0	0	0	0	0	0	**0**
Rotork	n/a	0	0	0	0	0	0	Dec 13	**1**
Serco Group	n/a	0	0	0	0	0	0	Dec 13	**1**
Shanks Group	n/a	0	0	Mar 09	0	Mar 13	0	0	**2**
SIG	n/a	0	0	0	Dec 10	0	0	Dec 13	**2**
Smith (DS)	n/a	0	0	0	0	0	0	Apr 14	**1**
Smiths Group	n/a	0	0	Jul 09	0	0	0	Jul 14	**2**
Spectris	n/a	0	0	0	0	0	0	0	**0**
Spirax-Sarco Engineering	n/a	0	0	0	0	0	0	Dec 13	**1**
Travis Perkins	n/a	0	0	0	0	0	0	Dec 13	**1**
Ultra Electronics Holdings	n/a	0	0	0	0	0	0	0	**0**
Weir Group	n/a	0	0	0	0	0	0	0	**0**
Wolseley	n/a	0	0	Jul 09	0	0	0	Jul 14	**2**
<u>Oil (10)</u>									
Amec	n/a	0	0	0	0	0	0	Dec 13	**1**
BG Group	Dec 05	0	0	Dec 08	0	0	0	0	**2**
BP	Dec 05	0	0	0	0	0	0	Dec 13	**2**
Cairn Energy	Dec 05	0	0	Dec 08	0	0	0	0	**2**

Firm	IFRS 6	IFRS 7	IAS 1(R)	IFRS 8	IAS 24(R)	IAS 19(R)	IFRS 13	Consol-idation	Total
Petrofac	0	0	0	0	0	0	0	Dec 13	**1**
Premier Oil	Dec 05	0	0	0	0	Dec 12	0	0	**2**
Royal Dutch Shell A	Dec 05	0	0	Dec 07*	0	0	0	Dec 13	**3**
Soco International	Dec 05	0	0	0	0	0	0	0	**1**
Tullow Oil	Dec 05	0	0	0	0	0	0	0	**1**
Wood Group (John)	n/a	0	0	0	0	0	0	0	**0**
Technology (7)									
ARM Holdings	n/a	0	0	Dec 08	0	0	0	Dec 13	**2**
Computacenter	n/a	0	0	0	0	0	0	0	**0**
CSR	n/a	0	0	Dec 08	0	0	0	0	**1**
Halma	n/a	0	0	0	0	0	0	0	**0**
Laird Group	n/a	0	0	0	0	0	0	0	**0**
Sage Group	n/a	0	0	0	0	0	0	0	**0**
Spirent	n/a	0	0	0	0	0	0	0	**0**
Telecommunications (5)									
BT Group	n/a	0	0	0	0	0	0	Mar 14	**1**
Colt Telecom Group	n/a	0	0	Dec 08	0	0	0	0	**1**
Inmarsat	n/a	0	0	0	0	0	0	0	**0**
Vodafone Group	n/a	Mar 06*	0	Mar 09	0	0	0	Mar 14	**3**

Firm	IFRS 6	IFRS 7	IAS 1(R)	IFRS 8	IAS 24(R)	IAS 19(R)	IFRS 13	Consol-idation	Total
Utilities (6)									
Centrica	Dec 05	0	0	0	0	0	0	Dec 13	**2**
National Grid	n/a	Mar 07	0	0	0	0	0	Mar 14	**2**
Scottish & Southern Energy (SSE)	n/a	0	0	0	0	0	0	0	**0**
Severn Trent	n/a	0	0	0	0	0	0	0	**0**
United Utilities	n/a	0	0	0	0	0	0	0	**0**
Pennon Group	n/a	0	0	0	0	0	0	0	**0**
Total number of early adopters	**15**	**4**	**0**	**24**	**2**	**2**	**0**	**45**[41]	**66 firms**
n (158 firms)	18	158	158	158	158	158	158	158	**158**
Percentage of early adopters	**83.3**	**2.5**	**0.0**	**15.2**	**1.3**	**1.3**	**0.0**	**28.5**	**41.8**

[41] 50 firms in total adopted the package of consolidation standards in 2013/14. Five of these firms have listings in Australia and/or South Africa. For those firms adoption in 2013/14 was mandatory and so they are not included as early adopters. (See Section 7.5.3.)

F Letter to CFOs to request an interview

Email: d.reilly@gre.ac.uk

[date]

[Addressee]

Dear Mr/Ms [Name of CFO]

I am an accounting lecturer at the University of Greenwich. Before becoming a lecturer I worked in practice at city accounting firms in the audit, tax and technical departments. As part of my PhD I am carrying out research into the new International Financial Reporting Standards and revised International Accounting Standards which have become effective since 2005 with particular reference to their early adoption by some firms.

I wonder whether it would be possible for me to interview you in order to explore your views on this area.

I expect that you often receive requests of this nature but if you could help me, I should be very grateful.

Yours sincerely

Mrs Dawn Reilly MA (Oxon), MA (Res)
Lecturer in Financial Accounting

G Questions for semi-structured interviews with financial managers[42]

1. What do you see as the advantages and disadvantages of early adoption of new accounting standards?

2. Do you get the impression that your auditors favour early adoption or that they prefer to wait?

3. Why do you think that early adoption of IFRS 8: *Reporting segments* was relatively popular?

4. *Where applicable:* What were your reasons for adopting IFRS X early?

5. Do you expect any future standards in particular to be early adopted by companies?

6. How would you describe your participation in the development of new standards?

7. How often do you refer to the Conceptual Framework to decide on an accounting treatment or whether to adopt a new standard early?

[42] Manager M6 declined to be interviewed but requested a list of questions so that (s)he could respond in writing. In order to maximise the chance of receiving his/her response, the questions sent were restricted to Questions 1, 2, 3, 5 and 7 which relate to the key arguments of this thesis. Question 4 was not relevant for this firm.

H Questions for semi-structured interviews with auditors

1. What do you see as the advantages and disadvantages of early adoption of new accounting standards?

2. Why do you think that early adoption of IFRS 8: *Operating segments* was relatively popular?

3. Do you expect any future standards in particular to be early adopted by companies?

4. How does your firm introduce new accounting standards to its clients?

5. *Engagement team:* How often do you or your clients refer to the Conceptual Framework when you are considering the accounting treatment of an item or the early adoption of a new standard?

6. *Technical team*: To what extent does the possibility of early adoption play a useful role in the accounting environment?

I Questions for semi-structured interview with the IASB

1. What are your views on early adoption?

2. To what extent do early adopters play a useful role in the accounting environment?

3. Do you think that more companies would early adopt if there was a longer period between formal EU endorsement and the effective date?

4. Do you have any views on why the suite of consolidation standards have been early adopted by a number of December year ends?

5. Are you concerned that firms may ‘cherry pick’ which standards they want to early adopt and this may have an impact on the neutrality of financial statements?

J Details of interviews[43]

Reference	**Method**	**Position**	**Sector**	**Size of firm**	**Early adopter**
<u>Managers (21)</u>					
M1	Face-to-face	CFO	Industrial	FTSE 250	No
M2	Face-to-face	GFC	Consumer	FTSE 250	No
M3	Face-to-face	-	-	-	No
M4	Telephone	GFC	Extractive	FTSE 100	Yes
M5	Email/ telephone	GFC	Extractive	FTSE 100	Yes
M6	Email[44]	GFC	Consumer	-	No
M7	Face-to-face	-	-	FTSE 100	Yes
M8a and M8b	Face-to-face	GFCs	Consumer	FTSE 100	Yes
M9	Telephone	GFC	Industrial	FTSE 250	Yes
M10	Telephone	CFO	Basic materials	FTSE 250	No
M11	Telephone	CFO	Consumer	FTSE 250	Yes
M12	Telephone	GFC	Extractive	FTSE 100	No
M13	Telephone	GFC	Consumer	FTSE 250	No
M14	Telephone	CFO	Industrial	FTSE 250	No
M15	Face-to-face	GFC	Consumer	FTSE 100	Yes
M16	Telephone	GFC	Consumer	FTSE 100	No
M17	Telephone	CFO	Industrial	FTSE 100	No
OM1	Face-to-face	-	-	FTSE 250	No
OM2	Face-to-face	CFO	-	-	No
OM3	Face-to-face/email	GFC	-	FTSE 250	Yes
OM4	Telephone	CFO	-	-	No

[43] In order to protect the anonymity of respondents Chief Financial Officers, Financial Directors and Group Financial Directors are all described as CFOs whatever their specific title. Interviewees who are not on the Board are described as GFCs whether their specific title is Group Financial Controller, Group Reporting Manager, Group Chief Accountant or some other similar title. No job title is shown where participants do not want this information to be disclosed. Information relating to sector or size of firm is not shown where participants do not want this information to be disclosed.

[44] See Section 6.4.2.

Reference	**Method**	**Position**	**Sector**	**Size of firm**	**Early adopter**
<u>Supplementary (4)</u>					
Aud1	Face-to-face	Audit technical partner	n/a	Big 4	n/a
Aud2	Face-to-face	Audit engagement partner	n/a	Big 4	n/a
Aud3	Telephone	Audit engagement manager	n/a	Big 4	n/a
IASB	Face-to-face	Board member	n/a	n/a	n/a
Total 25 interviews					